



**CARE Bangladesh Position Paper on
Addressing Loss and Damage: Financial Arrangements and Intervention Taxonomy**



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This document is developed through literature review, analysis of the different international loss and damage funding mechanism and ongoing debates, as well as CARE Bangladesh's learning and insights in field including recent experience of implementing the V20's Pioneering Community Funding for Addressing Climate Change Loss & Damage. CARE Bangladesh will continue to follow the global and national discourse and review its position time to time to support the cause of the most impacted communities.

1. Increasing climate shocks and stresses all around the world

Climate change impacts are increasing the frequency and intensity of extreme weather events worldwide along with the bruising stresses of erratic hydrological phenomena. Worldwide impact of climate change, rising sea levels, changing rainfall patterns and rising temperatures are increasingly affecting marine, freshwater and terrestrial ecosystems, water and food security, settlements and infrastructure, health and well-being, economies and culture through frequent shocks and stresses. 2022 saw unprecedented flooding in Pakistan, a devastating flood in north-east haor region of Bangladesh, extreme storm surges in southern Africa, wildfires across Europe and record-breaking heatwaves in India. In 2023 Canada caught on wildfire, parts of Libya were swept away by storm and flooding and a record-breaking heat wave in Asia affected multiple countries, including India, China, Laos and Thailand. Summer 2023 was assessed to be the hottest year ever recorded when greenhouse gas emissions hit a record high, increasing the calls to stop burning fossil fuels as the major source of emissions. Impacts of global climate change are jeopardizing innovative adaptation strategies of the impacted communities, and the ever-increasing frequency and intensity of the shocks and stresses are also exceeding their coping capacity. The V20 has estimated the economic impact of climate change as 20% of all GDP potential since 2000 for its members, only underscoring the serious economic impact of climate change on the most vulnerable economies.

According to the Germanwatch Global Climate Risk Index, 2021, Bangladesh is the 7th most climate-vulnerable country in the world. Over 2014-20, major climatic disasters such as monsoon floods, riverbank erosion, cyclone and landslide have occurred almost every year and 15 major disasters affected 42 million people, displaced 9.4 million people, damaged 4.6 million houses either fully or partially, caused 1,053 deaths, and resulted in an economic loss of US \$4.12 billion¹. During 2016-2021, economic loss caused by climate disasters in Bangladesh ranged from 0.8 to 1.1 percent of GDP. ADB (2014) has predicted 2% annual GDP loss by 2050 and 9% by the end of this century due to increasing trend of both rapid on-set and slow on-set disasters triggered by climate change.

1.1. What is Loss and Damage?

Loss and damage can be defined as the harm resulting from the effects of climate change that has not been addressed or is not able to be addressed through adaptation or mitigation measures. This harm may exceed the possibility to adapt to, especially in cases where insufficient mitigation measures have caused temperature rise, or it may be the result of inadequate funding for adaptation efforts (Richards et al., 2023).

