



TECHNICAL NOTE NO. RTB-003-SB

# FOUNDATIONS FOR CONSOLIDATING THE 'LOSS AND DAMAGE' FINANCING MECHANISM

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## About UNDP

UNDP is the United Nations' lead organisation in the fight to end the injustice of poverty, inequality, and climate change. Working with a broad network of experts and partners in 170 countries, it supports nations in developing integrated, lasting solutions for people and the planet.

## About "Route to Belém"

The *Route to Belém* platform is an initiative under the UNDP programme "Support to COP30" (BRA/24/007), which combines technical expertise with new technologies and digital environments to help make COP30 in Belém, Brazil, the turning point needed to address global climate change. This will be achieved through two strategies. The first draws on scientific studies to strengthen discussions among COP negotiators. The second uses digital tools, such as a smart scheduling application, metaverse platforms, and a virtual assistant (chatbot), to engage society, the private sector, and academia in the debates, enabling participation from both those in Belém and in other locations.

The views expressed in this publication are those of the authors and do not necessarily reflect the views of the United Nations, including UNDP, or its Member States.

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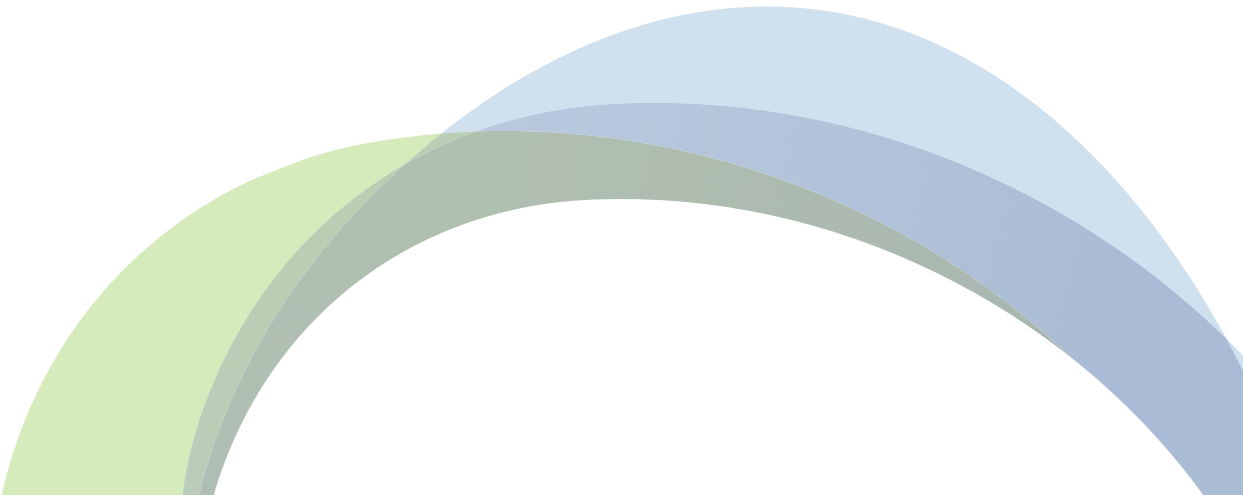
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## ABSTRACT

The issue of Loss and Damage (L&D) in international climate negotiations addresses irreversible climate impacts beyond mitigation and adaptation, encompassing economic (e.g., infrastructure loss) and non-economic (e.g., cultural heritage) harms. Key milestones include the Warsaw International Mechanism (2013) and its inclusion in the Paris Agreement (2015, Article 8), though developed nations resist liability clauses. Vulnerable countries demand dedicated funding, historical responsibility recognition, and support for non-economic losses, while developed states prioritise risk management and voluntary cooperation. The recently established Loss and Damage Fund marks progress but faces challenges in governance, financing, and equitable access. For countries like Brazil, L&D is critical due to escalating climate disasters, highlighting the need for global solidarity and innovative solutions to ensure climate justice for the most affected communities.

**Keywords:** Climate Change, Climate Finance, Warsaw Mechanism, Paris Agreement.

**Classification JEL:** Q54, F39, F53.



## 1. INTRODUCTION

The issue of *Loss and Damage* is among the most sensitive and strategic topics in international climate negotiations. It refers to the negative impacts of climate change that cannot be avoided through mitigation or adaptation, encompassing both **economic** (e.g. infrastructure, agriculture, property) and **non-economic** losses (e.g. human lives, culture, biodiversity).

