STUDY

Potential for loss and damage finance in the existing UNFCCC financial architecture

Recommendations for COP26 based on analysis of the Adaptation Fund, Green Climate Fund, Least Developed Countries Fund and Special Climate Change Fund

GERMANWATCH

Brief Summary

Climate change induced loss and damage has already become a reality across the globe, not only but most existentially for vulnerable developing countries and communities around the world that have contributed least to the climate crisis. How developing countries can be supported (financially) by the international community in addressing loss and damage has long been a discussion topic in international climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). In 2015, the Paris Agreement, which is based on the principle of common but differentiated responsibilities, recognised the importance of averting, minimising and addressing loss and damage. Many researchers and organisations have, however, identified a finance gap regarding supporting vulnerable countries and the most vulnerable communities therein in dealing with loss and damage. A question that comes up repeatedly in the context of the international discussion on finance for addressing loss and damage therefore is: Which measures to deal with damage and loss can already be financed by the funds and financing mechanisms of the existing UNFCCC financial architecture - and where are gaps and thus the need for expanding the current financial architecture with additional mandates, mechanisms or funds?

This paper seeks to help clarify these questions. It is based on in-depth analysis of the theoretic funding scope as well as the current project portfolio regarding the (potential) coverage of 12 selected loss and damage measures. The analysed funds include the Adaptation Fund, Green Climate Fund, Least Developed Countries Fund, and Special Climate Change Fund. The analysis identifies both possibilities and substantial gaps in the funding of loss and damage measures through the UNFCCC financial architecture. COP26 is central to creating the framework conditions necessary to capitalise on these possibilities and take appropriate steps to close the gaps. Based on the findings of our analysis, recommendations for the upcoming COP26 are formulated, aimed at advancing discussion on loss and damage finance at the COP to support those most affected by climate change impacts.

Imprint

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The authors thank Rixa Schwarz, David Eckstein, Julia Grimm, and Bertha Argueta for their valuable input and feedback during the preparation and review of this paper. We are sincerely grateful to the following people who provided helpful input and feedback in the peer-review process for the chapter "Financing for slow-onset loss and damage under the UNFCCC financial architecture" (in alphabetical order by organization): Erin Roberts (Climate Leadership Initiative), Mattias Söderberg (Dan Church Aid), Leia Achampong (Eurodad), Liane Schalatek (Heinrich Böll Foundation), Ineza Grace (L&D Youth Coalition), Colin McQuistan and Sunil Acharya (Practical Action), and Zoha Shawoo (Stockholm Environment Institute). The authors are also grateful to their colleagues Carolin Becher, Hanna Fuhrmann and Drew Langford for their support.

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October 2021

Purchase order number: 21-2-12e

This publication can be downloaded at: **www.germanwatch.org/en/21066**

ENGAGEMENT GLOBAL
Service für Entwicklungsinitiativen

Federal Ministry for Economic Cooperation and Development

This publication is financially supported by Engagement Global with funding from the Federal Ministry for Economic Cooperation and Development

Germanwatch is responsible for the content of this publication.

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Abbreviations

AF	Adaptation Fund
CBDRC	Common but differentiated responsibilities and capabilities
COP	Conference of the Parties
GCF	Green Climate Fund
GEF	Global Environment Facility
IPCC	Intergovernmental Panel on Climate Change
ITAP	Independent Technical Advisory Panel (of the GCF)
LDCF	Least Developed Country Fund
L&D	Loss and damage
SCCF	Special Climate Change Fund
UNFCCC	United Nations Framework Convention on Climate Change
WIM	Warsaw International Mechanism

1 Introduction

Working Group 1 of the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report concluded that, 'Human-induced climate change is already affecting many weather and climate extremes in every region across the globe' (IPCC 2021), increasing their frequency and intensity. Human populations across the globe are already being forced to adapt to these impacts from extreme weather events and slow-onset processes, but their capacity to do so is limited. Loss and damage[1] due to climate change impacts is therefore already a reality, not only but most existentially for vulnerable developing countries and communities around the world that have contributed least to the climate crisis.

Losses and damages will lead to substantial economic costs. Current estimates indicate financial damage of at least $290–580 billion by 2030 for developing countries (Markandya/González-Eguino 2018). How developing countries can be supported (financially) by the international community in addressing loss and damage has long been a discussion topic in international climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). In 2015, the Paris Agreement, which is based on the principle of common but differentiated responsibilities, recognised the importance of averting, minimising and addressing loss and damage (UNFCCC 2015). Many researchers and organisations have, however, identified a lack of finance regarding supporting vulnerable countries and the most vulnerable communities therein in dealing with loss and damage (Loss and Damage Collaboration 2021, Hirsch 2020, Schäfer/Künzel 2019).

The 25th United Nations Climate Change Conference (COP 25) in Madrid invited the Green Climate Fund 'to continue providing financial resources for activities relevant to averting, minimising, and addressing loss and damage in developing country Parties, to the extent consistent with the existing investment, results framework and funding windows and structures of the Green Climate Fund' (UNFCCC 2020). Clarity is lacking, however, regarding the questions: to what extent and how can the GCF and other funds of the current financial architecture of the international climate regime provide finance for specific loss and damage measures based on their mandates, results frameworks, financial tools, and funding windows? Where are gaps and thus the need for expanding the current financial architecture with additional mandates, mechanisms or funds?

This paper[2] seeks to help clarify the question of the potential of various funds and financing mechanisms under the existing UNFCCC financial architecture to finance loss and damage measures. It is based on in-depth analysis of the theoretic funding scope as well as the current project portfolio regarding the (potential) coverage of 12 selected loss and damage measures. The analysed funds include the Adaptation Fund, Green Climate Fund, Least Developed Countries Fund, and Special Climate Change Fund. The analysis identifies both possibilities and substantial gaps in the funding of loss and damage measures through the UNFCCC financial architecture. COP 26 is

[1] Loss and damage is understood as "adverse impacts of human-induced climate change that cannot be [were not] avoided by mitigation or adaptation, or that will not be avoided in the future by adaptation due to insufficient resources" (adjusted definition based on Mace/Verheyen 2016: 198).

