ADDRESSING LOSS AND DAMAGE: INSIGHTS ON THE FUND AND THE GLOBAL SHIELD

CENTRE FOR DISASTER PROTECTION

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INSIGHT PAPER

Authors: Shakira Mustapha & Emma Williams

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LIST OF ACRONYMS

CDRFI	Climate and disaster risk finance and insurance
CMA	COP serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
CVF	Climate Vulnerable Forum
DRF	Disaster risk financing
G7	Group of Seven
G20	Group of 20
HLCG	High-level Consultative Group
MDB	Multilateral development bank
ODA	Official development assistance
TC	Transitional Committee
UNFCCC	United Nations Framework Convention on Climate Change
V20	Vulnerable 20 Group
WIM	Warsaw International Mechanism

CONTENTS

SUMMARY

- In the context of climate change, 'loss and damage' is generally understood as climate change impacts that go beyond what people can adapt to. Climate-related loss and damage is already happening; as the climate crisis unfolds, these impacts will happen more frequently and become more severe.
- The dramatic agreement of the Loss and Damage Fund in November 2022 at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties at its twenty-seventh session (COP27) – to provide financial assistance to developing countries most vulnerable to and impacted by the effects of climate change – was the culmination of over 30 years of pressure from climate-vulnerable countries. Throughout 2023, work will continue on operationalising the new fund (and new funding arrangements) via a UNFCCC-mandated Transitional Committee, which will deliver recommendations to COP28.
- This new fund will be part of a 'mosaic of solutions' to address loss and damage that includes the Global Shield against Climate Risks (Global Shield), jointly launched by the Vulnerable 20 Group (V20) of finance ministers of 58 climate vulnerable economies and the Group of Seven (G7) at COP27.
- The Global Shield, which is about to start its in-country process in Ghana and Pakistan, aims to provide and facilitate more and better pre-arranged protection against climate- and disaster-related risks for vulnerable people and countries. It also aims to foster a more sustained, coherent and systematic global disaster risk financing (DRF) system and avoid fragmented, supply-led innovations.

- Both the Loss and Damage Fund and the Global Shield could form constructive and complementary parts of the loss and damage mosaic. However, they need to be as clear as possible about what piece(s) of the bigger picture they are primarily engaged with as part of the mosaic.
- There are five key issues that both initiatives need to engage with to foster coherence, complementarity and collaboration, and ultimately achieve their common goal of addressing the needs of the poorest and most vulnerable people affected by climate change:
    1. The challenges of operating within definitional quagmires and blurred boundaries.
    2. The benefits and limitations of pre-arranged financing for addressing loss and damage.
    3. The complexities of climate justice issues in addressing loss and damage.
    4. The need for decision-making processes that are fair, accountable and transparent.
    5. The need for new and additional financing.
- Given the increasing sense of urgency and political pressure, it is essential both initiatives have iterative learning baked into their mandates, share lessons to minimise the risk of inappropriate solutions while quickly delivering results. Moreover, given that both the Loss and Damage Fund and the Global Shield perceive country ownership and locally led solutions as critical to success, the onus is on both to explore opportunities for joined-up processes and approaches that strengthen the capacity of national and local actors.

1

INTRODUCTION AND BACKGROUND

Climate change is wreaking havoc on human lives, livelihoods and well-being in the world's most vulnerable countries and communities. These impacts are becoming more destructive as average global temperatures continue to rise (IPCC 2021, 2022), and are putting hard-won development gains at risk. And while developed countries have scaled up their climate finance support over the past decade, they have fallen short of their collective commitment to mobilise USD100 billion[1] per year by 2020 for mitigation and adaptation in developing countries (Buchner et al. 2021; Colenbrander et al. 2022). The world is in danger of not meeting internationally agreed climate objectives by 2030 to avoid the most dangerous impacts of climate change (Boehm et al. 2022)[2].

Further complicating matters is the deteriorating fiscal situation many countries on the frontlines of climate change face. High debt service burdens (interest and principal repayments) crowd out much-needed investments in climate adaptation and resilience, constraining governments' ability to quickly deploy public resources to respond to the adverse effects of climate change (Ramos et al. 2022). Moreover, some climate-vulnerable countries, particularly small island developing states, are borrowing more – and on more expensive terms – to deal with the climate crisis, contributing to a vicious cycle of debt that can exacerbate climate vulnerabilities (Ramos et al. 2023; UNCTAD 2022; Slany 2020; Buhr et al. 2018).

Against this backdrop of compounding challenges and insufficient climate finance, bold yet practical solutions are urgently needed to tackle the climate crisis. Nowhere is this clearer than in the long-neglected field of loss and damage. Although there is no agreed definition of loss and damage, there is an emerging consensus among policymakers and researchers that it refers to the negative impacts of climate change that occur despite, or in the absence of, mitigation and adaptation (Mustapha 2022; Bhandari et al. 2022; Bakhtaoui et al. 2022; Franczak 2023). And while Article 8 of the Paris Agreement (adopted in 2015 at COP21) highlights the importance of 'averting, minimising and addressing loss and damage', ambiguity remains over what is meant by 'addressing' losses and damages that mitigation and adaptation do not avert or minimise. There is even less consensus

1. The USD100 billion goal was agreed at the 2009 Copenhagen Climate Change Conference and endorsed in the 2015 Paris Agreement. It was determined by political negotiations and only partly based on scientific evidence of the needs of developing countries, which are much larger.

2. The next few years offer a narrow window to achieve a sustainable, liveable future for all. While limiting temperature rise to 1.5°C is still possible, it will not be easy.

around who should pay to deal with these impacts. Yet after three decades of little to no progress, the agenda for loss and damage finance has shifted considerably in the past 12 months, with the announcement and launch of two major initiatives that aim to address aspects of this challenge. One is the newly announced Loss and Damage Fund, which has emerged from within the UNFCCC[3]; the other is the Global Shield against Climate Risks (Global Shield), a joint Group of 7 (G7) and Vulnerable 20 Group (V20)[4] initiative outside of the UNFCCC, established through the German presidency of the 2022 G7, with an ambition to 'strengthen the financial protection and resilience of vulnerable countries and people' (Global Shield 2023a).

The decision in the closing days of the 2022 UN climate summit (COP27) in Egypt to establish a new fund and funding arrangements focused on addressing loss and damage, as part of the broader landscape of existing funding arrangements (or 'mosaic of solutions'), represents a historic achievement (Decisions 2/CP.27 and 2/CMA.4). Very little has been decided about this fund, with the Transitional Committee currently tasked with providing recommendations for its set-up and operations. This includes institutional arrangements, eligibility criteria, modalities and sources of financing. An analysis of the gaps in the current landscape of institutions that are funding activities related to addressing loss and damage will inform these recommendations, which will be presented to the twenty-eight session of the Conference of the Parties (COP28) (November–December 2023)[5] with a view to taking decisions.

The Global Shield was officially launched at the COP27 summit. Unlike the decision to establish the Loss and Damage Fund, this was not a surprise. The concept of the Global Shield was introduced under Germany's G7 presidency in early 2022 as an initiative to better protect poor and vulnerable people and countries against climate-related risks (IGP 2022a). Based on principles of national ownership and coherent in-country coordination, the Global Shield seeks to facilitate substantially more and better pre-arranged financing against disasters, using a broad range of disaster risk financing (DRF) instruments at micro-, meso- and macro-levels[6], such as livelihood protection, credit guarantees, insurance, contingent credit, contingency funds and catastrophe bonds. In addition to supporting the integrated development of instruments, the Global Shield will also support processes and policy reforms to ensure that the money is spent on providing what individuals and communities affected by disasters need when they need it most.

Both initiatives seek to make financing available quickly to protect the poorest people and those who are most vulnerable to climate-related disasters. However, some actors in the loss and damage space have articulated their increasing concern that the Global Shield and the wider mosaic of existing solutions[7] could pose a 'distraction' from a dedicated Loss and Damage Fund (Richards et al. 2022; Worley 2023; Ormond-Skeaping et al. 2023).

