

# ENGAGING THE PRIVATE SECTOR IN THE LOSS AND DAMAGE FUND: ISSUES AND OPTIONS



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## SUMMARY

The UN Framework Convention on Climate Change (UNFCCC) 28th Conference of the Parties (COP28) set out a historic agreement to operationalize the loss and damage (L&D) fund to address and respond to the impacts of climate change for those countries that are particularly vulnerable. The COP28 decision further established a Board of the L&D Fund (the Board) to govern the L&D Fund.<sup>1</sup> The Board has several decisions to make this year including agreeing on the arrangements of the L&D Fund for adoption at COP29.<sup>2</sup>

However, some questions remain, such as how the L&D Fund will be financed (resource mobilization strategy), and by whom (donor base). According to the COP28 decision, the L&D Fund can receive contributions from a wide variety of sources, including the private sector.<sup>3</sup> Parties need to decide how to begin to effectively engage the private sector to increase climate finance and close remaining gaps in funding.

It is also important to note that the new collective quantified goal (NCQG) on climate finance expected to be adopted at COP29 should take into account the needs and priorities of developing countries, which could include enhancing private sector finance for L&D.<sup>4</sup>

This paper presents the issues and options facing Parties and the Board as they consider how to engage and interact with the private sector to increase financing for the L&D Fund. The paper proposes a voluntary framework for consideration that sets out how the private sector can contribute to the L&D Fund in return for “L&D certificates” with quality assurance for the project/program supported. These certificates could be issued by the Board, reflecting the company’s financial contributions, which could then be used in the company’s reports or other communications by private sector actors to show how they have addressed L&D.

## BOX 1: Issues and Options for the L&D Fund and Private Sector Financing

### Issues

- The private sector is largely unaware of opportunities to contribute to the L&D Fund.
- A lack of financial incentives and/or a clear framework for private sector L&D finance could hinder private sector engagement.
- The COP28 decision does not encourage private sector finance for L&D, and it is silent on how to do so.

### Options

- Parties could ask the Board to create a voluntary framework for private sector engagement which could encourage grants-based L&D finance, or the Board could develop this framework through its existing mandate
- Parties or the Board could develop guidelines for philanthropic financial contributions for L&D finance
- The Board could encourage and enhance further collaboration between the L&D Fund and the Santiago Network on financing technical support
- Parties could adopt language that enhances the focus on enhancing private sector L&D finance, either through the arrangements of the L&D Fund or within the NCQG decision for COP29

**BOX 2: Questions for consideration**

- What solutions for grants-based finance from the private sector could be pursued?
- Could the Board develop effective arrangements, methodologies, frameworks, or strategies for enhancing private sector L&D finance?
- Should Parties discuss whether the NCQG could include private sector finance for L&D?

**THE FINANCE GAP FOR L&D**

The L&D finance gap is one of several climate finance gaps. In 2023, the gap in adaptation finance widened. Even before the COVID pandemic, and the wars in Ukraine and Gaza, the funding gap for humanitarian aid or official development assistance (ODA) was growing.<sup>5</sup> Finance for disaster risk reduction is less than needed, and the COVID-19 crisis has pushed the achievement of the Sustainable Development Goals further out of reach.<sup>6</sup> At the same time, higher energy and food prices due to inflation, geopolitical instability, and climate shocks are weakening the global economy and affecting the ability to increase finance for ODA and climate finance.<sup>7</sup>

These increasing pressures on ODA strain domestic public budget spending. At the same time, developing country financial needs are likely to quickly increase in the coming years due to many stressors, including the impacts of climate change. L&D finance is increasingly necessary for many Parties, especially particularly vulnerable countries, to respond to climate change. And though the Paris Agreement does not establish a basis for compensation and liability, some argue that developed countries have a moral duty to pay for L&D in developing countries.

The new L&D Fund has currently received pledges for US \$661.39 million.<sup>8</sup> However, this initial amount still falls short of what is needed to effectively respond to L&D.<sup>9</sup> Given that public sources of finance will not be enough to address all climate finance gaps, Parties have acknowledged the need to mobilize and scale up private sector finance. In establishing the new L&D Fund, it is important to encourage and direct the private sector to expand their efforts and provide grants-based financing for L&D.