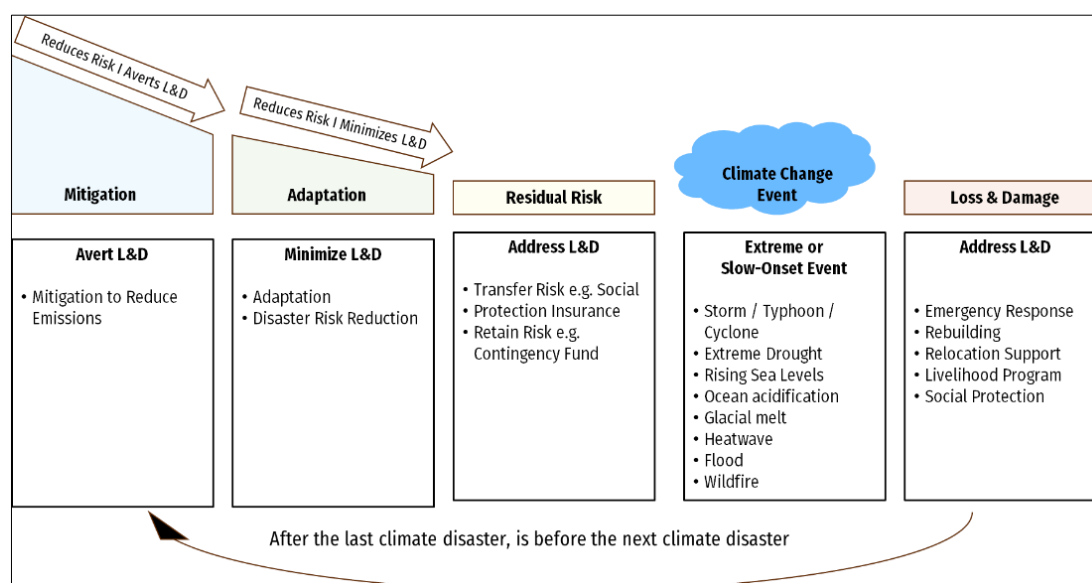


Figure 1: How does loss and damage intersect with climate change adaptation, DRR, and humanitarian assistance??

¹ Multi-hazard Risk Analysis of Climate-Related Disasters in Bangladesh, 2021

² <https://www.lossanddamagecollaboration.org/stories-op/how-does-loss-and-damage-intersect-with-climate-change-adaptation-drr-and-humanitarian-assistance>

One of the delaying tactics employed by developed nations in the UNFCCC negotiations has been to purposefully confuse the definition of loss and damage by using the phrase ‘to avert, minimize and address’ loss and damage (Walsh and Ormond-Skeaping, 2022) or by deliberately confusing loss and damage with the goals of ‘adaptation and resilience’ (Achampong and Roberts, 2022). As reflected in Figure 1, ‘averting’ loss and damage involves engaging in mitigation efforts to avoid or avert climate impacts. Efforts to ‘minimize’ loss and damage are adaptive, which reduce risk and minimize loss and damage of the overall impact. Despite mitigation and adaptation, there remains residual risk. The actions taken to address this risk or cope with the aftermath of loss and damage are included in ‘addressing’ loss and damage (Richards *et al.*, 2023).

1.2. Taxonomy of Loss and Damage

The United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement recognized the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change. Classification of loss and damage include those that result from impact of shocks (rapid-onset) extreme weather events, such as cyclones, floods, drought and heatwaves, and those caused by stresses (slow-onset) events or processes, like sea-level rise, desertification and biodiversity loss (UNFCCC, 2021).

The UNFCCC (2021) distinguishes between loss and damage as Economic and Non-economic where i) Economic loss and damage can be understood as loss of physical assets, goods and services that are commonly traded in markets; for example, loss of income, damage to infrastructure and property; and ii) Non-economic loss and damage can be considered as remainder of items that are not commonly traded in markets; for example, human losses (loss of life and health), societal losses and damages (loss of cultural heritage, territorial loss and loss of indigenous knowledge) and environmental losses (loss of biodiversity and ecosystem services). Outside of the UNFCCC, several complementary classifications and typologies of climate-related loss and damage have been developed. These include climate-related loss and damage that can be avoided or unavoided and that may, in certain circumstances, be unavoidable.

Panwar et al., 2023 referred to some frameworks that have been developed to organize these various dimensions and categories of loss and damage. For example, adopt a layered risk management approach to explain how risks can be avoided or remain unavoided and become unavoidable, with increasingly transformational risk management and curative finance needed to address unavoidable loss and damage as the hard and soft limits to adaptation are reached and risks become intolerable. The framework considers three types of finance: i) risk management finance (including DRR and climate change adaptation – CCA – finance) for avoided risks, ii) risk finance for unavoided risks and iii) curative finance for unavoidable risks.

Boyd et al., 2016 identified four different framings of loss and damage: (i) adaptation and mitigation, (ii) risk management, (iii) limits to adaptation, and (iv) existential. Comprehensive risk management approaches cover all complementary actions that are needed to address climate change: from those that minimize or avert loss and damage, to those that address these when or after they occur. Stakeholders who prefer a ‘limits to adaptation’ framing focus on ‘residual loss and damage’, which goes beyond the adaptation and mitigation limits. These framings are useful in developing a loss and damage finance framework that builds on existing DRR expertise and financing arrangements.