[2] **This paper is part of the publication series "Financing instruments and sources to address loss and damage from slow-onset processes" accessible at: www.germanwatch.org/en/21067**

central to contributing to create the framework conditions necessary to capitalise on these possibilities and take appropriate steps to close the gaps. Based on the findings of our analysis, recommendations for the upcoming COP 26 are formulated, aimed at advancing discussion on loss and damage finance at the COP to support those most affected by climate change impacts.

2 Methodology

This paper's analysis focused on four funds that are part of the UNFCCC financial architecture: the AF, GCF, LDCF, and SCCF. We undertook a comprehensive document review of the theoretic funding scope and the current project portfolio for each of the funds.

a) The evaluation of the **theoretic funding scope** considered relevant decisions and agreements under the UNFCCC, governing documents, strategic documents of and related to the funds, and other guiding documents produced by the funds' boards or secretariats. Additionally, we reviewed relevant literature on the funds' theoretic funding scope and current project portfolio, including journal articles, grey literature, and documents produced by UNFCCC bodies or committees. As the wording in set out documents generally remains broad, the evaluation of potential coverage often remains subject to interpretation by the funds' secretariats and (for the GCF) the Independent Technical Advisory Panel (ITAP). Evaluating the theoretic funding scope in this study therefore also partly depends on our interpretation.

b) The **current funding portfolio** for loss and damage measures was determined by reviewing a fund's current project portfolio. The research was conducted in two steps. First, a keyword[3] search comprising project titles and descriptions, including project components on the funds' websites, based on the categorisation of loss and damage measures outlined in table 3, helped identify potentially relevant projects. The analysis was undertaken between May and October 2021. The number of projects screened for keywords on funds' websites is 167 (AF), 190 (GCF), 305 (LDCF), 87 (SCCF). In a second step, the full project document of the projects identified in the first step were reviewed to ensure that the project indeed focussed primarily on addressing climate change-related loss and damage (and not purely finance rehabilitation measures due to other social or environmental factors, such as restoration of ecosystems due to overgrazing).

We considered four categories of loss and damage measures in need of financing for the analysis, based on identification of needs in chapter two and instruments to address loss and damage from slow-onset processes in chapter three: (1) financial protection measures; (2) recovery and rehabilitation measures, (3) measures relating to migration and developing alternative livelihoods, and (4) measures relating to addressing non-economic loss and damage. Each category comprised three measures that address (the risk of) loss and damage (see Table 3). In total, we considered 12 well-selected loss and damage measures for the analysis. The analysis focuses on potential measures to address loss and damage from slow-onset processes[4], but measures analyzed address loss and damage from both, slow-onset processes and extreme weather events as the nature of the analysis

[3] See Annex I for complete list of keywords included in the search.
[4] This paper is part of the publication "Financing instruments and sources to address loss and damage from slow-onset processes" which can be accessed under: www.germanwatch.org/en/21067.

made it difficult to distinguish between both in some places (e.g. displacement). The analysis therefore allows conclusions to be drawn for general financing possibilities of loss and damage measures through the UNFCCC financial architecture, yet has a focus on slow-onset processes.

Table 1: Analysed measures to address loss and damage

Analysed measures to address loss and damage
A. Financial protection[1] ■ Setting up, scaling up, or capacity building for **climate risk insurance** schemes ■ Integrating climate change risks and impacts into and/or scaling up **social protection schemes** ■ Setting up, scaling up, or capacity building for **contingency funds**
B. Recovery[2] **and rehabilitation**[3] (e.g. applicable for areas that are not permanently submerged but affected by more frequent high sea level events), including, for example: ■ Rebuilding of **infrastructure** ■ Restoration of **ecosystems and landscapes** ■ Rebuilding/Restoring of **livelihoods**
C. Migration and alternative livelihoods ■ Support measures for (planned) **relocation** or **resettlement** ■ Building up **alternative livelihood** provisions ■ Support measures for climate-induced **displaced** persons and people affected by **forced migration**
D. Addressing non-economic loss and damage ■ Active **remembrance** ■ Societal **identity** and **cultural heritage** protection ■ **Counselling**

Source: Authors.

1 Financial protection is understood as 'the use of financial tools to retain, transfer and share risk to address to manage the financial impact of extreme events' (OECD 2017).
2 Recovery is understood as 'the restoring or improving of livelihoods and health, as well as economic, physical, social, cultural and environmental assets, systems and activities, of a disaster-affected community or society, aligning with the principles of sustainable development and "build back better," to avoid or reduce future disaster risk' (UNDRR 2021b).
3 Rehabilitation is understood as 'the restoration of basic services and facilities for the functioning of a community or a society affected by a disaster' (UNDRR 2021c).

The findings were put into three classifying categories. For the theoretic funding scope, we differentiated between explicitly covered, potentially covered, and coverage not possible/unlikely. For the current project portfolio, we differentiated between funding available, only limited funding available, and not funded. Tables 4 and 5 give definitions for each category.

Table 2: Analysis categories for theoretic funding scope

Category	Definition
Explicitly covered by outlined funding scope	Explicit mention of funding for loss and damage measures (keywords) in mandate and/or strategy documents
Potentially covered by outlined funding scope	Implicit reference to loss and damage measures through funding in mandate and/or strategy documents
Coverage by fund not possible/unlikely	Funding for loss and damage measures explicitly excluded in mandate and/or strategy documents and/or coverage unlikely because of restricting eligibility criteria or other prerequisites for funding that restrict funding of loss and damage measures

Source: Authors.

Table 3: Analysis categories for current project portfolio

Category	Definition
Funding available	Multiple concrete projects with explicit components or outputs classified as loss and damage measures were/are being funded (5 or more projects)
Only limited funding available	Only a limited number of projects with explicit components or outputs classified as loss and damage measures were/are being funded (4 or less projects)
Not funded (yet)	No projects/activities with components or outputs classified as loss and damage measures were funded (yet)

Source: Authors.