As early as the 1990s, vulnerable countries expressed their concerns about the irreversible impacts of climate change. However, the matter was addressed only on an ad-hoc basis, without receiving the full attention it warranted.

In 2007, the *Bali Action Plan* acknowledged the need to consider approaches to address loss and damage, but it did so in general terms, without in-depth treatment.

In 2010, at the Cancun Conference (COP 16), Parties agreed to develop a work plan to explore approaches for addressing loss and damage in particularly vulnerable developing countries.

In 2012, at Doha, the theme gained further prominence with the adoption of a specific work plan regarding loss and damage under the UNFCCC framework.

The Doha plan formally recognised that, beyond mitigation and adaptation, certain climate change impacts are unavoidable, particularly in vulnerable developing countries. It therefore established a more structured approach to address the loss and damage associated with the adverse effects of climate change. The main points established in the Doha Plan include:

1. Acknowledgement of the need to address loss and damage: Recognition that some climate impacts exceed national adaptation capacities, requiring targeted responses to address loss and damage.
2. Work plan on loss and damage: Adoption of a work plan to explore comprehensive approaches to risk management, including:
  - Assessment and reduction of risks related to loss and damage.
  - Sharing of experiences and best practices.
  - Promotion of insurance mechanisms, response funds, and other financial instruments.
3. Participation of stakeholders: Encouragement of the active participation of vulnerable communities, civil society, the private sector, and other relevant actors in assessing and responding to loss and damage.

4. Creation of an international mechanism: Provision for the creation of an international mechanism to address loss and damage, later formalised in the Warsaw International Mechanism for Loss and Damage at COP 19 in 2013.
5. Focus on vulnerable countries: Emphasis on supporting least-developed countries (LDCs), small island developing States (SIDS), and other developing countries that are particularly vulnerable to the impacts of climate change.

In 2013, at COP 19, the Warsaw International Mechanism for Loss and Damage was established, formally recognising the need to address this issue within the framework of the Conference of the Parties.

In 2015, the Paris Agreement consolidated loss and damage as a critical pillar of international climate action, alongside mitigation and adaptation, through Article 8.

These developments reflect the growing recognition that loss and damage goes beyond adaptation and requires dedicated responses, including both technical and financial support for the most affected countries

In this context, a financial mechanism for loss and damage is essential to ensure that countries and communities most impacted by climate change have access to adequate, predictable, and equitable resources. Such a mechanism would foster international solidarity and strengthen global response to climate challenges.

## **2. COP 19 (2013) AND THE CREATION OF THE WARSAW INTERNATIONAL MECHANISM FOR LOSS AND DAMAGE**

COP19, held in Warsaw, Poland, in November 2013, marked a crucial milestone for the issue of loss and damage in climate negotiations. Prior to COP 19, developing countries—particularly the most vulnerable, such as SIDS and LDCs, had consistently advocated for an international mechanism to address the impacts of climate change that cannot be avoided through mitigation or adaptation.

The issue gained urgency after extreme climate events, notably Typhoon Haiyan, which struck the Philippines shortly before the conference. One of the main outcomes of COP 19 was the creation of the Warsaw International Mechanism for Loss and Damage (WIM). The decision established the WIM under the Cancun Adaptation Framework, recognising that loss and damage goes beyond what can be addressed simply by mitigation and adaptation.

The WIM's mandate is to address loss and damage associated with the impacts of climate change, including extreme events (such as hurricanes and floods) and slow-onset processes (such as sea level rise and desertification).

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The WIM was created with three core functions:

- **Enhance knowledge and understanding of risk of loss and damage:** Foster research, data collection, and information sharing regarding climate impacts and vulnerabilities.
- **Strengthening coordination and dialogue:** Facilitate cooperation among countries, organisations, and interested parties to develop integrated approaches for loss and damage.
- **Support actions and provide assistance:** Promote the development and implementation of approaches to minimise, avert, and address loss and damage, including through technical and financial support.

For its governance structure, the WIM established an Executive Committee to guide implementation, tasked with developing an initial two-year work plan and reporting to the subsidiary bodies of the COP.

The WIM was initially placed under review, with its structure and effectiveness to be assessed at COP 22 (2016). Its political significance lies in representing a major achievement for vulnerable countries, although the final decision text did not include binding financial commitments, which drew criticism from some Parties.

The WIM has since been strengthened through subsequent COP decisions, with progress in its operationalisation, financing, and integration with the Paris Agreement under Article 8.