**ISSUES FOR PRIVATE SECTOR FINANCE UNDER THE UNFCCC/PARIS AGREEMENT**

Parties generally agree that funding needs to be “new, additional, predictable and adequate,” including to ensure that the overall level of climate finance will increase instead of being re-directed from other sources.<sup>10</sup>

At the moment, private sector financing of L&D is negligible. Significantly increased private sector finance could be a “new and additional” source of L&D finance; however, Parties have yet to comprehensively discuss its potential. One reason may be the perceived failure of private sector mechanisms to finance the Adaptation Fund. Share of proceeds from the Kyoto Protocol’s Clean Development Mechanism failed to deliver finance at the scale needed.<sup>11</sup> Another reason may be related to the need for predictability and grants-based finance, which are arguably not common through private sector finance.

The COP28 decision on L&D finance barely touches on the private sector’s potential to finance responses to L&D. The private sector is mentioned as one of many stakeholders that will be invited to provide input and participate in the “design, development and implementation of the activities financed” by the L&D Fund.<sup>12</sup>

The private sector itself currently lacks knowledge and understanding of how it may finance L&D through the L&D Fund. A clear message from Parties on what, why, and how the private sector can provide finance for L&D could enable and encourage those private sector stakeholders inclined and willing to contribute. COP decisions can leverage powerful political momentum and send important signals to the world.

## OPTIONS TO ENHANCED PRIVATE SECTOR FINANCE FOR THE L&D FUND

### A VOLUNTARY FRAMEWORK FOR PRIVATE SECTOR FINANCE

The UNFCCC and the Paris Agreement do not have a mandate to create mandatory mechanisms for private sector financing. However, the COP and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), and arguably also the L&D Fund Board, have the authority to develop a voluntary framework for private sector financing of L&D that can encourage and incentivize increased finance to the L&D Fund.

This framework could stipulate the conditions for private companies to finance the L&D Fund.<sup>13</sup> In short, it could set out how and why private sector should finance L&D, and the quality credentials of the L&D projects and programs being funded.

### A SUGGESTION FOR CONSIDERATION - QUALITY ASSURANCE THROUGH L&D CERTIFICATES

As part of the voluntary framework, the Board could issue “L&D certificates,” or other tokens of quality assurance, with information on the financial contributions by each company. These certificates could then be used by the companies in their reporting on environmental, social and governance (ESG) and climate risks, and in their communication on climate ambition and action.<sup>14</sup>

Parties could decide whether the Board has the necessary mandate or whether they could instruct the Board to develop a framework for private sector financing and criteria for quality certificates reflecting the contributions to the L&D Fund. If successful, this could increase grant-based finance for L&D that are new and additional, and potentially also predictable.

A “market” for quality certificates could drive private companies, institutions, and affluent individuals to replenish the L&D Fund. Companies that aim to respond to all aspects of climate change can include addressing L&D could be potential donors. The UNFCCC and Paris Agreement’s stamp of quality, reflective of equity and fairness, could also reduce the risk of being accused of “greenwashing.”

At this time, it is not clear how much finance this approach could raise.<sup>15</sup> However, if it is as promising as

the nascent carbon credit market for nature-based and other mitigation projects, it could contribute around US \$6-9 billion per year, with potential for rapid growth.<sup>16</sup> Moreover, the current voluntary carbon market is mainly focused on mitigation with ESG co-benefits. It is not created to finance actual and incurred losses and damages due to climate change – indicating a clear gap in this market that could be addressed by a voluntary framework for private sector finance.<sup>17</sup>

## PRIVATE SECTOR FOR L&D OUTSIDE OF THE UNFCCC/PARIS AGREEMENT

Outside of the UNFCCC, other initiatives, such as current ESG company reporting requirements, could be expanded to include information on how companies respond to the risk of L&D, directly and indirectly. Parties, or the Board, could decide to encourage these reporting initiatives to take a more comprehensive approach to climate change that includes L&D, and provide information on finance for responding to L&D. Options include decision text or announcements via the high-level dialogue on coordination and complementarity.