3. Effective from 1994, the UNFCCC is the foundational treaty that has provided a basis for international climate negotiations since it was established, including landmark agreements such as the Paris Agreement (2015).
4. The G7 consists of Canada, France, Germany, Italy, Japan, the UK and the US. The V20 membership stands at 58 nations including Afghanistan, Bangladesh, Barbados, Benin, Bhutan, Burkina Faso, Cambodia, Chad, Colombia, Comoros, Costa Rica, Côte d'Ivoire, Democratic Republic of the Congo, Dominican Republic, Ethiopia, eSwatini, Fiji, The Gambia, Ghana, Grenada, Guatemala, Guinea, Guyana, Haiti, Honduras, Kenya, Kiribati, Kyrgyzstan, Lebanon, Liberia, Madagascar, Malawi, Maldives, Marshall Islands, Mongolia, Morocco, Nepal, Nicaragua, Niger, Palau, Palestine, Papua New Guinea, the Philippines, Rwanda, Saint Lucia, Samoa, Senegal, South Sudan, Sri Lanka, Sudan, Tanzania, Timor-Leste, Tunisia, Tuvalu, Uganda, Vanuatu, Vietnam and Yemen.
5. The COP refers to countries that have ratified the UNFCCC and is the supreme decision-making body of the Convention.
6. Micro- and meso-level refer to household and business levels, while macro-level refers to the level of (national and subnational) governments, humanitarian agencies and civil society organisations.
7. This includes finance from multilateral development banks, insurance schemes and humanitarian organisations.

Such concerns may reflect the different institutional footings of the two initiatives: the Global Shield lies outside the international climate treaty architecture, as opposed to the Loss and Damage Fund, which is part of an inter-governmental process governed by treaties and involving member states in its decision-making. Concerns may also reflect a lack of understanding of pre-arranged financing, and the historical baggage that accompanies what developing countries have seen as an over-emphasis on insurance by developed countries keen to stave off talk of a dedicated loss and damage fund (Richards et al. 2022; Mustapha 2022). Some stakeholders are also concerned that new financial commitments to address loss and damage, including but not limited to the Global Shield, could be at the expense of existing aid commitments, and thus not 'new and additional' (L&D Collaboration 2022; LDC Group 2023).

The level of need in relation to loss and damage in vulnerable countries and communities is high – and growing fast. Both the Global Shield and Loss and Damage Fund could form constructive and complementary parts of the mosaic of solutions to loss and damage. However, they need to be as clear as possible on what piece(s) of the bigger picture they are primarily engaged with as part of the mosaic. This will help to identify gaps, and areas of overlap and duplication, ultimately facilitating a clearer division of labour and areas of alignment. As each evolves, it is important that they do so in awareness of the rest of the funding arrangements and broader reforms of the international crisis financing system[8], and that they aim to complement each other.

The initial signs are that the architects of the new funding arrangements and the Loss and Damage Fund, the Transitional Committee, are attempting to do exactly this (Transitional Committee 2023b). While the Global Shield has recognised that it 'is not the only instrument required to respond to all types of loss and damage' (Global Shield 2023b), it has yet to explicitly articulate its potential limitations in addressing loss and damage. While it is not the role of the Global Shield to identify gaps in the existing architecture that new funding arrangements should target, it can play a pivotal role in helping the Transitional Committee and non-DRF actors more broadly to understand what DRF can and cannot potentially do in this space.

The objectives of this paper are twofold:

- To improve stakeholders' understanding of each initiative.
- To provide insights into how the two initiatives may relate to each other, including possibilities for complementarity, and underlying tensions.

Section 2 provides a brief introduction to both loss and damage and the Loss and Damage Fund. **Section 3** provides a brief introduction to DRF and the Global Shield. **Section 4** identifies critical issues in relation to the Loss and Damage Fund and Global Shield that are likely to influence interactions between the two, for better or worse, such as their definitions and conceptual underpinnings, the role of pre-arranged financing in addressing loss and damage, their application of climate justice principles, their perceived level of transparency and accountability, and their source(s) of financing. **Annex I provides further background on both initiatives, for those unfamiliar with either or both of them.**

8. Although not a cohesive system, the international crisis financing system refers to the network of entities that provide or receive international aid (official development assistance (ODA)) to enhance, support or substitute for state provision to address the risks or impacts of crises (ALNAP 2019).

2

OVERVIEW OF LOSS AND DAMAGE AND THE LOSS AND DAMAGE FUND

2.1. WHAT IS LOSS AND DAMAGE?

While there is no single internationally agreed definition of what constitutes climate-induced loss and damage, the term broadly refers to those impacts of climate change which are not or cannot be avoided by adaptation and mitigation efforts (UNFCCC 2014; Mechler et al. 2019; Bhandari et al. 2022). Accordingly, losses and damages can be classified as **avoided**, where adaptation or mitigation has prevented them; **unavoided**, where constraints mean measures have not been taken or not been successful; or **unavoidable**, where impacts are already locked in.

They might be the consequence of what are known as 'rapid-onset' events such as hurricanes or flooding. Or they could be the result of slow(er)-onset processes such as sea-level rise or desertification. They cover both economic losses (those that can have a monetary value assigned to them, such as property damage); and also non-economic impacts and intangible losses, such as loss of cultural heritage or ways of living (for which a monetary value generally is not readily available). When capitalised, 'Loss and Damage' refers to the international debate about the response to these impacts, much of which is conducted under the UNFCCC.

While Loss and Damage is now a much more widely known concept, its edges remain indistinct. Exactly where adaptation measures end, and loss and damage responses begin, for instance, can be unclear. Furthermore, the UNFCCC talks about a continuum, consisting of 'averting, minimising and addressing' loss and damage[9]. Mitigation and adaptation measures can arguably contribute to the first two steps, whereas 'addressing' requires tackling the residual damages that occur despite these efforts. Many see loss and damage as the responsibility of industrialised countries that have historically driven climate change, and call for associated reparations or compensation, making it a highly politicised aspect of international climate negotiations (as discussed in Annex I). Currently, loss and damage finance is not explicitly tracked and reported as a distinct category alongside adaptation and mitigation finance commitments

9. Article 8.1 of the Paris Agreement notes that: "Parties recognize the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, and the role of sustainable development in reducing the risk of loss and damage." (UNFCCC 2015).

(UNFCCC 2019). This final step of 'addressing loss and damage' is where international debate is now focused, and the decision text for the new Loss and Damage Fund that was agreed at COP27 explicitly refers to "responding to loss and damage whose mandate includes a focus on addressing loss and damage" (Decision 2/CP.27, paragraph 3).

To reassure developed countries about their obligations, the Egyptian presidency noted that the outcome of the loss and damage agenda item at COP27 would be 'based on cooperation and facilitation' rather than 'liability or compensation' (Chandrasekhar et al. 2022). This aligns with the caveat in the Paris Agreement (paragraph 52), which states that Article 8 on loss and damage 'does not involve or provide a basis for any liability or compensation' (UNFCCC 2015). While the Loss and Damage agenda has become less taboo in recent years, it remains contentious, sensitive and complex.

2.2 WHAT IS THE LOSS AND DAMAGE FUND?

After three decades of painfully slow progress, an agreement to establish the Loss and Damage Fund was reached in November 2022 at COP27. The Sharm el-Sheikh decision text on loss and damage financing (UNFCCC 2022) is brief, but it includes several notable features:

- The new funding arrangements and fund will focus on developing countries that are 'particularly vulnerable' to the impacts of climate change (as opposed to simply stating that they will serve all developing countries (Non-Annex I)[10]. The Transitional Committee has yet to define what it means by 'particularly vulnerable', and how funding should be channelled to those suffering the most from climate change loss and damage within countries. Tackling this question might involve, for example, making recommendations about whether to target national or subnational governments – and/or vulnerable communities, with international and local NGOs and civil society organisations as intermediaries.

- The fund aims to mobilise finance from 'a wide variety of sources' – strongly implying that countries that were wealthy in the early 1990s and bound to provide or mobilise climate finance under the Convention (Annex II countries) do not expect to be the only contributors.

- The fund will be part of the mosaic of solutions and thus will aim to take account of other financing structures, both underneath and beyond the Convention and Paris Agreement. In this spirit, it welcomes related initiatives, including the Global Shield (discussed below).

There is no question that the agreement of this fund was a significant step forward. Significant work needs to be done to get it capitalised and up and running quickly enough to satisfy developing countries that have been demanding this support for decades. Members of the Transitional Committee (from 14 developing country Parties and 10 developed country Parties) are currently tackling tricky questions. These include who pays,

10. The UNFCCC divided countries into three groups based on the country's level of development. Annex I Parties are industrialised countries that were members of the Organisation for Economic Co-operation and Development in 1992, plus countries with economies in transition (Russia, the Baltic States and several Central and Eastern European states). Annex II Parties comprise the same list, excluding those countries that had economies in transition. Last, Non-Annex I Parties are all countries not included in Annex I. Only Annex II Parties are required to provide financial resources to enable developing countries to undertake emissions reduction activities under the Convention and to help them adapt to adverse effects of climate change.

how the fund will be governed (new standalone fund; a new fund in an existing institution under the UNFCCC; or a new fund in an existing institution outside the UNFCCC) and relate to other existing funding arrangements, and who will receive the money and on what basis (see Box 1). The Transitional Committee is supported by a technical support unit consisting of staff seconded from UN agencies, international financial institutions, multilateral development banks, and the operating entities of the financial mechanism.