### 3. LOSS AND DAMAGE IN THE PARIS AGREEMENT

One of the milestones for loss and damage was the Paris Agreement, adopted in 2015 at COP 21. Article 8 formally recognised the importance of averting, minimising, and addressing loss and damage, and linked it to the adverse effects of climate change, including both extreme events and slow-onset processes. It also underscored the role of sustainable development in reducing the risk of loss and damage.

Article 8 further reinforces that the WIM serves as the main instrument under the UNFCCC to promote approaches to address loss and damage. It operates under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), with the option to be strengthened as needed.

Paragraph 4 of Article 8 highlights priority areas for cooperation and facilitation, including:

- Early warning systems.
- Emergency preparedness.
- Insurance and risk transfer.
- Non-economic loss and damage.
- Resilience of communities, livelihoods, and ecosystems.

During the negotiations, developed countries insisted on including a decision (Paragraph 52 of Decision 1/CP.21) clarifying that Article 8 does not imply or provide a basis for liability or legal compensation for loss and damage. This means that, while the issue is recognised and support mechanisms exist, there is no legal obligation for financial compensation by developed countries.

The Paris Agreement consolidated loss and damage as a ‘third pillar’ of global climate action, alongside mitigation and adaptation. Since then, the issue has gained greater prominence in agendas, work plans, and financing mechanisms, with recent progress including the establishment of a dedicated Loss and Damage Fund.

#### 4. KEY DEMANDS OF VULNERABLE COUNTRIES

Developing countries, particularly SIDS and LDCs, seek financial, technical, and institutional support to address loss and damage. They call for recognition of the historical responsibility of developed countries and, above all, for climate justice translated into concrete measures, including adequate financial and technical assistance, facilitated access to resources, mechanisms to address non-economic losses, and support for displaced populations. They also demand transparency, participation, and effective monitoring to ensure that support reaches those who need it most.

These demands reflect the urgent needs of countries facing the impacts of climate change, especially given that they have contributed least to the problem yet suffer its most severe consequences. Their main priorities can be summarised as follows:

- **New, additional, predictable, and adequate finance:** The central demand focuses on dedicated financial resources for loss and damage, beyond funding already allocated for mitigation and adaptation. This reflects the growing costs of extreme events and slow-onset processes, such as sea-level rise, which cannot be covered by existing resources alone. For example, vulnerable countries have called for the Loss and Damage Fund to be capitalised in line with actual needs, estimated at hundreds of billions of USD annually by 2030.
-

- **Rapid, simple, and equitable access to resources:** Vulnerable countries request streamlined and transparent procedures to access funds, prioritising those most at risk. Timely access is critical, as delays during disasters can exacerbate human and material losses.
- **Recognition of the historical responsibility of developed countries:** Explicit acknowledgement that developed countries, due to their historical contribution to emissions, have differentiated responsibility to provide financial and technical support. This principle is grounded in the UNFCCC's concept of "common but differentiated responsibilities."
- **Compensation for non-economic losses:** Support is needed to address losses that cannot easily be quantified in monetary terms, such as loss of life, culture, identity, heritage, and biodiversity, which have profound impacts on communities.
- **Technical support and capacity building:** Transfer of technology, institutional capacity building, and technical assistance are essential to implement early warning systems, risk management, reconstruction, and resilience measures. Many vulnerable countries lack the infrastructure and expertise to manage both extreme events and long-term climate processes.
- **Insurance and risk transfer mechanisms:** There is a need to create and strengthen climate insurance schemes and other innovative financial instruments to cover loss and damage, especially in countries lacking access to private insurance or adequate financial tools.
- **Support for displaced populations and climate migrants:** Assistance is required for populations displaced by extreme events or slow-onset processes, including support for dignified migration and resettlement. Forced displacement is increasingly common in island and coastal regions, and demands effective, sufficient responses.
- **Transparency, Monitoring, and Accountability:** Clear mechanisms for tracking resource use, evaluating outcomes, and ensuring accountability are necessary to guarantee that support reaches those who need it and is used effectively.
- **Full participation in decision-making:** Vulnerable countries must be meaningfully included in the governance of funds and loss and damage mechanisms to ensure their needs and realities are reflected in decision-making.

## 5. COUNTERPOINTS FROM DEVELOPED COUNTRIES ON LOSS AND DAMAGE

Although developed countries recognise the importance of loss and damage, they often raise a range of counterpoints and concerns during climate negotiations. These positions reflect economic, legal, and political considerations.