2. Loss and Damage Fund

The summary report of International Institute for Sustainable Development (IISD) on COP28 in 2023 mentioned that Parties to the Paris Agreement (CMA5) acknowledged the global strides in preventing, lessening, and addressing loss and damage caused by climate change impacts. This includes extreme weather events and slow onset events, particularly in vulnerable developing nations. The recognition encompassed advancements related to the Warsaw International Mechanism on Loss and Damage (WIM), the establishment of the Santiago Network on Loss and Damage (SNLD), and progress in its implementation and operationalization. There was an expression of deep concern regarding the notable economic and non-economic losses linked to the adverse impacts of climate change on developing countries. These losses contribute to challenges such as reduced financial capacity and limitations in achieving the Sustainable Development Goals (SDGs).

The summary report of IISD 2023 also mentioned that in 2022, during COP27, a historic decision was made to establish a Loss and Damage Fund (LDF) and the subsequent funding arrangements received widespread approval. One year later, on the first day of COP28, an agreement was reached to make the fund operational. While the conference began with a commitment to fully actualize the loss and damage fund, debates continue regarding its scope and mechanism. Developed countries pledged approximately USD 700 million to the fund or to related funding structures. The institutional home for the Santiago Network was established within the UN Offices for Disaster Risk Reduction, creating a significant connection between UN bodies addressing climate change. However, the absence of a universally adopted, specific definition for loss(es) and damage(es) makes it challenging to standardize estimates for their costs, assess the suitability and availability of financing, and identify funding gaps for loss and damage (Panwar et al., 2023).

The establishment of the Loss and Damage Fund (LDF) aimed to tackle the existing challenges related to insufficient financial resources and institutional capacity dedicated to providing funds specifically for addressing loss and damage (Richards et al., 2023).