A year is no time at all to set up a technically tricky and politically fraught mechanism such as this. The COP27 decision tasks the Transitional Committee with looking at institutional arrangements for the fund, as well as 'defining elements of the new funding arrangements' and 'identifying and expanding sources of funding' – all against a backdrop of 'ensuring coordination and complementarity with existing funding arrangements' (UNFCCC 2023a). This reflects both developed country concerns (that the Loss and Damage Fund does not ignore the existing development and humanitarian architecture, and that it fills gaps in this rather than trying to reinvent elements of it); and developing country priorities (for a new fund, with 'new, additional, predictable and adequate' funding). The Transitional Committee will need to make sure that the nascent fund is firmly located in the wider landscape of existing initiatives, and that it speaks to and improves on other useful financing structures in its efforts to grow the amount of finance reaching the poorest and most vulnerable countries and communities.

Box 1: Key decisions and timeline for the Loss and Damage Fund in 2023

To operationalise the new funding arrangements and the Loss and Damage Fund, the Transitional Committee will make recommendations for consideration and adoption by COP28 and CMA5 (the fifth session of the COP serving as the meeting of the Parties to the Paris Agreement), both in November–December 2023, relating to:

A. Establishing institutional arrangements, modalities, structure, governance and terms of reference for the fund

B. Defining the elements of the new funding arrangements

C. Identifying and expanding sources of funding

D. Ensuring coordination and complementarity with existing funding arrangements.

The Transitional Committee is scheduled to meet four times in 2023. At the time of writing, it is at the halfway point of the Transitional Committee process, with two meetings (TC1 and TC2) completed and two meetings to go in late August and late October (TC3 and TC4), ahead of the COP28 summit in early December. A ministerial meeting will take place between TC3 and TC4.

TC3 will distil clear and concise options for recommendations, identifying the issues for which political guidance will be provided during ministerial consultations. TC4 will be devoted to finding consensus on remaining areas of divergence and finalising the recommendations that the Transitional Committee will deliver to COP28.

Two workshops aimed to capture input from a wide range of interested organisations, The Glasgow Dialogue (see Annex 1), which had its second session in June at the regular UNFCCC intersessional meetings, was another supplementary opportunity to debate and shape the emerging fund.

Source: UNFCCC (2023b)

3

OVERVIEW OF DISASTER RISK FINANCING AND THE GLOBAL SHIELD AGAINST CLIMATE RISKS

3.1 WHAT IS DISASTER RISK FINANCING?

DRF lacks a universally agreed definition, but broadly refers to funding and financing that promote and specifically target a specific disaster risk, arranged before a potential shock. This can include paying to prevent and reduce risk, as well as paying to prepare for and respond to a shock. DRF and 'climate and disaster risk finance and insurance' (CDRFI), the preferred term of the Global Shield, are often used interchangeably. In the rest of this paper, we use DRF (unless otherwise stated).

Insurance-type mechanisms are the most widely known and best understood DRF mechanisms. They tend to dominate the DRF discourse, particularly in the context of international climate change negotiations (Richards et al. 2018, 2022; Mustapha 2022). In practice, the DRF toolkit encompasses a wide range of instruments that reduce, retain or transfer residual risks (i.e. risks that remain even when effective disaster risk reduction measures are in place):

- **Risk reduction instruments** fund investments that will reduce the severity of potential disaster impacts, such as building flood defences and retrofitting properties. They may also use policy mechanisms to increase the attractiveness of risk reduction activities, such as grants to reduce capital costs, subsidies to reduce operating costs, or tax breaks.

- **Risk retention instruments** are pre-arranged mechanisms that give (individual, community, municipality or sovereign) risk holders access to capital, where funds are sourced either from risk holders' own reserves or external capital that the risk holders are responsible for repaying. Thus, the resources provided through these instruments come from those affected by the disaster. The three main risk retention instruments are budget contingencies, reserve funds and contingent loans. The most important costs for these instruments are the opportunity costs associated with not being able to use the funds held in reserve or the costs of having to pay back contingent lines of credit (Meenan et al. 2019).

- **Risk transfer instruments** place the obligation for providing (a certain amount of) capital in the event of a disaster onto third parties. The capital provider will receive a payment (e.g. a premium payment) in exchange for accepting this risk. After a pre-defined event, if the payment terms of the instrument are met, the risk transfer provider pays the funds to the risk holder. Insurance is a key risk transfer tool, but other mechanisms include catastrophe bonds and risk pools. The main costs are premia payments and/or interest rates on the catastrophe bonds. There is increasing interest in providing international support for premium subsidisation as a means to financially support DRF solutions for lower-income countries and address the affordability challenge (Töpper et al. 2022).

The timeliness and reliability of payouts after a disaster are the key features of pre-arranged financing that has been approved in advance of a disaster. Funding is guaranteed to be released to a specific recipient when a specific pre-identified trigger condition is met (Hillier and Plichta 2021). The trigger may be based on data or models related to impact, forecasts or projections of need, or on policy decisions. Pre-arranged financing is therefore different from funding pots, envelopes or facilities that are allocated for general crisis or disaster response, without specific triggers such as donor humanitarian budgets and most disaster contingency funds. Though post-disaster crisis responses such as the latter are important enablers of global humanitarian action, they tend to be underfunded and subject to costly delays, to the detriment of the poorest and most vulnerable people (Clarke et al. 2016; Ahmed 2023a).

In contrast, pre-arranged financing can help ensure that financial needs in the event of disasters are met, make disaster response plans credible and reduce uncertainty following disasters. For example, a contingent grant or credit agreement typically details what disaster events are covered, how large the payment in the event of the disaster would be and how soon the money could be disbursed. This helps governments to cover immediate financial needs following a disaster in a cost-effective and predictable manner compared to arranging financing after the disaster[11].

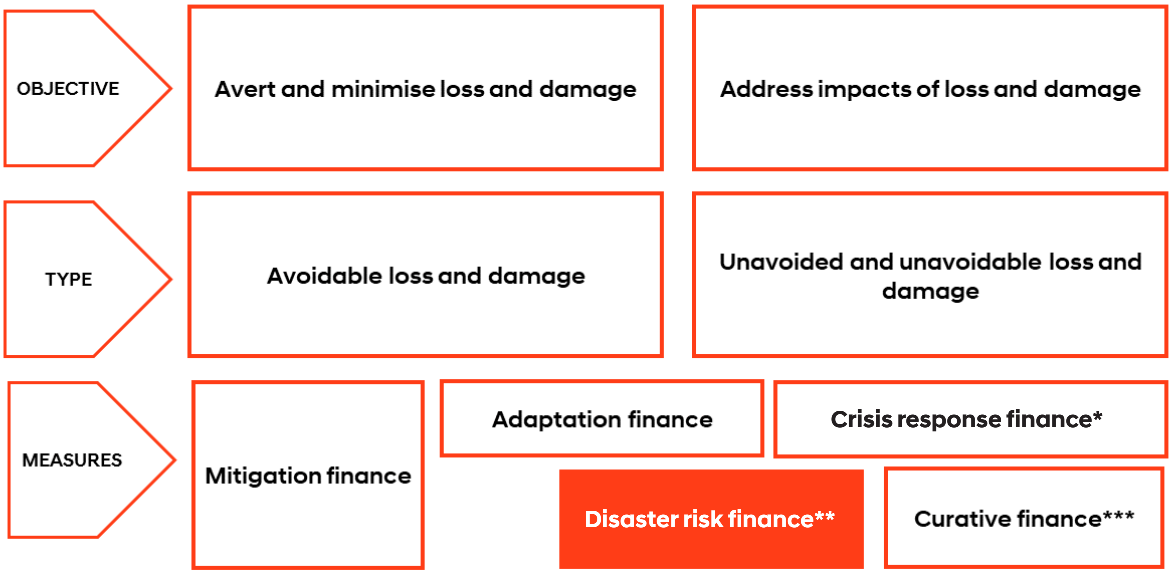
Pre-arranged financing is also perceived to be more dignified than the current ‘begging bowl’ approach that characterises the post-disaster model for financing disasters (Clarke et al. 2016). Pre-arranged financing can also focus attention on ‘money-out’ mechanisms. These refer to having systems and plans in place to help ensure that prearranged money reaches the intended beneficiaries as quickly as possible and with minimal leakage, leading to a more effective disaster response.

In recognition of these benefits, reforming the international financial architecture to provide a global safety net for developing countries was one of the key issues discussed at the June 2023 Summit on a New Global Financing Pact. Participants including the World Bank signalled their intent to adopt and scale up a range of DRF tools such as climate-resilient debt clauses, new types of insurance and additional flexibility to allow countries to reallocate financing to emergency response during crises (World Bank 2023; Summit for a New Global Financing Pact 2023).