Developed countries generally seek to limit their exposure to financial and legal obligations, favouring approaches based on technical cooperation, prevention, and risk management. They emphasise conceptual clarity, transparency, and balanced participation in the governance of mechanisms, while resisting binding financial commitments or the notion of compensation for historical responsibility. Some of the main points are detailed below:

1. **Resistance to legal responsibility and compensation:** Developed countries tend to reject any language or mechanism that implies legal liability or obligation to provide financial compensation for loss and damage caused by climate change. Their justification is the fear of creating a precedent for international lawsuits and boundless compensation claims.
  2. **Preference for technical support and technical cooperation:** They argue that the focus should be on technical cooperation, knowledge sharing, early warning systems, and capacity-building, rather than on direct financial transfers. They maintain that practical and preventive solutions are more effective than financial compensation.
  3. **Concern over the definition and scope of loss and damage:** They question the clarity of what constitutes 'loss and damage,' particularly regarding non-economic losses and population displacement. As in other areas, they fear that a broad definition could lead to unpredictable financial obligations.
  4. **Overlap with financing for adaptation:** The argument is that many impacts classified as loss and damage can be addressed through adaptation, for which financing mechanisms already exist. Developed countries therefore argue that climate finance should be optimised rather than duplicated.
  5. **Sources of financing:** Developed countries are reluctant to assume additional or binding financial commitments for loss and damage, preferring instead to explore innovative sources, public-private partnerships, and the mobilisation of private sector resources. Their justification is that public budgets are already under pressure and that the private sector should play a central role in financing solutions.
  6. **Governance and control:** They advocate for balanced participation in the governance of funds and mechanisms, avoiding exclusive control by developing countries over resource allocation. They argue that this approach is intended to ensure transparency, accountability, and the efficient use of resources.
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7. **Concern with precedents for other areas:** They fear that accepting financial obligations for loss and damage could set a precedent for other areas of international responsibility, such as natural disasters or humanitarian crises.

## 6. RELEVANCE OF THE LOSS AND DAMAGE AGENDA FOR BRAZIL

The issue of loss and damage is highly relevant for Brazil, as the country is already experiencing the impacts of climate change, has vulnerable populations and regions, and could benefit from international support to address impacts that go beyond its adaptive capacity. In addition, Brazil plays a strategic role in shaping global solutions on this issue, positioning itself as an important actor in developing broad and comprehensive responses to its challenges of impact and financing.

The following points highlight why the issue is particularly relevant for Brazil:

### 6.1. Vulnerability to climate impacts

Brazil is already experiencing increasingly frequent and severe extreme events, such as prolonged droughts, floods, landslides, wildfires, and sea-level rise. These events result in significant economic, social, and environmental losses, affecting millions of people, particularly the most vulnerable populations.

### 6.2. Regional and social diversity

The country has considerable climatic and social diversity, with regions and population groups (such as Indigenous communities, riverine populations, and smallholder farmers) particularly exposed and with lower adaptive capacity. Loss and damage affects not only infrastructure but also livelihoods, traditional cultures, and food security.

### 6.3. Limits of adaptation

In many cases, adaptation measures are not sufficient to prevent all impacts, making certain types of loss and damage inevitable, such as the loss of biodiversity, agricultural land, and even the displacement of communities.

#### 6.4. Need for technical and financial support

Access to international financing mechanisms for loss and damage can be crucial in supporting the recovery of affected areas, the reconstruction of infrastructure, and the protection of vulnerable populations. International resources can complement national efforts, particularly in large-scale disasters, and can also serve as valuable inputs for trilateral initiatives in which Brazilian solutions could be replicated in other vulnerable countries.

#### 6.5. Brazil's international role

As a country of significant importance in climate negotiations, Brazil can help shape more equitable and effective mechanisms for loss and damage, benefiting not only itself but also other developing countries. Brazilian engagement reinforces its leadership and solidarity within the Global South.

#### 6.6. Integration with public policies

Discussing loss and damage encourages the strengthening of national policies on risk management, civil defence, urban planning, and social protection, making the country more resilient to climate-related challenges.

### 7. INSTRUMENTS AND APPROACHES

The issue of loss and damage encompasses a range of procedures and approaches aimed at both preventing and responding to climate change impacts that cannot be avoided through mitigation or adaptation. These include risk assessment and monitoring, early warning systems, financial instruments, recovery support, as well as social inclusion and institutional strengthening. The objective is to create integrated responses tailored to local realities, promoting resilience and climate justice.