The analysis' objective was to identify if measures to address loss and damage could be funded by the existing UNFCCC financial architecture.[5] For the analysis, we only considered projects including explicit components or outputs classified as loss and damage measures (see list of keywords in Annex I). Projects including smaller scale loss and damage-relevant sub-activities were not considered. These sub-activities are not critical for project approval and do not allow for assessment of whether adequate financing of loss and damage measures by the funds is possible.

The analysis only considered approved projects. An analysis of funding proposal with loss and damage components denied by the fund's boards would provide interesting insights on loss and damage projects submitted but denied, as well as respective criteria for this decision. This is a potential next step for analysis.

We selected 12 relevant loss and damage measures, while several other measures were not examined (e.g. rapid response measures needed after extreme weather events). The analysis therefore does not claim to encompass all possible loss and damage measures. However, the selected measures cover four categories and a broad field of loss and damage measures, providing a basis for generalizing the results.

One challenge encountered in the analysis was distinguishing whether financial measures were specifically attributable towards loss and damage or adaptation actions. In most cases, the two go together, with the objective of building climate resilience.

[5] In the Paris Agreement, Parties recognise the importance of averting, minimising, and addressing loss and damage associated with the adverse effects of climate change (…)"(Article 8 of Decision 1/CP.21). The analysis focused on the potential of the UNFCCC financial architecture to finance measures to address loss and damage. We note, however, that the UNFCCC funds contribute to averting and minimizing loss and damage in the context of their financing of mitigation, adaptation and disaster risk reduction measures.

3 Key findings

Our evaluation of the theoretic funding scope and the current funding portfolio of the Adaptation Fund (AF), Green Climate Fund (GCF), Least Developed Countries Fund (LDCF), and Special Climate Change Fund (SCCF) shows the following:

1 The **best-covered measure**, both through the theoretic funding scope and current project portfolio, is *setting up, scaling up, or capacity building for climate risk insurance schemes*. All analysed funds can potentially finance this measure. It is even explicitly covered in the LDCF's theoretic funding scope, while the GCF identified climate insurance and reinsurance as an area where its targeted investment would have the most impact. This is also a measure with one of the most projects (18) already financed under the funds. In this context, the funds provide funding for product design, piloting, introduction, promotion, and upgrading of, as well as awareness raising and training on, climate risk insurance schemes, primarily agricultural and flood index-based risk insurance. This high degree of coverage owes to climate risk insurance projects and components being well aligned with the funds' objectives of addressing adverse impacts and risks posed by climate change, increasing adaptive capacity and building climate resilience, and is used as a means to leverage private sector capital.

2 The **largest gap** exists regarding coverage of measures to address non-economic loss and damage, which are explicitly mentioned in the Paris Agreement. Funding of related measures is not possible or highly unlikely under the current UNFCCC financial architecture. Accordingly, we could identify no related project components or outputs in the current funding portfolio. Funding is particularly restricted through: (a) the funds' criteria for assessing project proposals determining that the outcomes and outputs must be measurable, monitorable, and verifiable, and (for the GCF) contribute to a 'paradigm shift,' and (b) the funds' general objectives of increasing adaptive capacity. Although the points leave room for interpretation, they are difficult to meet for measures addressing non-economic loss and damage. No official document of the UNFCCC funds, however, explicitly excludes coverage of non-economic climate risks. Therefore, while assumed unlikely, the AF in particular holds certain potential to also finance projects that address non-economic loss and damage. The AF's new Innovation Facility includes the promising area of 'societal identity and cultural heritage protection.' Additionally, the GCF's investment criteria 'sustainable development potential' and 'needs of the recipient' could open up a space for financing non-economic loss and damage, as they include social co-benefits such as cultural preservation and social inclusion.

3 For **climate-induced migration**, there is a big difference visible between support measures for planned relocation and those to support displaced persons. The funding scopes of the AF, GCF, and LDCF potentially cover resettlement activities. The AF and GCF already provide funding for projects with a respective component. For example, an AF project in Rwanda supports a resettlement process (including materials procurement for housing construction) for the most vulnerable households living in high-risk zones, and a GCF project in Senegal, in which people in flood-prone areas are resettled when adaptation limits are reached. Support measures for displaced persons seem potentially fundable by the AF, GCF, and LDCF, there is a large gap however in providing actual funding, as we found no projects containing a respective component or output.

4 Measures that have an **adaptive capacity and resilience building element** have a high chance of being funded. This owes to the funds' objectives with an adaptation focus (AF, SCCF, and LDCF) or adaptation window (GCF). This particularly includes 'restoration of ecosystems' and 'building up alternative livelihoods.' We identified several projects with components or outputs for all funds (with the GCF providing the most funding) for these measures. These measures address climate change-related loss and damage to ecosystems or livelihoods, often from slow-onset processes (e.g. restoration of mangroves damaged by sea level rise, or where salinised lands or vegetation particularly impacted by climate change are restored to strengthen communities' climate resilience, in most cases to implement ecosystem-based adaptation systems).

5 Most **projects identified didn't have an exclusive focus on the analysed loss and damage measures**. The category of climate risk insurance was an exception. All other types of measures were included as components, but more often as a smaller activity for the output category.

6 The **current financing mechanisms and modalities of the UNFCCC funds are not suitable for funding all loss and damage activities analysed**. Particularly measures to address loss and damage immediately following an extreme weather event as well as slow-onset processes at an early stage of occurrence – which would need rapid and large-scale financing - are not possible to fund through the existing UNFCCC financial architecture. This owes particularly to the financing mechanisms (with the exception of the GCF, all analysed funds are grants-only mechanisms) and the type of funding accessible through the funds, which is primarily distributed through multi-year projects with a long application and pre-project phase.