Currently, DRF is being used to build resilience and close protection gaps for poor and vulnerable people at various scales, ranging from micro-products at household level to regional pools on a multi-country scale. These instruments can play a valuable role in addressing loss and damage as part of a spectrum of approaches to handling risk. However, pre-arranged finance is not appropriate for addressing all losses and damages (discussed in section 4). Figure 1 illustrates where DRF sits in the range of options in the international system available to countries looking to build their resilience to climate shocks and respond quickly when disasters occur.

11. For example, a one-off anticipatory cash transfer to households forecasted to experience extreme floods in Bangladesh significantly improved child and adult food consumption, and well-being relative to an ex-post, same-cost response (Pople et al. 2021).

Figure 1: DRF and its application to avoidable, unavoided and unavoidable climate risks



Source: Adapted from Mechler et al. (2021).

Notes:

* 'Crisis response finance' refers to disaster finance that is arranged ex-post, including most humanitarian aid and emergency assistance from international financial institutions such as the IMF and World Bank.

** 'Disaster risk finance' refers to finance used to prevent and reduce risk, as well as instruments used to prepare for and respond to a shock, but arranged before the potential shock, such as risk retention and transfer instruments.

*** 'Curative finance' refers to finance for dealing with unavoidable risks, such as forced migration, voluntary and planned migration and livelihood transformation.

3.2 WHAT IS THE GLOBAL SHIELD AGAINST CLIMATE RISKS?

The Global Shield seeks to strengthen the architecture for planning and responding to disasters before they occur, based on country specific needs. Championed by the German government and jointly launched by the V20 Group of Ministers of Finance and the G7 at the COP27 summit, its primary objective is to increase protection against climate- and disaster-related risks for poor and vulnerable people by supporting:

1. **DRF instruments** designed to provide rapid financial assistance to households and businesses to act early against and respond to climate- and disaster-related losses.

2. **A shift from ex-post financing** (i.e. humanitarian and disaster reconstruction funds arranged after disasters) to pre-arranged financing for governments, humanitarian agencies, and international and local NGOs for disaster preparedness and rapid response in a coordinated, country-owned manner.

It is also important to recognise that the objectives of the Global Shield extend beyond 'addressing' loss and damage. The Global Shield concept arose from discussions about how to create a Global CDRFI architecture that is fit for purpose – that is, following a demand-driven and needs-based approach, and involving better coordination on the ground among implementation partners (IGP 2022a, 2022b). While the Global Shield's focus on enhancing the global DRF architecture may in turn enhance the potential contribution of DRF to responding to loss and damage, the creation of a more sustained, coherent and systematic global DRF system is in itself an important objective that should be recognised, supported and monitored. In the absence of the Global Shield, there is a risk that continuing on a path of fragmented reforms and supply-led innovations could lead to more complicated and more costly risk financing – and that fundamental systemic weaknesses and gaps will be overlooked.

The Global Shield is not, therefore, starting from scratch. It represents an evolution of the CDRFI architecture, building on and bringing together three existing vehicles under one financing structure to create a one-stop shop for vulnerable countries and thus ensure that financial support for DRF is implemented more systematically and coherently. At the same time, these three vehicles have functions and mandates beyond the Global Shield, and which are unaffected by it (Global Shield 2022). The three vehicles are:

- **The Global Shield Solutions Platform** builds on the InsuResilience Solutions Fund, which is funded by Germany, France and Denmark and managed by the Frankfurt School of Finance and Management, a not-for-profit academic institution. It will be a service platform that will source suitable supply-side partners to address country requests for support for a broader range of DRF instruments. It will provide funding for detailed risk analysis, capacity building, structuring, and implementation of DRF solutions by providing, for example, premium and capital support. Support can be provided for different instruments of pre-arranged finance such as climate risk insurance, forecast-based risk financing, climate resilient debt instruments and national disaster risk funds.
- **The Global Shield Financing Facility** is the reformed Global Risk Financing Facility, a multi-donor trust fund launched in October 2018 and hosted by the World Bank, which began with over USD200 million in contributions from Germany and the UK[12]. The Global Shield Financing Facility serves as the primary Global Shield financing vehicle for projects that can be integrated into ongoing World Bank programmes supporting governments in the areas of risk finance, social protection, disaster risk management, market development and others. While the majority of funding will be implemented through World Bank projects, a substantial amount of resources will be made available for transfers to eligible transferees such as accredited multilateral development banks (MDBs), multilateral funds and UN agencies.
- **The Climate Vulnerable Forum (CVF) and V20 Joint Multi-Donor Fund** was launched in December 2020, based on funding

12. It financed a wide range of DRF-related activities, including the establishment of risk financing mechanisms (e.g. by bearing the up-front costs of setting up disaster funds and risk pools); cost-sharing of risk financing mechanisms (e.g. via the co-payment of insurance premiums); providing technical and financial resources to improve delivery channels for response and recovery (such as the establishment of scalable shock-responsive social safety nets) and integrating disaster risk into public financial management systems.

commitments from CVF and V20 members, philanthropies and developed countries. It currently has a budget of USD13.7 million and was set up to facilitate coordination among member states, and to deepen South-South cooperation, with the overall aim of enhancing members' capacities to deliver on key priorities on climate action. The V20 window under the fund will support programmes to manage climate risk that include the Loss and Damage Funding Program[13], premium subsidies and capital support, guarantees to reduce the cost of capital, distribution channel enhancement and climate-smart insurance, and the Slow Onset Financial Protection Risk Pool (Ahmed 2023a, 2023b). Funding from the V20 Joint Multi-Donor Fund can also be transferred to service providers such as select MDBs, multilateral funds, UN agencies and other implementation organisations.

As discussed above and summarised in Table 1, these three financing vehicles are intended to support a wide range of DRF solutions, including but not limited to insurance. Each vehicle can support interventions that link financial and operational preparedness to systems and plans that ensure money is used to reduce the impact of disasters on vulnerable people. All three vehicles also offer premium subsidies. In addition, there are differences in the countries and recipients eligible for support under each vehicle.

13. The Loss and Damage Funding Program aims to support communities first in the form of grants that can complement other forms of loss and damage funding. Initial results from financing loss and damage projects are intended to inspire efforts at UNFCCC level (Ahmed 2023a).

	Global Shield Solutions Platform	Global Shield Financing Facility	CVF and V20 Joint Multi-Donor Fund
Purpose	To provide a service platform advising countries, as well as global or regional initiatives, on the development and implementation of DRF solutions; it can leverage private sector expertise and fund research and education, concept solutions and development and implementation support (e.g. premium financing)	To finance projects that can be integrated into World Bank and selected MDB and UN agency programmes that support governments in the area of DRF	To finance projects designed by the V20 that are implemented through pre-selected entities by the CVF and V20, and the board of the fund
Host	Frankfurt School of Finance and Management	World Bank	UN Office for Project Services
Instrument	Grants and technical assistance	Grants[14] and technical assistance	Grants
Eligible countries	Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) list of official development assistance (ODA) recipients	World Bank members, as well as non-members subject to World Bank board approval	58 members of the CVF and V20 (including countries currently not on the OECD-DAC List of ODA recipients)
Eligible recipients	All levels of (sub-)sovereign entities, businesses, humanitarian organisations, or households and farmers, (regional) risk pools, regional initiatives and projects, national development banks and development agencies	Governments, and eligible MDBs and UN organisations	All pre-selected entities, including UN organisations and NGOs

Source: Adapted from Global Shield (2022, 2023c).

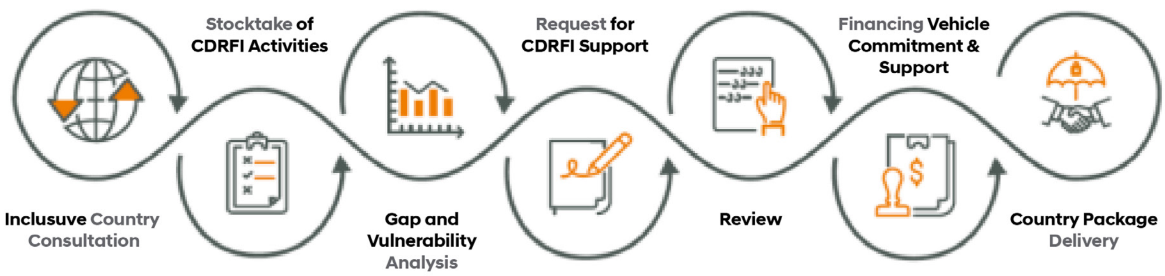
14. Under current Global Risk Financing Facility regulations, projects cannot be 100% grant financed, but this is subject to further discussions with Global Shield Financing Facility donors.