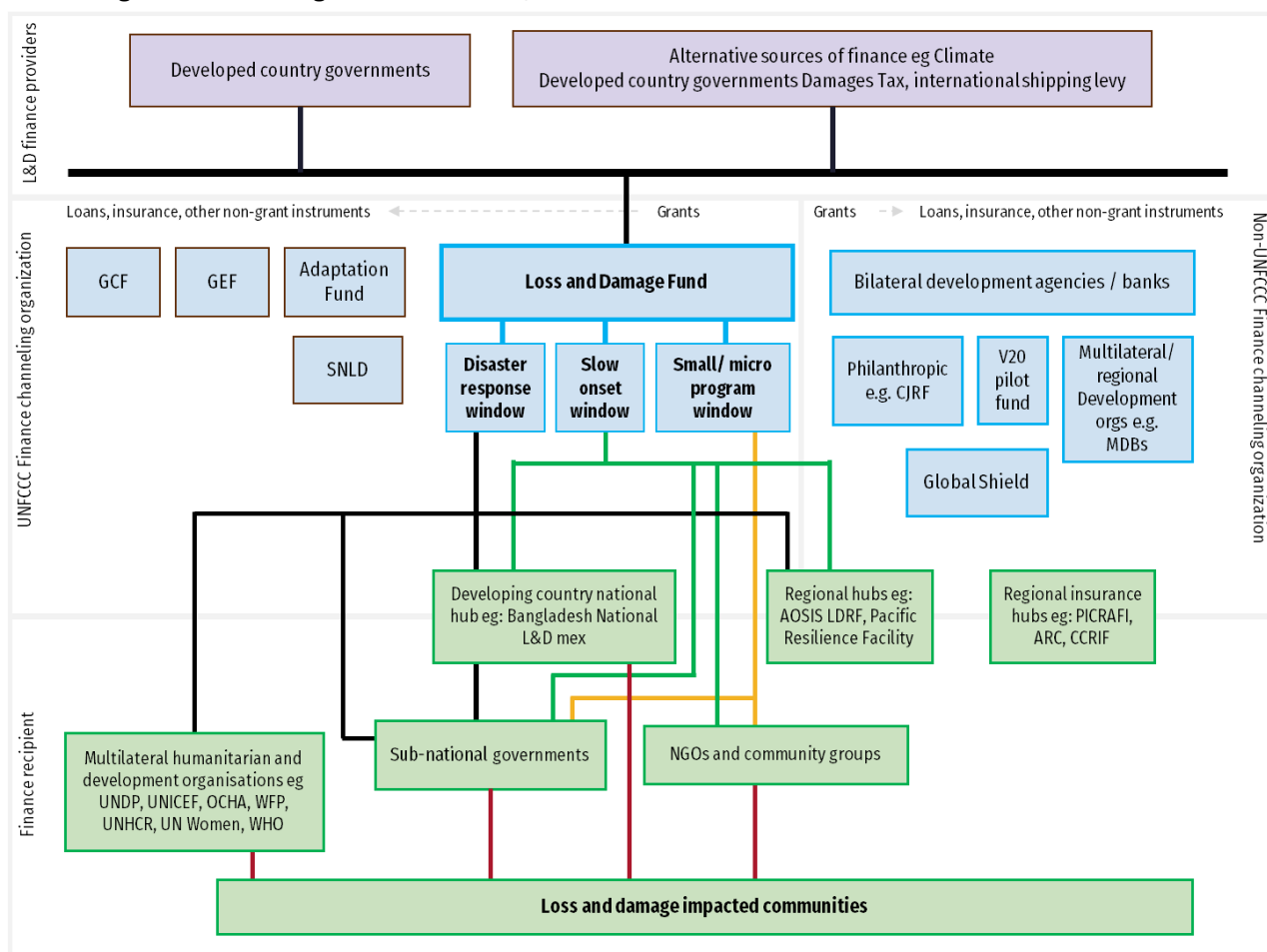


Figure 2: Loss and Damage Fund Financial Flows (Richards et al., 2023)

In IISD's summary report (2023), during COP28, a decision was made to grant the board of the fund legal personality and the necessary legal capacity to fulfill its roles, particularly the ability to negotiate, conclude agreements, and establish a hosting arrangement with the World Bank as the interim trustee and host of the fund's secretariat. The CMA5 also extended an invitation to the World Bank to operationalize the fund as a financial intermediary fund hosted by the World Bank for a temporary period of four years. This period starts from the sessions of COP28 and CMA5, during which the board of the fund confirms that the specified conditions in the decision can be met. The fund will be supported by a new, dedicated, and independent secretariat hosted by the World Bank.

2.1. How will the fund be structured & governed?

Since both COP and CMA5 jointly decided to establish the Loss and Damage Fund (LDF), the LDF's governing body will be accountable to and directed by both parties. This means that the LDF will represent the interests of both the Convention, which places a strong emphasis on equity and historical responsibility, and the Paris Agreement, which designates loss and damage as a separate pillar. The Board or Governing Council's composition should prioritize equitable representation, featuring a majority of seats for developing countries, ensuring gender balance, and granting voice and vote to representatives from affected communities and civil society organizations as full board members (Richards et al., 2023).

Richards et al., 2023 also proposed three separate funding windows, each with unique "fit-for-purpose" programming modalities and application procedures, should be part of the LDF, as the following graphic figure-3. These procedures should be designed to guarantee responsiveness to the requirements of recipient countries and affected communities, the timeliness of necessary responses, and to specifically address shortcomings and apply lessons learned from previous funding mechanisms. These proposed funding windows are-

- a rapid or disaster response window to provide quick release funding in the aftermath of climate disasters,
- a slow-onset window to provide funding for longer-term loss and damage planning and policy framework and support transformative programming (e.g. permanent relocation/ just transition to alternative livelihoods),
- a micro/small-grant window to allow for direct access for subnational and local actors, in particular affected communities and civil society organisations working directly with them for both fast-response and slow-onset activities.