7 The loss and damage measures that the UNFCCC already funds all contain a **strong element of addressing the residual risk of loss and damage ex-ante,** through resettlement and climate risk insurance. **Ex-post measures** to address the actual materialised loss and damage (e.g. rebuilding of infrastructure and livelihoods, support for displaced persons, and all measures to address non-economic loss and damage), however, **have less potential to receive funding** (particularly due to key finding 6). Mid- to long-term rehabilitation (e.g. restoration of ecosystems) can theoretically be financed by all analysed funds. Rapid response measures to address loss and damage due to extreme weather events are usually not fundable through the existing UNFCCC financial architecture. While the GCF currently still provides financing for a project in Tuvalu, in which GCF resources are to be used to rebuild key economic and social assets following natural disasters, this type of activity (related to disaster response and relief) is now explicitly excluded by its board. Additionally, the LDCF excludes 'rapid, large-scale financing that certain extreme events causing loss or damage incur' (GEF 2018).

8 **Measured against the theoretic funding scope and the current project portfolio, the greatest potential for funding the analysed loss and damage measures is with the AF,** which potentially covers 10 of 12 measures and already funds 17 projects with loss and damage components or outputs. The AF's focus is on providing support for setting up, scaling up, or capacity building for climate risk insurance schemes. It also, however, provides support for resettlement of people and building up alternative livelihoods, always with a focus on the AF mandate on increasing adaptive capacity. **Additionally, the GCF has good potential for providing funding for loss and damage measures,** and already funds 15 projects with loss and damage components or output,

with a focus on climate risk insurance, restoration of ecosystems, and building up alternative livelihoods. The ‘climate rationale’ complicates financing loss and damage measures under the GCF, as many developing countries lack access to necessary data to prove that an event resulting in loss and damage resulted from climate change and not just climate variability. Additionally, the LDCF has potential to particularly finance climate risk insurance (with potential to provide smart premium support), restoration of ecosystems, and support for relocation and displaced persons, though the LDCF faces capitalisation challenges. **Measured against the available resources to finance loss and damage measures, the greatest potential for funding the analysed loss and damage measures lies with the GCF.** Compared to the AF and LDCF, the GCF has much higher resources and is therefore most likely able to act on its potential to finance loss and damage measures - which is particularly relevant in view of the high level of funding required to address loss and damage. As of October 2021, total contributions to the GCF amount to $15 billion while contributions to AF and LDCF only amount to $1,1 billion and $ 1,6 billion respectively.

9 Loss and damage measures **do not have to be explicitly covered by the theoretic funding scope to be funded**. This indicates the climate funds’ mandates and other relevant documents are formulated extremely broadly and, thus, leave ample leeway for interpretation for the boards and advisory panels regarding concrete funding decisions. It shows that funding for measures may be possible even if loss and damage is not explicitly covered in the funding scope.

The following table provides an overview of (potential) financing for loss and damage measures under the UNFCCC financial architecture (with a focus on loss and damage from slow-onset processes).

Table 4: (Potential) financing for loss and damage measure under the UNFCCC financial architecture

Funds	Categories of loss and damage measures / Loss and damage measure/ funding scope and portfolio	A. Financial protection Recovery and rehabilitation Migration and alternative livelihoods			B. Recovery and rehabilitation			C. Migration and alterative livelihoods			D. Addressing non-economic loss and damage			Total projects to loss and damage in current funding portfolio
		Setting up, scaling up, or capacity building for climate risk insurance schemes	Integrating climate change risks and impacts into and/or scaling up social protection schemes	Setting up, scaling up, or capacity building for contingency funds	Rebuilding of infrastructure	Restoration of ecosystems and landscapes	Rebuilding/restoring of livelihoods	Support measure for (planned) relocation or resettlement	Building up alternative livelihood provisions	Support measure for climate-induced displaced persons and people affected by forced migration	Active remembrance	Societal Identity and cultural heritage protection	Counselling	
AF	Theoretic funding scope													
	Current funding portfolio	9				3		2	2					17
GCF	Theoretic funding scope													
	Current funding portfolio	3			1	5		1	5					15
LDCF	Theoretic funding scope													
	Current funding portfolio	3				3			1					7
SCCF	Theoretic funding scope													
	Current funding portfolio	3				1								4

Theoretic funding scope

- Explicitly covered by outlined funding scope
- Potentially covered by outlined funding scope
- Coverage by fund not possible/ unlikely

Current funding portfolio

- Funding available
- Only limited funding available
- Not funded (yet)

Source: Authors. See Annex II for a complete list of projects included

4 Detailed results: Financing options for loss and damage measures through four UNFCCC funds

4.1 The Adaptation Fund's potential in funding loss and damage measures

Financing and funding mechanisms

Financing for the AF comes mainly from a 2 % levy on the sale of emission credits from the Clean Development Mechanism of the Kyoto Protocol. The AF also receives contributions from governments, the private sector, and individuals. Due to the low carbon price, the AF is increasingly depended on voluntary grant contributions by developed countries. In its resource mobilization strategy, the AF sets our $120 million per year as the resource mobilization target for 2020 – 2021 (AF 2021e). As of October 2021, total contributions to the AF amount to $1,102 billion. So far, the AF has committed $ 925 million to 167 projects. The AF is operating entirely on a grants-based financing scheme with small-sized projects/programmes with grants up to $1 million e.g. small grants for readiness, innovation, learning and project scale-up and regular projects/programmes with grants more than $1 million. Small-size projects can undergo a one-step approval process by the Board, while programmes follow a two-step approach.

Theoretic funding scope

Decision 5/CP.7 sets out a list of activities that "shall be supported through […] the Adaptation Fund […]." This list includes implementation of adaptation activities "inter alia, in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management" (UNFCCC 2001). Further named are enhancement of "institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events," as well as for "rapid response to extreme weather events." **The AF Operational Policies and Guidelines** (AFB 2017a) state that "the Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes" (ibid., paragraph 9), which are defined as a "set of activities aimed at addressing the adverse impacts of and risks posed by climate change," that produce "visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability" (ibid., paragraph 10). The language of 'address(ing) the adverse effects of climate change' implicitly leaves room for coverage of most of the loss and damage addressed in this analysis.