The first recipients of Global Shield packages – called **'Pathfinder countries'** – include Bangladesh, Costa Rica, Ghana, Jamaica, Malawi, Pakistan, the Pacific Islands, the Philippines and Senegal. There is currently no publicly available information on how these countries were selected. To inform the future pipeline of Global Shield countries, the **Framework for Prioritization of Country Support** was jointly developed by the (interim) Global Shield Secretariat and partners. The framework is described as a combination of a balancing criterion to ensure regional diversity and prioritisation criteria (vulnerability and poverty) to identify countries within those regional buckets that should access the Global Shield first within each cohort (Global Shield 2023a). A technical annex will be added to the framework, containing the detailed methodology, including the technical design of the prioritisation methodology and data analysis strategies for each criterion. Based on the final methodology, a country list will be tabled for endorsement at the first meeting of the Global Shield Board in November 2023.

Another feature of the Global Shield is the development of an in-country process, which is about to start in Ghana and Pakistan. The in-country process is summarised in Figure 2 and is not expected to exceed 6–12 months (Global Shield 2023e). Managed by an official lead selected by partner country governments, it seeks to empower those governments to make informed decisions on risks, vulnerabilities, protection gaps, and the potential role of different interventions and instruments in the DRF toolbox in addressing these gaps. The outputs of this process are:

- A **stocktake** to assess the status of financial protection at national, sub-national, business and household levels, particularly for vulnerable people and groups, by looking at existing DRF and DRF-linked projects and programmes. It will also identify analytics, strategies and regulations that are relevant to the in-country process.
- A **gap analysis** to identify major risks, vulnerabilities and gaps in financial protection through a mapping of relevant hazards for the country, combined with an assessment of specific vulnerabilities and existing solutions.
- A **country-specific request for CDRFI**[15] support that specifies development objectives, financial protection targets, and instruments, projects or other solutions a country seeks financing for to address specific protection gaps identified by the gap analysis. The request for CDRFI support can also be a simple description of the problem to be solved.

After reviewing the request, the Global Shield will propose a support package. Assuming the government agrees to the proposal, the relevant stakeholders will implement it in close cooperation with the government.



Source: Ahmed (2023b)

15. The Global Shield against Climate Risks refers to Disaster Risk Finance as Climate Disaster Risk Finance and Insurance.

Box 2: Key decisions and timeline for the Global Shield against Climate Risks in 2023

The InsuResilience High-level Consultative Group (HLCG) decided on the Global Shield's operating model on the margins of the African Development Bank Annual Meetings in May 2023. They adopted the Global Shield Governance Structure, agreed on the details of the respective in-country processes and endorsed the framework for country prioritisation. All three documents are available on the Global Shield's website (Global Shield 2023a).

The Global Shield Board, established after the HLCG's final meeting on 25 May 2023, will replace the HLCG with board members to be selected in the coming months.

At COP28 (November–December 2023), the next pipeline of Global Shield countries is expected to be announced. The Global Shield Board will also reconfirm the Global Shield Governance Charter in November 2023. Additional provisions may be added, based on identified needs, and will be subject to the Global Shield Board's approval.

4

KEY ISSUES TO FOSTER COHERENCE AND COORDINATION

The extent to which the Loss and Damage Fund and the Global Shield are likely to complement and build on each other largely depends on the ability of key stakeholders, including the Transitional Committee and Global Shield Board, to recognise and appreciate the subtleties and differences in their goals, approaches and strengths, as well as their limitations. This section highlights some of these potential differences, as well as the ways in which each initiative might complement the other. Both initiatives are not yet fully operational, so it is a preliminary rather than a comprehensive assessment.

Moreover, while this section focuses on the Loss and Damage Fund and the Global Shield, these issues may also apply to other initiatives in the mosaic of solutions.

4.1 CHALLENGES OF OPERATING WITHIN A DEFINITIONAL QUAGMIRE AND BLURRED BOUNDARIES

The lack of universally agreed definitions and conceptual misunderstandings could be a potential barrier to ensuring an effective partnership between the Loss and Damage Fund and the Global Shield. As discussed in section 2, loss and damage is an increasingly widely known concept, but one without hard and fast contours. This plays out both in terms of discussions on how to address it, and in terms of what 'counts' by way of financing. In previous Loss and Damage-related negotiations, country negotiators from developed and developing countries have often talked past one another because they were using different definitions or talking about different pieces of the bigger picture. For example, developed country negotiators have tended to focus on existing funds and initiatives that 'avert' and 'minimise' loss and damage, while developing country negotiators stress the need to 'address' loss and damage that is unavoided or unavoidable and for which there was no dedicated financing. Both camps would argue that they are talking about loss and damage, but in practice they may be referring to quite different parts of the same continuum, and quite different mechanisms for tackling the various problems that arise along the continuum.

There is also scope to unpack the intended objectives of different instruments being used to address loss and damage. The Transitional Committee has identified a spectrum of actions relevant to addressing loss and damage, which includes those actions that are taken in direct relation to a climate change impact; and post-impact actions that are taken in the short term to deal with the immediate impact, in the medium term to restore essential services, and in the long term for recovery and enhancing resilience to future shocks (Transitional Committee 2023a). Objectives can further include avoiding secondary or indirect impacts; avoiding people falling into poverty; or avoiding negative coping strategies. While it can be challenging to clearly segment and define objectives, given that individual instruments are often used for a mix of activities, and instruments can be designed to accommodate multiple purposes, this type of 'objective mapping' can help to improve the design and understanding of the role of different instruments and actions and help convey which responses have proved effective to date.

Both the Global Shield and Loss and Damage Fund therefore need to be as clear as possible on the definitions they are using and what piece(s) of the bigger picture they are primarily engaged with in the mosaic of solutions. This will help to identify gaps, and areas of overlap and duplication, ultimately facilitating clearer boundaries, as well as synergies and areas of alignment. The design of the Loss and Damage Fund began with a frank acknowledgement – contained in the founding decision from COP27, and echoed in the work plan for the Transitional Committee – of the complexity of the existing funding architecture, with the committee looking carefully at where gaps and challenges exist in addressing loss and damage (Transitional Committee 2023a).

The Global Shield has yet to explicitly articulate how it sees its role in relation to the Loss and Damage Fund (and other existing mechanisms) in the mosaic of solutions. This may be partly due to their respective launch dates (with the Global Shield conceived and launched over the course of 2022, but the Loss and Damage Fund only agreed at the end of that year). It is also true that while the broad mandate of the Loss and Damage Fund was clearly set out at COP27, it is still at an early stage of its design process – so the detail of the gaps it will aim to fill, the ways it will seek to do this, the funding sources it will recommend and its eligibility criteria are all still to be determined. Nonetheless, it is important that the Global Shield proactively engages in the Loss and Damage space and seeks to communicate its potential contribution. This is particularly important given that some important stakeholders view DRF as a relatively niche discipline; as a result, its definition, approach, benefits and limitations are not widely understood, especially beyond insurance. The Global Shield and each of its three constituent financing vehicles should therefore be as clear as possible about where each sits in the spectrum of activities that contribute to actions to 'avert, minimise and address' climate-related losses and damage.

4.2 BENEFITS AND LIMITATIONS OF PRE-ARRANGED FINANCING FOR ADDRESSING LOSS AND DAMAGE

The Global Shield's focus on pre-arranged financing for disaster preparedness and rapid response can catalyse a more intentional, proactive approach to addressing climate change impacts beyond the limits of 'adaptation' efforts. The principles and practical steps that underpin the implementation of pre-arranged finance, as well as the operational knowledge gained from its application, can also potentially offer valuable insights for the operationalisation of the Loss and Damage Fund. These include the practice of identifying and tracking risks to address them proactively; the process of determining how to plan and pay for disasters before they occur; the development and identification of clear action plans and actors ahead of shocks; and the agreement of objective triggers to ensure funding flows rapidly, predictably and where it is needed most. This risk-based approach differs from the needs-based approach that tends to dominate discretionary ex-post funding, including humanitarian funding.

At the same time, just like an actual shield, the Global Shield is unlikely to provide protection against all climate change impacts and thus should support the Transitional Committee in identifying gaps that the Loss and Damage Fund should prioritise. Pre-arranged financing is largely event based and focused on rapid-onset (in climate science terms) shocks such as tropical cyclones, agricultural droughts and floods. While these instruments could potentially help alleviate aspects of slow-onset losses and damages, which will be explored by the V20 Slow Onset Financial Protection risk pool[16], the current repertoire of DRF options does not currently address these types of impacts or losses on a meaningful scale, with the vast majority of disaster and crisis risk financing research and theory revolving around sudden-onset disasters. Furthermore, for some losses and damages, particularly non-economic ones, the solution may not only be finance (Steadman et al. 2022)[17].