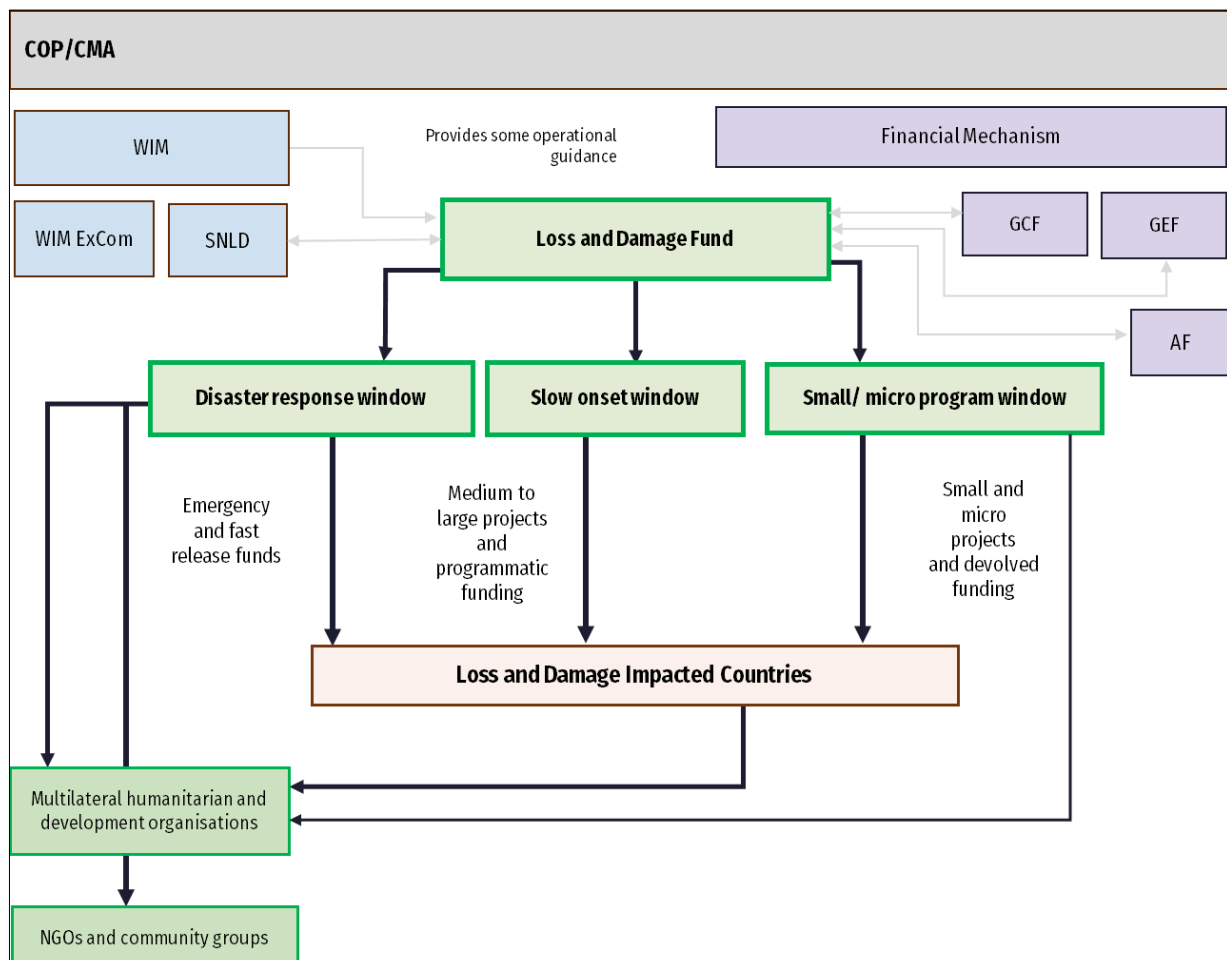


Figure 3: Loss and Damage Fund Governance Structure (Richards et al., 2023)

3. The other global L&D funding arrangements

Global Shield: During COP 27 in 2022, the Vulnerable 20 Group (V20) of the climate vulnerable economies and the Group of Seven (G7) launched the Global Shield against Climate Risks, an initiative for pre-arranged financial support designed to be quickly deployed in times of climate disasters. The financing structure include three complementary funds: the Global Shield Solutions Platform, which builds on InsuResilience Solutions Fund, the Global Shield Financing Facility at the World Bank, and the Climate Vulnerable Forum (CVF) & V20 Joint Multi-Donor Fund.