On financial protection measures: Although not explicitly mentioned in the AF policy and strategic documents, climate risk insurance solutions can well be supported through the AF. This is because they meet the criteria for an adaptation project as defined in the Operational Policies and Guidelines, and this is also reflected in the Adaptation Fund Project Review Criteria (AFB 2017) – " An activity aimed at addressing the adverse impacts of and risks posed by climate change and build climate change resilience". This could be interpreted similarly for social protection measures.

On recovery and rehabilitation: The AF's Strategic Results Framework, with which any project must align, opens potential for funding rehabilitation and response measures, if these measures contribute to building climate change resilience. Output 2.1 encompasses the 'strengthened capacity of national and sub-national centres and networks to respond rapidly to extreme weather events' and Output 5 encompasses 'ecosystem services and natural resource assets maintained or improved under climate change and variability-induced stress' (AFB 2019).

On migration and alternative livelihoods: Although not explicitly mentioned in the AF's policy and strategic documents, measures that support planned relocation/resettlement or the building up alternative livelihoods fall under the AF's objectives of funding activities that produce results by 'reducing vulnerability and increasing adaptive capacity' (AFB 2017b). As indicated in Principle 3 of the Adaptation Fund's Guidance Document for Implementing Entities on Compliance with the Adaptation Fund Environmental and Social Policy, particularly vulnerable social groups, amongst others, include displaced persons, and refugees (AF 2016).

On non-economic loss and damage: The AF's Operational Policies and Guidelines specify, that "the outcome(s) and output(s) must be measurable, monitorable, and verifiable" (ibid., paragraph 10). For non-economic loss and damage, it is harder to fulfil the named criteria and define how these actions 'increase the adaptive capacity.' We therefore assume there is extremely low likelihood of the theoretic funding scope of the AF covering non-economic loss and damage. A UNFCCC (2019) technical paper came to a similar conclusion that "non-economic losses, such as loss of biodiversity, loss of sense of place when people must move, loss of territory and loss of societal and cultural identities may potentially fall outside the scope of its mandate" (UNFCCC 2019a, 22). No official document of the AF, however, explicitly excludes coverage of non-economic climate risks. Thus, while it is assumed unlikely, the AF has certain potential to also finance projects that address non-economic loss and damage.

A special case is the areas of 'societal identity and cultural heritage protection,' which could potentially be funded through the AF Innovation Facility (see AF 2021c). The programme was established in April 2021; therefore, only an extremely small number of activities have been funded through this channel. Coverage of activities in the fields of cultural heritage protection, which could potentially also include activities for dealing with non-economic loss and damage, under the Facility's grants programme seems promising. With regard to the necessary funding for loss and damage measures, however, it should be noted that the scope of grants under the Innovation Facility is limited. Projects funded will be supported through grants of up to $5 million each, under an initial total of $30 million in available funding for the first round of proposals.

Current funding portfolio[6]

The AF's current funding portfolio indicates it has multiple concrete projects or programmes with explicit loss and damage-related components in the areas of 'setting up, scaling up or capacity building for insurance schemes' (9). In this context, the AF provides funding for product design, piloting, introducing, promoting, and upgrading of, as well as awareness raising and training on, insurance schemes – primarily agricultural and flood index-based risk insurance. The portfolio also includes measures to 'build up alternative livelihood provisions' (2), such as development of new climate-proofed income generating activities for women and youth, or promotion of alternative livelihood practices. Our analysis also found two projects or programmes with explicit loss and damage components that are support measures for (planned) relocation or resettlement, such as in Rwanda, where a project supports a resettlement process for the most vulnerable households living in high-risk zones.[7] The project both manages the relocation process and procures materials for house construction. Interesting to mention in this context is also a project implemented in Jordan and Lebanon with the objective to 'better respond to climate change impacts and vulnerabilities' by 'demonstrating what concrete adaptation measures respond to the needs of both displaced persons and host communities' (Adaptation Fund 2021d) focusing on climate change-related water challenges. Although the project is not counted for our analysis, as those displaced were in the context of the Syrian crisis, the approach could be replicated for those displaced because of climate change.

The AF also funds projects (3) with components aiming to restore ecosystems damaged as a result of climate change effects, such as restoration of mangroves damaged by sea level rise, and salinisation leading to loss of beaches and productive land along Cambodia's coastline.[8]

As expected, the category of non-economic loss and damage generally remains highly uncovered by the AF's funding activities. Further gaps can be seen for the areas of including climate risks and impacts into social protection schemes, setting up and scaling up contingency funding, rebuilding/restoring livelihoods, and provision of support measures for climate-induced displaced persons and people affected by forced migration.

6 For a complete list of identified projects (mentioned in brackets below) see Annex II 'List of identified projects including loss and damage measures'.

7 https://www.adaptation-fund.org/project/reducing-vulnerability-to-climate-change-in-north-west-rwanda-through-community-based-adaptation/.

8 https://www.adaptation-fund.org/project/climate-change-adaptation-through-protective-small-scale-infrastructure-interventions-in-coastal-settlements-of-cambodia-2/.