There could be a perception that the Global Shield will primarily address impacts from extreme events, while the Loss and Damage Fund will address losses and damages from slow-onset processes such as sea level rise. Developing country TC members[18] have not framed the Loss and Damage Fund in this way; and such a simplistic delineation could be problematic for several reasons.

Firstly, pre-arranged financing has inherent limitations, even for rapid-onset events. For example, while this type of financing can be much faster and more certain than ex-post humanitarian aid, some instruments can be affected by what is termed 'basis risk': the difference between an index and the shock that the index is supposed to be a proxy for. A payout triggered by a statistical model (used to predict the losses and damages of an event such as an earthquake or excess rainfall) may be higher or lower than the beneficiary's actual losses, leading to overpayment or shortfall, respectively.

16. V20 slow-onset risk pool aims to test how insurance can be applied to slow-onset risk and how it can use the analytics in the insurance industry (Ahmed 2023a).
17. Another solution may be satisfaction: symbolic measures to recognise loss and damage, such as truth-seeking, apologies or memorialisation.
18. The Least Developed Countries Group submission to the Transitional Committee on paragraph 5 of Decision 2/CP27 outlined their expectation for a rapid response window in the immediate aftermath of extreme events, an intermediate window focused on rehabilitation and recovery, and a chronic needs window to address ongoing effects of slow onset events (LDC 2023).

Basis risk lies in the combination of inherent model error, context outcome uncertainties, and miscommunication or misinterpretation of a model's capabilities (Harris et al. 2020). Basis risk can also arise from the possibility that a contract fails to pay out because of legal miswording (Meenan et al. 2019). While tangible steps can be taken to manage basis risk, such as improving models and data, it is important to recognise that these risks cannot be eliminated for trigger-based products. It is therefore important that the basis risk associated with a particular product is assessed and actively managed, and the risk communicated to all relevant stakeholders, not just the purchaser of the product, to manage expectations.

Secondly, extreme events and slow-onset processes are interconnected and interrelated (Schäfer et al. 2021; Mechler et al. 2021)[19]. While there may be value in addressing some risks on an individual basis, joined-up analysis and solutions that recognise cascading impacts and compounding risks are also likely to be critical at country level. Some forms of pre-arranged financing are typically not designed to consider or cover systemic risks or cascading impacts, which for the poorest people can be significant. Pre-arranged financing and DRF more broadly also cannot address losses and damages that have already happened.

Thirdly, it is important to recognise that there is no one-size-fits all solution and that DRF tools may not always offer the best value for money in reaching the poorest and most vulnerable people. National and local context is key. Some solutions may be cost effective and politically feasible in some environments and less so in others. Decisions relating to the choice of DRF instrument should be informed by transparent and impartial analysis of risks and issues, consideration of value for money and, most importantly, a clear focus on the need to protect the people most vulnerable to the risks. To minimise the risk of adopting inappropriate DRF solutions, the Global Shield is therefore developing processes to provide independent advisory support via the Technical Advisory Group (see Annex I).

Finally, on a practical level, the Global Shield cannot provide support to every country and against every climate risk, given resource and time constraints. In recognition of this, the Global Shield has developed a Framework for Prioritization of Country Support that will be used to determine an annual cohorts of Global Shield partner countries (Global Shield 2023a). With a few exceptions, accessing the financing vehicles is largely limited to countries on the DAC list of ODA recipients[20]. The Global Shield in-country process, particularly the gap analysis, will also be used to prioritise major gaps in each country for which no financial protection is currently in place (Global Shield 2023e).

19. For example, mean temperature rise leads to biodiversity loss in coral reefs. Since corals also protect coasts from waves, their loss due to bleaching-induced mortality also increases risk of flooding, which sea-level rise already exacerbates.

20. Countries currently not on the OECD-DAC List of ODA recipients can receive funding through the CVF and V20 Joint Multi-Donor Fund. Other opportunities exist through knowledge sharing at global level, participation in regional risk pools and through crowding in of the private sector.

4.3 CLIMATE JUSTICE – A COMPLEX YET CRITICAL ISSUE IN ADDRESSING LOSS AND DAMAGE

Developing countries that bear the brunt of impacts from climate change have historically done the least to cause it. Developing country negotiators have therefore emphasised that developed countries have a historical responsibility to provide compensation to help them address losses and damages that have already occurred, and to minimise future loss and damage. However, as discussed in section 3, calls to pay compensation have been a red line for developed countries. When Loss and Damage was included as a distinct article (Article 8) in the Paris Agreement, Annex I Parties insisted on the inclusion of paragraph 52, which states that Article 8 'does not involve or provide a basis for any liability or compensation'. Consequently, Loss and Damage discourse under the UNFCCC has edged away from contentious conversations about compensation and liability, and towards talk of acting in solidarity.

The COP27 decision that underpins the new Loss and Damage Fund is also deliberately broad in terms of funding sources, which means that contributions could come from developing as well as developed countries, and from other (private and/or innovative) sources. This reflects the fact that since countries were first categorised under the UNFCCC in the 1990s, some developing countries have become relatively wealthy, high-emitting countries. Some have joined the OECD; others have not. And while they are not bound to provide or mobilise climate finance under the Convention, some of these countries provide climate finance voluntarily. There is therefore an expectation among developed country negotiators that some emerging countries will pay into the Loss and Damage Fund and not be eligible to access it (Chandrasekhar at al. 2022).

At the same time, climate-vulnerable countries have not completely abandoned their call for compensation and reparation from developed countries, and instead have sought alternative mechanisms under the UN system such as an advisory opinion from the International Court of Justice (see Box 3) and non-UN entities such as the Inter-American Court of Human Rights.

Box 3: Developing countries pursue alternative channels for climate justice

In 2023, Vanuatu successfully led a global coalition of 133 nations in adopting a UN General Assembly Resolution calling for an advisory opinion from the International Court of Justice on the obligations of states under international law for climate action and the consequences of causing harm (UNGA 2023). In the ensuing debate, many member states voiced alarm that the most vulnerable people who have historically contributed the least to the unfolding climate crisis are being disproportionately affected by its consequences.

Although advisory opinions have no binding force, they carry great 'legal weight and moral authority' and can clarify and make concrete the legal obligations of states to prevent and redress the adverse effects of climate change (Tigre et al. 2023; Wilkinson et al. 2022). This in turn may have implications for loss and damage-related mechanisms, as well as future climate finance negotiations.

While an exact timeline for the advisory opinion is not yet known, an outcome is expected **by late 2024.**

4.4 LEGITIMATE LOSS AND DAMAGE SOLUTIONS REQUIRE DECISION-MAKING PROCESSES THAT ARE FAIR, ACCOUNTABLE AND TRANSPARENT

Climate justice goes beyond the concepts of 'liability and compensation' and 'polluters pay.' There is also a critical procedural element whereby those affected have a seat at the table to influence decisions about the impacts of and responses to climate change (Bakhtaoui et al. 2022; Swithern 2021). At international level, it is important that mechanisms are transparent and inclusive. At the national and subnational levels, losses and damages are experienced locally and requires responses that are informed by local knowledge. A shallow understanding of the context of vulnerability and lack of meaningful participation of marginalised groups in project design and implementation can result in actions that have the opposite of the intended effect – increasing vulnerability rather than decreasing it (Forest 2018; O'Sullivan-Winks 2020).

Decision-making at the international level

Part of the argument for the Loss and Damage Fund under the UNFCCC was that a mechanism owned by, and a process open to, all nations was needed. In keeping with this ethos, the work of the Transitional Committee has been open and transparent to date. TC1 and TC2 and the workshops were webcast and open to recognised UNFCCC observer groups. At the first meeting, it was agreed that the exchange of views with non-Party observer constituencies[21] would become a formal agenda item at future meetings of the committee. In general, meetings are open to observers unless a member or members present at the meeting formally requests a closed meeting and there is agreement among the Transitional Committee members present at the meeting. The committee may decide that a meeting or part thereof be closed to observers at any time.

Given it lies outside of a UN process, the design process of the Global Shield has so far been relatively less open. The concept note reflected the 'perspectives of the G7, V20 and members of the InsuResilience High-Level Consultative Group (HLCG) and Program Alliance'[22] (Global Shield 2022). More recently, decisions on governance arrangements, the in-country process and country prioritisation framework were made by the HLCG, which includes representatives of the V20, G7, G20[23], think tanks, civil society, multilateral organisations and the private sector. In future, the Global Shield Board will replace the HLCG in providing political and strategic oversight. Board members include:

- Five representatives from vulnerable countries (including representation from small island developing states and least developed countries). Non-V20 members and incoming V20 members are eligible, subject to interest in the Global Shield.