Additionally, the High-Level Climate Champions have facilitated a series of dialogues and surveys, and published a dedicated discussion paper on supporting “actions after impacts” in addition to building resilience (“actions before impacts”).<sup>18</sup> The paper suggests that corporate investment risk matrices are incorporating L&D risk and funding to address potential impacts. Also, addressing L&D is becoming part of wider investments to build resilience and provisions for business continuity.

## OPPORTUNITIES TO DISCUSS ENHANCED PRIVATE SECTOR FINANCE

The L&D Fund will be able to receive contributions, including grants and concessional loans, from private sources.<sup>19</sup> However, there is discussion about the role of the trustee of the L&D Fund in vetting contributions from private sector sources to ensure they do not create conflicts of interest.<sup>20</sup>

Upcoming decisions from the Board can clarify how the L&D Fund engages with the private sector, such as through philanthropic or direct contributions from private sources. The arrangements of the L&D Fund

will be drafted by the Standing Committee on Finance, approved by the Board, and adopted at COP29. These arrangements could include private sector finance engagement.

Through 2024, the Board will prepare a long-term fundraising and resource mobilization strategy and plan for the L&D Fund to guide the mobilization of new, additional, predictable, and adequate financial resources from all sources of funding.<sup>21</sup> In doing so, the Board could assess new and innovative ways in which to engage the private sector.

The annual high-level expert dialogue on funding arrangements for mobilizing new and additional resources and enhancing existing sources of finance under and outside of the UNFCCC and the Paris Agreement could be used as a steppingstone for enhancing understanding and action for private sector finance. Finally, the NCQG discussions leading up to COP29 in Baku could be used as fora to increase focus and enhance finance for L&D, from both public and private sources.

## CONCLUSION

Despite the clear need for enhancing finance for L&D, particularly for the L&D Fund, Parties have yet to comprehensively discuss the potential of private sector finance for L&D, which has historically not been grants-based. At the third and final Glasgow Dialogue (June 2024), Parties noted the limited role of the private sector to provide finance for L&D.<sup>22</sup> Through 2024, Parties have opportunities to elaborate the private sector’s potential in financing responses to L&D.

Parties may have the authority to develop a voluntary framework for private sector financing of L&D that can encourage and incentivize increased finance to the L&D Fund. Such a framework could also establish a new “market” for quality certificates could drive private companies, institutions, and affluent individuals to provide important finance to the L&D Fund.

Parties could also encourage outside initiatives, such as current ESG company reporting requirements, to expand to include information on how companies respond to the risk of L&D. Through these efforts, private sector finance could begin to contribute to closing the finance gap needed to address and respond to L&D.

## C2ES Resources

### **Loss and Damage at COP28 and the Way Forward for 2024 (April 2024)**

<https://www.c2es.org/document/loss-and-damage-at-cop28-and-the-way-forward-for-2024>

### **Potential Coordination Role of the UNFCCC on Loss and Damage – Technical Paper for Consultation (November 2023)**

<https://www.c2es.org/wp-content/uploads/2023/11/20231121-C2ES-UNFCCC-LD-Coordination-Role-Technical-Paper-for-Consultation.pdf>

### **Understanding Finance for Loss and Damage Under the UNFCCC – Technical Paper (June 2023)**

[https://www.c2es.org/wp-content/uploads/2023/06/Understanding-finance-for-LD\\_FINAL.pdf](https://www.c2es.org/wp-content/uploads/2023/06/Understanding-finance-for-LD_FINAL.pdf)

### **A Gap Analysis of Finance Flows for Addressing Loss and Damage – Technical Paper (June 2023)**

<https://www.c2es.org/wp-content/uploads/2023/06/LD-Funding-Arrangements-Gap-Analysis.pdf>

### **Considerations for Operationalizing the Loss and Damage Fund and Funding Arrangements – Technical Paper (June 2023)**

<https://www.c2es.org/document/considerations-for-operationalizing-the-loss-and-damage-fund-and-funding-arrangements-technical-paper>