4.2 The Green Climate Fund's potential in funding loss and damage measures

Financing and funding mechanisms

The GCF's Governing Instrument enables the Fund to accept contributions from developed countries party to the UN Framework Convention on Climate Change (UNFCCC) as well as public, non-public, and alternative sources. The initial resource mobilisation process for the GCF raised USD 10.3 billion (of which 8.3 billion are confirmed so far). The first replenishment conference raised 9.9 billion USD (of which 9.5 bn are confirmed) (GCF 2021a). As of October 2021, total contributions to the GCF amount to USD 15,048 billion. The GCF has committed USD 8,653 billion to 190 projects so far. The GCF offers and utilizes a broad range of financing approaches, including loans, equity, guarantees and grants. Currently the funding portfolio of the GCF is financed through 33% private and 67% public finance, from which 42% are being distributed through grants, 44% through loans, each 6% through results-based payments and equities and 2% through guarantees (GCF 2021a). The usual process to access GCF funding through GCF Accredited entities (AEs) which are regional, national or subnational institutions nominated by National Designated Authorities/focal points ("NDAs"). The AEs have to undergo a three to six months long vetting process and receive the GCF Boards approval to be able to submit funding. After that they are responsible for channeling GCF resources to programmes and projects. Funding proposals are being evaluate in a process a three-step process. First, the GCF Secretariat evaluate the completeness and compliance with GCF policies as well as the GCF Ivestment Framework. The Independent Technical Advisory Panel (ITAP) then assesses the proposal against six main criteria, including impact potential, country ownership, efficiency and effectiveness. Both assessments and recommendations are shared with the board which finally decides if the proposal is accepted for funding. In 2017, the GCF launched a Simplified Approval Process (SAP) to simplify applications for certain small-scale projects of up to USD 10 million in GCF funding. The SAP is particularly aimed at supporting project proposals from Direct Access Entities (see GCF 2017b).

Theoretic funding scope

The GCF's Governing Instrument (UNFCCC 2011b) set out that the Fund is to 'support developing countries in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities' (ibid., 10). Decision 3/CP.17 entrusts the GCF's board with the responsibility of even-handedly allocating the GCF's resources between adaptation and mitigation activities (UNFCCC 2011a). In addition to adaptation and mitigation, the Governing Instrument indicates the GCF will finance activities in the areas of technology development and transfer, capacity-building, and preparation of national reports by developing countries.
It is also stated that, while the Fund has two initial funding windows for adaptation and mitigation, as well as cross-cutting projects and programmes, it is the responsibility of the GCF Board to consider the need for additional funding windows and conduct adjustments (ibid., 11).

The Governing Instrument also notes the GCF 'will be accountable to and function under the guidance of the Conference of the Parties,' and receive guidance from the COP. Considering loss and damage only in 2019, the COP gave such guidance in decision 12/CP.25.[9] The COP invited "the Board of the Green Climate Fund to continue providing financial resources for activities relevant to averting, minimizing, and addressing loss and damage in developing country Parties, to the extent consistent with the existing investment, results framework and funding windows and structures of the Green Climate Fund" (UNFCCC 2019b). Additionally, the GCF Board was advised to "take into account the strategic workstreams of the five-year rolling workplan of the ExCom of the WIM " (ibid). The strategic workstreams include: slow-onset processes, non-economic losses, comprehensive risk-management approaches, migration, displacement, and human mobility, as well as action and support.
The formulation 'take into account' does not specify to what extent and how loss and damage activities should be funded. The GCF Board, therefore, still has the task of interpreting and executing the COP's decisions and guidance. The COP formulation "to the extent consistent with the existing investment, results framework and funding windows and structures" however creates a clear limitation for loss and damage funding, as this requires compatibility with the investment framework, requirements for co-financing and the climate rationale. Potential funding for loss and damage measures is therefore placed within the existing GCF framework without adjustments or allowances for the specifity of loss and damage (e.g., the rapid provision of funding following an extreme weather event which is not possible under the current project funding framework).

In its Updated Strategic Plan for the Green Climate Fund: 2020-2023, the GCF Board restated its guidance in line with the Paris Agreement objectives, including to increase 'the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development' (GCF 2020a: 3). This includes continuously providing and facilitating access to finance and 'activities relevant to averting, minimizing and addressing loss and damage associated with the adverse effects of climate change in developing countries' (ibid.). Moreover, activities can be funded through a 'flexible range of financing instruments,' including the possibility of applying instruments such as insurance schemes (ibid., 8).

Taken together, neither the GCF Governing Instrument nor the GCF's central strategic documents, such as the Integrated Results Management Framework or its investment criteria, makes direct reference to addressing loss and damage (from slow-onset processes). The GCFs theoretic funding scope, however, includes the proclaimed aim of continuously providing and facilitating access to finance projects and programmes relevant to addressing loss and damage associated with the adverse effects of climate change, based on the COP's guidance - as long as they are compatible with GCF procedures and operational policies. This extremely broad potential funding scope leaves many opportunities for the GCF to implicitly finance loss and damage (see FS-UNEP Collaborating Centre 2021). The broad scope and unclarity, however, of how to interpret it may also hinder explicit loss and damage financing under the GCF.

[9] Although creation of a new funding window for loss and damage would lie within the GCF Board's mandate, the decision text's wording does not explicitly call for creation of an additional funding window. Rather, it implicitly states that all funding activities related to loss and damage should happen within the existing funding windows.

Another point complicating the financing of loss and damage under the GCF is that proposals tend to have a higher chance of receiving approval when they include a strong 'climate rationale' (a concept still not fully defined), including an explanation of how the proposed activities are climate-related (GCF 2019). This rationale requires applicants to prove that any event resulting in loss and damage is the result of climate change and not just of climate variability. For many developing countries that lack access to necessary data owing to capacity and resource constraints, it is extremely difficult to present the scientific evidence the GCF suggests (Climate Analytics 2020).[10] The GCF Board Meeting in July 2021 was interrupted by a dispute on the extent to which the climate rationale, for which no Board decision has been taken yet, can be used to justify the non-advancement of projects under the technical consideration of the ITAP[11] and the difficulty of demonstrating the climate rationale particularly in the context of adaptation measures. A call for more robust guidance on the climate rationale from the GCF Board to be provided to the ITAP was raised by Board members from developing countries (Farand 2021).

On financial protection: Insurance solutions, which also enhance communities' adaptive capacity, are well covered in the GCF's theoretic financing scope. In a document the GCF secretariat prepared, identifying results areas where targeted GCF investment would have the most impact, climate insurance and reinsurance is identified, particularly for removing barriers towards attracting private insurance capital (GCF 2018a). Because of its focus on 'transformational' and paradigm shift' approaches, and its climate rationale, the coverage of more 'traditional development activities,' such as social protection schemes, or risk retention approaches such as contingency funds, is highly unlikely, as also identified by a UNFCCC process in 2019 (UNFCCC 2019a).