Table 1 outlines the main procedures and approaches recognized in international negotiations and UNFCCC documents:



**Table 1. Instruments and approaches for loss and damage**

| Instruments                                                        | Procedures                                                                                                                                                                                                                                                                                                                                       | Approaches                                                                                                                                                                                                                    |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Risk monitoring and evaluation</b>                           | <ul style="list-style-type: none"> <li>Conducting risk assessments to identify vulnerabilities to extreme events (such as cyclones and floods) and slow-onset events (such as sea-level rise and desertification)</li> <li>Continuous monitoring of climate impacts and systematic recording of both economic and non-economic losses</li> </ul> | <ul style="list-style-type: none"> <li>Risk maps, national and local risk profiles, disaster databases, and vulnerability indicators</li> </ul>                                                                               |
| <b>2. Early warning systems and emergency preparedness</b>         | <ul style="list-style-type: none"> <li>Implementation of early warning systems for extreme climate events, alongside emergency preparedness and rapid response plans</li> </ul>                                                                                                                                                                  | <ul style="list-style-type: none"> <li>Community training, evacuation drills, and risk communication protocols</li> </ul>                                                                                                     |
| <b>3. Comprehensive climate risk management</b>                    | <ul style="list-style-type: none"> <li>Development of national and local risk management strategies, integrating prevention, preparedness, response, and recovery</li> </ul>                                                                                                                                                                     | <ul style="list-style-type: none"> <li>Land-use planning, resilient construction, ecosystem restoration, and livelihood diversification</li> </ul>                                                                            |
| <b>4. Risk transfer and sharing instruments</b>                    | <ul style="list-style-type: none"> <li>Establishment of financial mechanisms to distribute the risk of loss and damage</li> </ul>                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>Climate insurance (agricultural, property, parametric), contingency funds, rapid-response funds, and regional insurance pools (e.g., CCRIF in the Caribbean, ARC in Africa)</li> </ul> |
| <b>5. Support for recovery, rehabilitation, and reconstruction</b> | <ul style="list-style-type: none"> <li>Mobilisation of resources for post-disaster reconstruction, including infrastructure, housing, and livelihoods</li> </ul>                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>‘Build Back Better’ programmes, humanitarian assistance, and emergency credit lines</li> </ul>                                                                                         |
| <b>6. Non-economic loss approaches</b>                             | <ul style="list-style-type: none"> <li>Identification and documentation of non-economic losses, including cultural, social, environmental, health, heritage, and identity-related losses</li> </ul>                                                                                                                                              | <ul style="list-style-type: none"> <li>Psychosocial support, cultural heritage preservation, and community memory and identity programmes</li> </ul>                                                                          |
| <b>7. Support for displacement, migration, and resettlement</b>    | <ul style="list-style-type: none"> <li>Planning and implementation of planned resettlement, along with support for climate migrants</li> </ul>                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>Policies for dignified migration, legal assistance, and social and economic integration in new locations</li> </ul>                                                                    |
| <b>8. Institutional strengthening and training</b>                 | <ul style="list-style-type: none"> <li>Development of technical and institutional capacities to address loss and damage</li> </ul>                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>Training of public officials, establishment of centres of excellence, and regional and international cooperation</li> </ul>                                                            |
| <b>9. Mobilisation and access to financial resources</b>           | <ul style="list-style-type: none"> <li>Establishment of national and international funds for loss and damage</li> <li>Simplification of procedures for rapid access to resources</li> </ul>                                                                                                                                                      | <ul style="list-style-type: none"> <li>Loss and Damage Fund, innovative financing mechanisms, and public–private partnerships</li> </ul>                                                                                      |
| <b>10. Participation and inclusion of vulnerable communities</b>   | <ul style="list-style-type: none"> <li>Engagement of local communities, Indigenous peoples, women, and other vulnerable groups in the assessment, planning, and implementation of actions</li> </ul>                                                                                                                                             | <ul style="list-style-type: none"> <li>Participatory processes, public consultations, and co-management of projects</li> </ul>                                                                                                |

Source: Authors’ elaboration.

However, these approaches can be integrated. The following are some examples:

- **Risk management portfolios:** Combination of risk reduction instruments, risk transfer (insurance), and post-disaster response.
- **Nature-based solutions:** Restoration of mangroves, reforestation, and coral reef protection to reduce the risks of storms and erosion.
- **Regional partnerships:** Cooperation platforms for sharing data, experiences, and resources (e.g., regional early warning networks).

## 8. FINANCING FOR LOSS AND DAMAGE

One of the most contentious issues is that developed countries resist binding financial commitments. In 2022, the Loss and Damage Fund was established, with progress made on its operationalisation in Baku and full implementation expected by COP30.