V20 Loss and Damage Funding Programme: Recognizing the serious economic impact of climate change on the most vulnerable economies, - the V20 Group has resolved to pioneer an efficient, effective, and scalable international funding mechanism for addressing L&D. Complementing initial funds already allocated by the CVF & V20 Joint Multi-Donor Fund, the V20 further mobilized additional funds from philanthropic partners for this pathbreaking funding program. The L&D investments under the V20 L&D funding program will also leverage climate change adaptation funding since the program's L&D investments need to withstand future extreme events.

This V20 Loss and Damage Funding Program is classified in 6 thematic areas: i) Conservation of Key Biodiversity, ii) Livelihood, iii) Land Degradation and Sustainable Forest Management, iv) International Waters, v) Chemicals (POPs), & vi) Displacement/ Migration.

Under these thematic areas the program categorized its activity propositions under the following output taxonomy: i) Community Infrastructure, ii) Livelihood Assets, iii) Adaptation Component, & iv) Development/ Reconstruction/ Humanitarian/ Disaster Risk Reduction Component.

V20 countries have partnered with CARE for the implementation of the initial funding. Since mid-2023, the program invested for the first loss and damage response actions in the pioneer countries Bangladesh, Kenya and Malawi with an implementation horizon until April 2024. The lessons of the pilots will contribute to the L&D investment taxonomy under different funding arrangements, including the Loss and Damage Fund established and to be operationalized under the UNFCCC COP and CMA.

4. CARE Bangladesh's proposition for a robust and just loss and damage financing mechanism:

- **Principles of loss and damage finance:** Under the title 'Loss and damage finance', CARE along with other civil society organizations advocates for developed countries' commitment to new pro-poor financing, distinct from current funds (development, humanitarian, adaptation, and mitigation), based on the polluter pays principle with transparent allocation and public oversight. All loss and damage funding arrangements should have transparent and accountable governance (board and secretariat) structure ensuring representation of vulnerable countries and communities (particularly in national mechanisms), operational policies and modalities and timely disbursement. Starting with swift pilot disbursements for early lessons, advanced structures, and finalizing modalities should be prioritized with an emphasis on projects and programs that addressed the needs of most vulnerable, supported by safeguards and mechanisms for rights and environmental integrity.
- **Multiple Channel with Multiple Solution Track:** The governments of the world, particularly those in the North, should support the mobilization of funds in light of Glasgow Dialogue. They should also encourage complementarity in the developing loss and damage finance structure headed by the LDF, encourage a "mosaic of solutions" from various actors, and ensure prompt operationalization with accountability and support (*Richards et al., 2023*).
- **New Collective Quantitative Goal on climate finance (NCQG):** Emphasize in the NCQG that all climate finance is new, additional, non-debt-generating, and gender-responsive, covering mitigation, adaptation, and loss and damage. Ensure inclusion of loss and damage finance in the NCQG's transparency modalities under the UNFCCC's Enhanced Transparency Framework (ETF). Integrate finance for loss and damage into discussions on scale, establish it as a separate sub-goal, and include it in review mechanisms.