On recovery and rehabilitation: Although not an official part of the GCF policy, a recent mapping (GCF 2018b) shows elements related to project or programme eligibility and selection criteria that have been included in previous Board decisions, conditions the Board imposed on funding proposals, and the Governing Instrument. This also includes that 'GCF proceeds shall not be used for financing activities related to disaster response and relief' (ibid., 8) as one condition that implies a general policy and indicates the type of activity the Board may wish to exclude from financing. The definition of what would fall under 'disaster response and relief' is not specified in the document, and under the UNFCCC, the term is not officially defined. Usually, the term is used to describe activities needed immediately after an event.[12] Recovery and rehabilitation, the category we used for our analysis, are mid- to longer-term activities to restore or improve livelihoods and health, as well as economic, physical, social, cultural, and environmental assets, systems, and activities, of a disaster-affected community or society (UNDRR 2021a,b,c). We therefore assume the GCF exclusion mainly concerns immediate or emergency response after extreme weather events and does not necessarily lead to the exclusion of all activities listed under 'recovery and rehabilitation'. More clarification

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[10] We note that the GCF has already undertaken some activities to assist countries with improving their access to climate data.

[11] According to decision B.17/19 (i), only funding proposals for which approval has been recommended by both the ITAP and GCF Secretariat are submitted to the Board for its consideration (GCF 2017a).

[12] The UNDRR defines disaster response as, 'actions taken directly before, during or immediately after a disaster in order to save lives, reduce health impacts, ensure public safety and meet the basic subsistence needs of the people affected' (UNDRR 2021a). An official definition is not available, but it is usually used to cover actions focussing on the 'immediate response and early recovery' (Drolet 2015).

from the GCF Board would be needed on this question. Interestingly, the current GCF funding portfolio (see below) includes the Tuvalu Coastal Adaptation Project, wherein "GCF resources will be used to rebuild key economic and social assets in the aftermath of natural disasters" (GCF 2016).

On migration and alternative livelihoods: The GCF's extremely broad potential funding scope leaves opportunities for financing projects with migration components. The GCF, however, does not make explicit reference to human mobility in the context of climate change in its overall objective that, according to the Task Force on Human Displacement, "might hinder the possibility to finance action on a large scale" (Task Force on Displacement 2019).

On non-economic loss and damage: The COP decision from Madrid advises the GCF Board to consider the strategic workstreams of the WIM ExCom five-year rolling workplan, which includes non-economic losses. Regarding whether activities to address non-economic loss and damage are included in the GCF's theoretic funding scope it is, however, important to consider the Fund's initial criteria for assessing project proposals as part of its initial investment framework. The criteria list includes 'paradigm shift potential' as a guiding principle for investment decisions, stating the "GCF will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development" (GCF 2020b). Although this leaves room for interpretation, these criteria seem to restrict the possibility of funding activities included in the category of addressing non-economic loss and damage. This is because the relation between these activities and building resilience evidently is not straightforward. On the other hand, GCF investment criteria beyond the initial investment framework could open up a space for financing non-economic loss and damage. This includes the 'sustainable development potential': In addition to the impacts of the project, GCF proposals must identify at least one positive sustainable development co-benefit. The list of co-benefit indicators also includes social co-benefits, including improvements in health and safety, access to education, cultural preservation and social inclusion (GCF 2019b). The GCF investment criteria also includes the 'needs of the recipient' where the project proposal should describe the county's financial, economic, social and institutional needs and how the proposed intervention will address the identified needs (ibid.).

Current funding portfolio[13]

Of the categories in question, the GCFs funding portfolio as of August 2021 covers an extremely limited number of projects/programmes with an explicit loss and damage component. These focus on supporting insurance schemes (3), including development, design, testing, and implementation of weather index micro-insurance in Senegal and Zimbabwe, and a recently approved project in the seven countries of the Great Green Wall with a primary focus on climate risk insurance. The project removes obstacles to developing access to climate risk transfer products (e.g. data and capacity building), yet develops micro-insurance schemes and provides support to countries in accessing

[13] For a complete list of identified projects (mentioned in brackets below) see Annex II: List of identified projects including loss and damage measures.

African Risk Capacity as a regional risk pool.[14] As described above, the current funding portfolio also includes a project in Tuvalu with an activity for rebuilding (coastal) infrastructure , wherein 'GCF resources will be used to rebuild key economic and social assets in the aftermath of natural disasters.'[15] Other GCF-financed projects including loss and damage-related activities mainly covering ecosystem restoration (5), wherein salinised lands or vegetation in communal grazing land particularly impacted by climate change are restored to strengthen communities' climate resilience, in most cases to implement ecosystem-based adaptation systems. The current portfolio also includes one project with an explicit support measure for (planned) relocation or resettlement. This is in a project addressing flood risk in Senegal, including a sub-component to resettle people in flood-prone areas when adaptation limits are reached. These are people who cannot be protected by the drainage infrastructure to be set up in the project.[16] An analysis by the ExCom's task force on migration, moreover, sees 'encouraging signs as some integration of human mobility elements can be observed at the project level in 21 current GCF projects.' These elements are not bigger project components but rather are smaller activities and were therefore not included in this analysis. Five projects with components on alternative livelihoods could be identified, aiming at developing and introducing alternative livelihoods to strengthen resilience in target communities.