21. Representatives from NGOs representing the following constituencies: business and industry; environment; women and gender; trade unions; local governments and municipal authorities; and children and youth.
22. Programme Alliance membership as of September 2022: the German Federal Ministry for Economic Cooperation and Development; UK Foreign, Commonwealth & Development; Asian Development Bank Asia-Pacific Climate Finance Fund; Centre for Disaster Protection; KfW Development Bank, including InsuResilience Solutions Fund; UNDP Insurance & Risk Finance Facility; World Bank Global Risk Financing Facility; and Global Index Insurance Facility.
23. The G20 is a forum of the 20 largest economies in the world that meets regularly to discuss the most pressing issues facing the global economy. The current members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the US, plus the EU.

- Five representatives of Global Shield 'supporting countries'.

- Observers include two civil society organisations and representatives of the Global Shield financing vehicles. Further observers will be admissible upon request via the co-chairs.

- The board will be chaired by two co-chairs (one representing the views of vulnerable countries, and one representing those of supporting countries).

Engagement and decision-making at the national, subnational and local levels

Empowering people affected by climate change is essential for interventions to operate effectively. In recognition of the importance of country ownership and leadership, the Global Shield is committed to using an in-country process (as described in section 3) to identify country needs and context-appropriate solutions (Global Shield 2023e). All outputs of the Global Shield's in-country process – stocktake, gap analysis and request for DRF support – can be shared publicly, and with all Global Shield stakeholders (including comments by participants that were not included, or any additional information requested). This can help to promote greater accountability for decisions taken – particularly in relation to the at-risk people it seeks to benefit, and to facilitate learning in the sector, two aspects of DRF where improvements are urgently needed (Swithern 2021).

While it has yet to be decided, Transitional Committee meetings on the operationalisation of the Loss and Damage Fund and various CSOs have similarly highlighted the need for country ownership and an inclusive in-country coordination process that brings together all relevant stakeholders, potentially building on existing national mechanisms (Bharadwaj et al. 2022).

Ownership is a concept that is easy to agree with, but harder to meaningfully apply. It is important that both the Loss and Damage Fund and the Global Shield recognise that while full consensus within a country is unlikely, ownership should not be limited to a small group of elites in the Ministry of Finance or President's Office (Dornan 2017). In-country systems and rules that ensure the meaningful participation of multiple stakeholders from the local to the subnational and national levels, particularly those most affected by disasters and generally excluded from political processes, are critical for social justice and effective, sustainable interventions.

4.5 NEW AND ADDITIONAL FINANCING IS NEEDED TO ADDRESS LOSS AND DAMAGE

The question that lies at the heart of the long-running Loss and Damage debate is a simple but highly contentious one: who should pay? At present, much of the funding burden lies on vulnerable developing countries, communities and households who are least responsible for causing climate change. This is unsustainable, as well as unjust. But if international funding for loss and damage comes at the expense of money to tackle mitigation and adaptation – or, in other words, if it is part of the existing USD100 billion per year that developed nations have promised to mobilise for mitigation and adaptation – this is likely to exacerbate the residual impacts that loss and damage financing has to address. Finance to address loss and damage needs to be new and additional rather than reallocated from existing climate finance commitments and/or broader aid allocations (Sharma-Khushal et al. 2022; LDC Group 2023). Moreover, negotiations are continuing on a New Collective Quantified Goal on Climate Finance, which is due to be agreed by 2024. This will replace the current commitment by developed countries to mobilise USD100 billion per year for developing countries from 2020 to 2025.

While reparations from developed countries are a potential source of new and additional loss and damage finance, the political economy of climate negotiations highlighted above strongly suggests that developed countries have little or no appetite for liability-based contributions, instead preferring to frame their support in terms of solidarity. While solidarity is important, its voluntary nature means that commitments are often neither adequate nor predictable. This sensitivity and general lack of trust between parties around climate finance more broadly was highlighted at the Bonn climate talks in June 2023, with an agenda dispute over a request for more finance discussions that almost jeopardised the entire conference (Gabbatiss et al. 2023).

Recognising this reality, the Transitional Committee is examining potential innovative sources of finance to foot the loss and damage bill that will be predictable and adequate. These seek to avoid competing with development aid budgets[24], as well as reflecting the polluter pays principle (at industry level). Examples include aviation levies, maritime shipping levies, financial transaction taxes and a climate damages tax (Richards et al. 2017; Sharma-Khushal et al. 2022). These are not new proposals; many would face political challenges to their establishment, even before finance could be earmarked for loss and damage. However, discussions at the Summit for a New Global Financing Pact highlighted growing support for taxes on some large greenhouse gas-emitting sectors, particularly the maritime sector.

Civil society organisations have also emphasised the need for new and additional finance for the Global Shield (MAPs 2022). Unlike the Loss and Damage Fund, which has yet to be funded, the Global Shield builds on three existing financing vehicles. Existing donors – in particular, Germany – have contributed to pledges of new

24. ODA is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries. It remains the main source of financing for development aid.

financing amounting to EUR232 million, and efforts are underway to mobilise further funding (Ahmed 2023b). However, there is concern that some donors are explicitly badging their contribution to the Global Shield as their contribution to addressing loss and damage, and that these contributions may not be 'new and additional' (L&D Collaboration 2022). Some countries (e.g. Denmark) have alleviated concerns that they are repurposing existing aid commitments by providing their contributions on top of their 0.7% commitment to ODA (L&D Collaboration 2022). However, given only five of the 31 members of the OECD-DAC met or exceeded this 0.7% target in 2022, with an average of 0.36% (Franczak 2023), as well as persistent difficulties in achieving the USD100 billion collective climate finance goal, it is unlikely that this will be a feasible strategy for other donors.

At the same time, the international community is at a crossroads on the broader question of reform of the international financing architecture. The Bridgetown Initiative, the V20 Accra-Marrakech Agenda and other policy fora such as the recent Paris Summit for a New Global Financing Pact[25] have the potential to unlock new sources of finance for the benefit of those countries most exposed to climate change (see Box 4). Though binding decisions could not be made in Paris, these high-profile political processes may yield progress on new and additional financing to address loss and damage, such as a carbon tax on shipping. Ultimately, how to ensure finance to address loss and damage is 'new and additional' is a question that any initiative that positions itself as part of the loss and damage response should meaningfully engage with.

25. Jointly convened in June 2023 by French President Emmanuel Macron, with the support of Prime Minister of Barbados Mia Mottley.

Box 4: Overview of the Bridgetown Initiative, Accra-Marrakech Agenda and Summit for a New Global Financing Pact

Ahead of COP27, Prime Minister of Barbados Mia Mottley announced the Bridgetown Initiative, a political agenda for reform of the global financial architecture and development finance in the context of intersecting global crises, particularly debt and climate. The Bridgetown Initiative proposes the creation of new instruments and reform of existing institutions to finance climate resilience and the Sustainable Development Goals.

Similarly, the V20 Group, which represents 58 of the world's most systemically climate threatened economies, has outlined four fundamental priority areas as part of the Accra-Marrakech Agenda to ensure a world economy fit for climate and supportive of its most vulnerable groups. This includes mobilising an ambitious share of world GDP to secure a sustainable future for the global economy amid an escalating climate emergency.

Proposed reforms from each initiative were considered in several global policy spaces, including the Summit for a New Global Financing Pact in Paris (22–23 June 2023). The summit aimed to establish the principles for future reforms and pave the way for a more balanced financial partnership between the North and South, setting the stage for many international events that will mark the end of 2023, such as the World Bank and IMF Annual Meetings in Marrakech (9–15 October), and COP28. While the Paris Summit had no formal ability to make binding decisions, its roadmap acknowledges the urgent need for financial resources to bolster climate action (Summit for a New Global Financing Pact 2023).

5

CONCLUSION

It was a breakthrough year for the Loss and Damage agenda in 2022. While there are many critical details to be worked out to ensure that the newly mandated Loss and Damage Fund achieves its goals, the decision to establish it signalled global acknowledgment of the gaps in the existing ecosystem for addressing loss and damage.

The official launch of the Global Shield that year was another positive development. The Global Shield can play a pivotal role in accelerating a shift towards more and better prearranged protection against climate- and disaster-related risks, including by making money available for protection measures at an early stage and in a more coordinated, country-led manner. The Global Shield, and DRF more broadly, offer important lessons for the operationalisation of a dedicated loss and damage fund in several critical areas, where it is necessary to get finance to those most at risk as quickly as possible: from identifying risks, to using social protection programmes that can quickly scale up transfers to poor households affected by a disaster.

However, it is also imperative to recognise the limitations and challenges of pre-arranging disaster financing, the primary objective of the Global Shield, in addressing loss and damage. These include DRF's lack of a track record in dealing with impacts from slow-onset processes and non-economic losses and damages; challenges in developing reliable triggers and good plans for pre-arranged financing; and uncertainty as to which DRF instruments offer good value for money in certain contexts. Also, from a more practical standpoint, creating a comprehensive and robust shield against climate risks in the most vulnerable countries will take time and resources on both the demand and supply sides. Solutions are urgently needed to protect poor and vulnerable people who are already experiencing and/or at high risk of losses and damages, and who are currently excluded from existing mechanisms.