- **Santiago Network on Loss and Damage (SNLD):** Operationalize the Advisory Board, delineate roles for capacity support in accessing loss and damage finance, collaborating with LDF for readiness and planning, including catalyze the technical assistance of relevant organizations, bodies, networks and experts, for the implementation of relevant approaches for averting, minimize and addressing L&D. Clarify institutional linkages and consider a memorandum of understanding with LDF. Explore SNLD's potential role in offering expert input to LDF's technical advisory body or serving as an observer in LDF board proceedings (*Richards et al., 2023*).
- **LDF as a Separate Funding Stream under UNFCCC:** The LDF should be considered as a third operating entity under the Financial Mechanism of the UNFCCC, which also serves the Paris Agreement. It should incorporate windows that cater for the specific economic and non-economic needs of both slow onset loss and damage and extreme events as well as a window to provide simplified direct financing access to local communities and affected people.
- **Address the Existing Caveats in LDF:** Although the governments agreed on the L&DF key operating principles, e.g. who should pay, who will be able to benefit, where the Fund will be hosted, etc. there are quite a few caveats in the adopted text. There is no obligation or target for historical emitters, in particular Global North countries to fill the Fund and the World Bank's, who will host L&DF Secretariat (to be confirmed by COP29), governance practices predominated by loan as a financing tool and investment in fossil fuels remain a serious concern.
- **Global Shield should focus on grants:** CARE appreciates the G7 ('Group of Seven') and the V20 ('the Vulnerable Twenty') the Global Shield initiative against Climate Risks, with new commitments as initial funding. Its pre-arranged financial support is designed to be quickly deployed in times of climate disasters. The first recipients of the Shield will be the Pathfinder countries – include Bangladesh, Costa Rica, Fiji, Ghana, Pakistan, the Philippines and Senegal. However, the contributions should primarily go into the CVF & V20 Joint Multi-Donor Fund component of the global shield to channel grant finance to affected communities.
- **Integrate Social Safety Net in Loss and Damage Mechanism:** CARE urges that Loss and Damage Fund and the Global Shield to actively support and strengthen the social protection instruments in the vulnerable countries like Bangladesh. Civil society is ready to engage constructively in supporting the process and delivery such as payment to the climate affected communities.
- **National L&D Framework:** Beside the global L&D funding arrangements, vulnerable countries like Bangladesh should strive towards developing own national loss and damage funding frameworks aligning with the technical guidelines of SNLD and financial instruments of global L&D Fund, Global Shield etc. Such national mechanisms should also leverage national safety net opportunities, local, national, private sector, and philanthropic contribution window to develop appropriate governance structures to compensate impacted communities timely and effectively in a pro-poor and gender equitable manner. National frameworks for L&D should also include I/NGOs as key actors in assessing the impact of climatic shocks and stresses, selecting the people in most need and delivering the support to the last mile at the soonest possible.

Overall, the caveats in the L&D Fund, especially the absence of obligation for historical emitters and their poor track record even in fulfilling funding pledges they officially made, along with the questionable efficiency of the different climate fiancé mechanism established under the UN in terms of vulnerable communities access to those, only ask for relentless struggle and engagement at national, regional and global level for a just climate financing framework and its operationalization to address loss and damage.

CARE Bangladesh will continue to work towards a comprehensive application of poverty focused principles in a way that the Climate and Disaster Risk Finance and Insurance (CDRFI) mechanisms established or under design, focus on piloting (where they lack), advancing and scaling up approaches which are really adapted to the needs of the poor and vulnerable populations and are poverty-focused, gender-equitable and human rights-based. We will bring local voices for shaping responsive climate risk financing, including funding mechanism for loss and damage, by international agencies such as Loss and Damage Fund, Global Shield, V20 Loss and Damage Funding Program etc. as well for establishing local and national loss and damage funding mechanism leveraging existing and potential facilities, policies and resources.

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For further information on the Position Paper:

Mrityunjoy Das

Deputy Director, Humanitarian & Climate Action Program,
CARE Bangladesh

Email: mrityunjoy.das@care.org

Himadree Shekhar Mondal

Technical Coordinator – Climate Risk Financing, MAP CDRFI,
Humanitarian & Climate Action Program, CARE Bangladesh

Email: himadreeshekharmondal@care.org

Mohammed Mahabubay Sobahani

Senior Specialist- DRR, SHOUHARDO III DRR and
Manager- Climate Information and Weather Services,
NABAPALLAB (নবপল্লব), Humanitarian and Climate Action
Program, CARE Bangladesh

Email: mahabubay.sobahani@care.org

Contact-

CARE Bangladesh

RAOWA Complex (Level 7-8)

VIP Road, Mohakhali,

Dhaka -1206, Bangladesh

Phone: +88 02 5505 8377-83

Fax: +88 02 5505 8374

Email: bgd.info@care.org