### **The Institutional Ecosystem for Loss and Damage (August 2022)**

<https://www.c2es.org/document/the-institutional-ecosystem-for-loss-and-damage/>

## ENDNOTES

- 1 United Nations Framework Convention on Climate Change [hereinafter UNFCCC], *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4*, Decision 1/CP.28, ¶ 4 (March 15, 2024), <https://unfccc.int/documents/637067>.
- 2 UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4*, Decision 1/CP.28, ¶ 12.
- 3 UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage*, Decision 1/CP.28, ¶ 54.
- 4 “New Collective Quantified Goal on Climate Finance,” UNFCCC, accessed August 12, 2024, <https://unfccc.int/NCQG>.
- 5 Catherine Wenger, *A Gap Analysis of Finance Flows for Addressing Loss and Damage* (Arlington, VA: Center for Climate and Energy Solutions [hereinafter C2ES], November 2023). <https://www.c2es.org/document/a-gap-analysis-of-finance-flows-for-addressing-loss-damage/>.
- 6 Wenger, *A Gap Analysis of Finance Flows for Addressing Loss and Damage*.
- 7 The Organization for Economic Cooperation and Development [hereinafter OECD], *OECD Economic Outlook, Interim Report September 2023: Confronting Inflation and Low Growth*, (Paris, France: OECD Publishing, 2023), <https://doi.org/10.1787/1f628002-en>.
- 8 “Pledges to the Loss and Damage Fund,” UNFCCC, accessed August 12, 2024, <https://unfccc.int/process-and-meetings/bodies/funds-and-financial-entities/loss-and-damage-fund-joint-interim-secretariat/pledges-to-the-loss-and-damage-fund>.
- 9 See, e.g., Wenger, *A Gap Analysis of Finance Flows for Addressing Loss and Damage* (discussing the uncertainties and difficulties with estimating a “loss and damage finance gap”).
- 10 There was some question as to whether all the contributions to the L&D Fund were “new and additional.” For more information, see: UNFCCC, *Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage*, Decision 2/CMA.4, ¶ 2, <https://unfccc.int/sites/default/files/resource/decision%202%20CMA%204.pdf>.
- 11 The collapse of the market together with an accumulation the share of proceeds before cashing them out, at a time where the share of proceeds had dropped in value, contributed to this failure. Cathrine Wenger et al., *Study on Loss and Damage Financing Solutions and Sources* (Copenhagen, Denmark: Nordic Council of Ministers, 2023), 18, <https://pub.norden.org/temanord2023-546/temanord2023-546.pdf>.
- 12 UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage*, Decision 1/CP.28, ¶¶ 28-29.
- 13 Wenger et al., *Study on Loss and Damage Financing Solutions and Sources*, 67.
- 14 Wenger, et al., *Study on Loss and Damage Financing Solutions and Sources*.
- 15 Wenger, et al., *Study on Loss and Damage Financing Solutions and Sources*.
- 16 Wenger, et al., *Study on Loss and Damage Financing Solutions and Sources*.
- 17 Wenger, et al., *Study on Loss and Damage Financing Solutions and Sources*.
- 18 UN High-Level Climate Champions, *Actions After Impacts: What actions are non-state actors taking to address climate losses and damages? How can these be accelerated?* (UNFCCC, November 2022), [https://climatechampions.unfccc.int/wp-content/uploads/2023/04/Actions-After-Impacts\\_-\\_Accelerating-Action-by-non-State-actors-to-address-climate-losses-and-damages-FINAL-corrected.pdf](https://climatechampions.unfccc.int/wp-content/uploads/2023/04/Actions-After-Impacts_-_Accelerating-Action-by-non-State-actors-to-address-climate-losses-and-damages-FINAL-corrected.pdf).

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19 UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage*, Decision 1/CP.28, ¶ 54.

20 According to the COP28 decision, the World Bank is the trustee to the loss and damage fund. As long as the World Bank is able to meet the provisions set out in the decision. UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4*, Decision 1/CP.28, ¶¶ 15, 20, and 21.

21 UNFCCC, *Operationalization of the new funding arrangements, including a fund, for responding to loss and damage*, Decision 1/CP.28, ¶ 56.

22 UNFCCC, *Summary report on the third Glasgow Dialogue, Report by the SBI Chair* (July 1, 2024), [https://unfccc.int/sites/default/files/resource/Summary\\_GD3\\_03072024.pdf](https://unfccc.int/sites/default/files/resource/Summary_GD3_03072024.pdf).



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