The Loss and Damage Fund will be governed by a multilateral board, with participation from both developed and developing countries. Ensuring rapid, transparent, and equitable access to resources, with a focus on the most vulnerable, is a priority.

There is a need for clear mechanisms to monitor the use of resources and evaluate the effectiveness of actions. This includes sharing data, lessons learned, and good practices among countries.

The creation of the fund has also sparked debates on sources of financing—public, private, and innovative (e.g., levies on fossil fuels, international transport, etc.). Other points of discussion include: (a) defining eligibility criteria and access to the fund; (b) the distinction between compensation and solidarity; and (c) the risks of overlap with other climate finance mechanisms for mitigation and adaptation.

Despite these challenges, expectations are that the Loss and Damage Fund will be strengthened, with greater clarity on sources and amounts of funding and increasing international pressure for developed countries to fulfil financial and technical commitments. It is also anticipated that loss and damage will become more fully integrated into national and local policies for addressing the climate crisis.

## 9. A WORK PROPOSAL FOR THE CONSOLIDATION OF THE LOSS AND DAMAGE FUND

Below is a draft work programme for the consolidation of the Loss and Damage Fund, aligned with recent UNFCCC decisions and international best practices. This programme aims to establish the Fund as an efficient, transparent, and accessible mechanism, capable of responding swiftly to the needs of the most vulnerable countries. Social participation,

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transparency, and the pursuit of innovative resources are central pillars for the Fund's success. The objective is to ensure that the Fund is operational, transparent, accessible, and effective in supporting the most vulnerable countries.

## **1. Institutional framework and governance**

1.1. Define the Fund's governance structure, ensuring balanced participation of developed and developing countries, civil society, and vulnerable communities.

1.2. Select the Executive Director through an open, transparent, and merit-based process.

1.3. Establish technical and advisory committees to support strategic and operational decision-making.

## **2. Mobilisation and diversification of financial resources**

2.1. Launch an international resource mobilisation campaign, focusing on commitments from developed countries, voluntary contributions, the private sector, and innovative sources (e.g., levies on fossil fuels, market-based mechanisms).

2.2. Develop mechanisms for the transparent receipt and management of resources.

2.3. Assess and propose innovative financial instruments (insurance, green bonds, public-private partnerships).

## **3. Definition of eligibility criteria and priorities**

3.1. Establish clear and objective eligibility criteria, prioritising the most vulnerable countries and communities.

3.2. Define priority areas of support: response to extreme events, slow-onset processes, non-economic losses, displacement and resettlement, and reconstruction and recovery.

## **4. Access and disbursement procedures**

4.1. Develop streamlined and efficient procedures for resource requests and approvals, with clearly defined response timelines.

4.2. Create digital platforms for project submission and monitoring.

4.3. Provide technical assistance for proposal development, especially for countries with limited institutional capacity.

## 5. Monitoring, evaluation, and transparency

5.1. Implement a robust monitoring and evaluation system, with impact indicators and regular reporting.

5.2. Ensure complete transparency in the allocation and use of resources, including the publication of real-time data.

5.3. Establish accountability and independent audit mechanisms.

## 6. Capacity strengthening and technical support

6.1. Provide training programmes for national and local managers on access to the Fund, project management, and accountability.

6.2. Promote the exchange of experiences and best practices between beneficiary countries.

6.3. Support the development of national loss and damage monitoring systems.

## 7. Social inclusion and community participation

7.1. Ensure the effective participation of local communities, Indigenous peoples, women, and vulnerable groups in project design, implementation, and evaluation.

7.2. Establish continuous consultation and feedback with beneficiaries.

## 8. Review and continuous improvement

8.1. Conduct periodic reviews of the Fund's functioning, based on independent assessments and stakeholder consultations.

8.2. Adjust procedures, criteria, and priorities according to needs and lessons learned.

### Suggested timeline (first two years)

| Stage                                    | Deadline        |
|------------------------------------------|-----------------|
| Institutional structuring                | 1st quarter     |
| Resource mobilisation                    | 1st-2nd quarter |
| Establishment of criteria and priorities | 2nd quarter     |
| Access procedures                        | 2nd-3rd quarter |
| First project approvals                  | 3rd quarter     |
| Monitoring and transparency              | Permanent       |
| Training and technical support           | Permanent       |
| Review and improvement                   | End of 2nd year |

Source: Authors' elaboration.

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