Moreover, given that both the Loss and Damage Fund and the Global Shield perceive country ownership and locally led solutions as critical to success, the onus is on both to explore opportunities for joined-up processes and approaches that do not duplicate and strain government and local capacity, especially in capacity-constrained environments. It is important that both initiatives contribute to a coherent and coordinated approach to loss and damage. For example, the outputs of the Global Shield in-country process such as the stocktake and gap analysis could potentially be useful for the Loss and Damage Fund. It is also critical that both adhere to high standards of transparency, starting from the design stages and throughout the key decision-making processes. This will help avoid duplication and enable accountability to intended beneficiaries and donors.

Finally, both initiatives face considerable time constraints and political pressure in the remainder of 2023 to clearly define their offer and ways of working, including how they will interact with each other, and be operational and financed as soon as possible. Given that the Global Shield is largely about the bringing together of three existing financing vehicles in the DRF space and outside of the UN process, it is likely to reach implementation sooner than the newer Loss and Damage Fund, especially in terms of mobilising financial commitments. Stalled progress will be detrimental to those on the frontline of climate change, and for whom climate change is already destroying their lives, livelihoods, culture and ecosystems. Given this need for speed, it is essential that both initiatives should have iterative learning baked into their mandates, share lessons to minimise the risk of inappropriate solutions and create better interventions. Identifying what works, in combination with a strong process to facilitate learning-by-doing and external scrutiny and accountability, will be required to progress towards an effective architecture for delivering loss and damage finance.

ANNEX I: KEY PLAYERS AND MILESTONES

This annex provides detail on the background to, and timeline for development of both the Loss and Damage Fund and the Global Shield, for the benefit of readers who may not be familiar with either mechanism.

1. LOSS AND DAMAGE FUND

The dramatic – and for many, unexpected – agreement in November 2022 of the Loss and Damage Fund under the UNFCCC was the culmination of over 30 years of debate.

In 1991, as part of the discussions leading to the creation of the UNFCCC, Vanuatu made a proposal[26] on behalf of small island states for insurance-based measures to tackle the losses and damages those islands would experience as sea levels rose. Although the proposal was not accepted, it marked the beginning of the tangled and slow-moving UNFCCC debate around Loss and Damage.

For many years, very little happened. Developing countries would raise the issue, but without a formal agenda item under the UNFCCC, it was hard to make progress. And Annex I (developed) countries were reluctant to commit to support, partly due to concern at the prospect of open-ended claims for compensation. Loss and damage remained a fringe debate, often confined to the margins of discussions around adaptation.

The Warsaw International Mechanism (WIM)[27], agreed in 2013 (and its subsidiary Santiago Network of expertise, set up in 2019), represented a half-step forward. The WIM was designed to deepen understanding of how to tackle loss and damage, strengthen dialogue and coordination, and enhance support, including finance. But as a facilitation mechanism rather than a funding one, its creation did not resolve the question of where the money would come from to address the growing impacts of climate change.

It was not until the Paris Agreement in 2015 that Loss and Damage was included as a standalone issue under Article 8, marking its recognition as a third key 'pillar' of climate action, alongside adaptation and mitigation. This recognition was accompanied, at the insistence of Annex I countries, by the stipulation – in paragraph 52 – that Article 8 'does not involve or provide a basis for any liability or compensation'.

Things started to move faster in 2021, when the G77[28] and China pushed hard for a Loss and Damage Finance Facility at the COP26 climate summit in Glasgow. While the facility was not agreed, it did force a compromise in the shape of the 'Glasgow Dialogue[29]' – a two-year process to talk about funding options for loss and damage, that will conclude in June 2024. And – importantly – finance began to be committed

26. https://unfccc.int/resource/docs/a/wg2crp08.pdf
27. https://unfccc.int/topics/adaptation-and-resilience/workstreams/loss-and-damage/warsaw-international-mechanism
28. The Group of 77 is the largest intergovernmental organisation of developing countries in the UN, which provides the means for the countries of the South to articulate and promote their collective economic interests and enhance their joint negotiating capacity on all major international economic issues within the UN system, and promote South-South cooperation for development.
29. https://unfccc.int/sites/default/files/resource/Glasgow_Dialogue.pdf

directly to Loss and Damage, albeit without any formal vehicle under the UNFCCC to receive it. Scotland and Wallonia (a province of Belgium) both announced small sums, followed in 2023 by Denmark.

The Glasgow Dialogue began in June 2022, at the regular Bonn intersessional meeting, and is a good illustration of the typical debate between developed and developing countries on the subject of Loss and Damage. The former often emphasise all the ways in which the current development and humanitarian architecture already helps to tackle losses and damages; while the latter point to the overarching and crippling shortfall in funding, particularly for certain sorts of damage (with, again, slow-onset and non-economic losses topping the list) that existing mechanisms such as UN humanitarian appeals or risk pools do not address.

Given that the Glasgow Dialogue still had another 18 months to run, and coming hard on the heels of the failure to secure a Loss and Damage Finance Facility in Glasgow, expectations for the November 2023 COP27 negotiations in Egypt were mixed. But the G77 arrived in Sharm el-Sheikh with images of the devastating floods in Pakistan still fresh in everyone's minds, and launched an immediate and forceful push for the question of funding for loss and damage to be formally added to the agenda. Once that was agreed, the two-week summit saw a fierce tussle between developed countries, which continued to make the case for bolstering the existing aid and disaster relief architecture, and waiting for the Glasgow Dialogue to conclude, and developing countries, which were no longer prepared to wait for dedicated finance. The latter prevailed and the new Loss and Damage Fund and funding arrangements were agreed, with the Transitional Committee established to operationalise both. The committee will make recommendations for consideration and adoption by COP28 and CMA5, both in November–December 2023.

2. THE GLOBAL SHIELD AGAINST CLIMATE RISKS

The Global Shield is an initiative driven largely by the German government and InsuResilience Global Partnership (IGP) for Climate and Disaster Risk Finance and Insurance. The IGP was launched at COP23 in 2017 to strengthen the resilience of developing countries and protect the lives and livelihoods of poor and vulnerable people against the impacts of disasters (IGP 2018). Composed of more than 120 partners, it brings together V20 and G20+ countries, civil society, international organisations, the private sector and academia. The main governing body of the IGP is the High-Level Consultative Group (HLCG), which sets the strategic direction of the partnership, and is led by two co-chairs, representing V20 and G20+ members.

The seeds of the Global Shield were planted at the fifth meeting of the HLCG in 2021, and emerged from discussion of the flawed nature of the global architecture for climate disaster risk finance and insurance. IGP subsequently produced five recommendations[30] as to how existing climate DRF and insurance support could be enhanced to better fit the needs of the most vulnerable people. Building on these recommendations, the German G7 presidency proposed jointly working towards the Global Shield. While Germany mobilised support for the Global Shield within the G7, the V20 did the same at its V20 Ministerial Dialogue. Following agreement by G7 leaders in June, the German G7 presidency and the V20 jointly developed a concept note setting out a potential

30. The HLCG emphasised the need to increase the share of pre-arranged finance, improving coordination of solutions in countries, informing and strengthening local capacities, enabling risk informed decision-making, and creating long-lasting resilience impacts by linking DRF to broader resilience planning.

structure and key elements of the Global Shield, which was endorsed by the HLCG and then launched at COP27.

The Global Shield consists of the following governing bodies: the Global Shield Board, the Coordination Hub, the Technical Advisory Group and the Secretariat. The board assumes political and strategic oversight and provides overall guidance to the Global Shield. The board's members will be selected in the following months. The Coordination Hub provides technical advice and implementation coordination to help deliver on the ambition of the Global Shield.

The Technical Advisory Group provides independent advisory support to the in-country process, Coordination Hub and Global Shield Board. The Global Shield Secretariat fosters collaboration and ensures communication among all actors in the Global Shield. Further details of each of these bodies can be found in the Global Shield Governance Charter (Global Shield 2023d). The Global Shield Board will reconfirm the charter in its meeting in November 2023. Additional provisions may be added based on identified needs and will be subject to the Global Shield Board's approval.

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Contact information

Centre for Disaster Protection
WeWork
1 Poultry
London EC2R 8EJ
United Kingdom

info@disasterprotection.org
CentreForDP
disasterprotection.org

Cover Image: Heavy flooding from monsoon rain and tide from sea in Samutprakarn near Bangkok on November 8, 2009 in Samutprakarn, Thailand. Credit: think4photop, Shutterstock.

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