No project with a component or output on integrating climate risks and impacts into social protection schemes could be identified. In this context it is interesting to note that in 2017 the World Bank seeked feedback from the GCF Secretariat about whether a proposal on "Adaptive Social Protection in Africa: Resilience Against Climate-Related Shocks" matches the Fund's objectives and mandate. The project aims at propelling the climate change adaptation of social protection systems in Madagascar, Senegal, and Tanzania starting with their social safety net programs and to provide the poorest households with income support so that they can better cope with climate-related shocks and avoid harmful coping strategies. No further information on the status quo of the process could be found. However, researcher conclude that investments by the climate funds (GCF but also AF) to integrate climate change considerations into social protection schemes, policies and mechanisms are generally lacking (Alekandrova 2021).

Considering the COP 25 guidance to the GCF to 'continue providing financial resources for activities relevant to averting, minimizing, and addressing loss and damage to the extent consistent with the existing investment, results framework and funding windows and structures,' we could identify an extremely limited amount of loss and damage-related projects in the analysis. The overall gap in funding loss and damage measures through the GCF could be seen simply as inadequate recognition of the guidance provided to the GCF by the COP in 2019. Consideration should be given, however, to the fact most projects in the current GCF portfolio were approved or entered the pipeline before the COP 25 decision. As projects also need considerable time to pass through the pipeline and finally be approved, another analysis will be needed in a few years to conclusively assess implementation of the mandate. This distribution of financial measures, however, or lack thereof, could equally result from several other causes. An essential question is whether the lack of coverage of loss and damage projects by the GCF is either due to a lack of funding proposals being put forward

[14] https://www.greenclimate.fund/document/africa-integrated-climate-risk-management-programme-building-resilience-smallholder-farmers.
[15] https://www.greenclimate.fund/project/fp015.
[16] https://www.greenclimate.fund/sites/default/files/document/funding-proposal-fp021-afd-senegal.pdf.

or a lack of funding proposals with loss and damage components being accepted. For the latter, the subsequent question would be whether this results from obstacles for funding proposals including loss and damage components in the process or from poor drafting quality.

4.3 The Least Developed Countries Fund's potential in funding loss and damage measures

Financing and funding mechanisms

The LDCF supports developing countries through smaller scale projects and has a country ceiling for funding of USD 20 million. As of October 2021, total contributions to the LDCF amount to USD 1,666 billion. So far, the LDCF has committed USD 1.130 million to projects, with cash transfers to projects of USD 809 million. *The LDCF is a grants-based financing mechanism.*
To access funding LDCF Project Proponent have to develop a project concept note and requests assistance from one of the 18 GEF Agency[17]. These GEF Agencies are the only institutions that can access GEF funding directly. Countries also need to secure an endorsement of the national GEF Operational Focal Point. Subsequently the project cycles vary between Full-sized Projects (FSP), over $ 2 million, or Medium sized Projects (MSP) under $2 million. MSPs follow a further streamlined and simplified project cycle, compared to FSPs. The length of the project cycle further depends on whether a project preparation grant (PPG) is being requested or not. For an MSP which does not require a PPG the process only contains of one step until the disbursement can begin (see GEF 2011a). In general, Project preparation is expected to be completed as soon as possible, and no later than 12 months.

Theoretic funding scope

Decision 5/CP.7 officially established the LDCF with the main purpose of supporting the work programme for the Least Developed Countries, including support for preparing and implementing national adaptation programmes of action (UNFCCC 2001). Decision 7/CP.7 added that the commitments in UNFCCC Article 4 should be achieved inter alia by providing funding to developing country Parties, by financial channels including the LDCF. Article 4, paragraph 1 of the Convention includes the commitment to "cooperate in preparing for adaptation to the impacts of climate change; develop and elaborate appropriate and integrated plans for coastal zone management, water resources and elaborate appropriate and integrated plans for coastal zone management, water resources and agriculture, and for the protection and rehabilitation of areas, particularly in Africa, affected by drought and desertification, as well as floods" (UNFCCC 2001). The LDCF is under the direction of the Global Environment Facility (GEF). The GEF Programme strategy, which includes a strategy for the LDCF, acknowledges extreme weather, biodiversity loss and ecosystem collapse, major natural disasters and human made environmental disasters, and failure to mitigate and

[17] See GEF: https://www.thegef.org/partners/gef-agencies.

adapt to climate change as major global risks (see GEF 2018a). Based on this, the LDCF's potential funding scope is likely including both extreme weather events and slow-onset processes. Aside from this, several UNFCCC decisions such as inter alia decision 6/CP.9 and decision 3/CP.11 reference enhancing adaptive capacity to address the adverse effects of climate change and funding for activities to adapt to the adverse effects. Decision 27/CP.7 presents a more detailed list of activity areas, including integrated disaster risk management and community-based adaptation, including ecosystem restoration and livelihood opportunities.

In summary, the theoretic funding scope seems to have potential to cover loss and damage (from slow-onset processes), with a focus on specific areas such as ecosystem restoration, livelihood options, resettlement, displacement, and certain financial protection measures, specifically including insurance schemes. Addressing non-economic losses seems to largely fall outside of the LDCF's scope (UNFCCC 2019a). Our analysis showed that the areas of rebuilding infrastructure, rebuilding/restoring livelihoods, social protection schemes, and contingency finance are likely not fundable through the LDCF.

On financial protection: In the LDCF's results-based management framework, the 'Type and No. of insurance schemes introduced to reduce climate induced damages' is listed as one indicator under the Fund's objective of 'Reducing Vulnerability' (GEF 2010). In the LDCF programming strategy and operational policy, three strategic objectives are listed, including objective 1 on reducing vulnerability and increasing resilience through innovation and technology transfer for climate change adaptation. Under this objective, the LDCF should play a 'catalytic role in (…) piloting financial tools, risk transfer mechanisms, including risk insurance, climate risk pooling and other risk sharing solutions' (GEF 2018, 17). Additionally, during the Suva expert dialogue in 2017, the LDCF was identified as having the potential to support risk transfer solutions through 'smart premium support' (UNFCCC 2019a).

On response and rehabilitation: UNFCCC Article 4, which will be achieved via LDCF funding, includes preparation of 'rehabilitation of areas, particularly in Africa, affected by (…) desertification, as well as floods' (UNFCCC 2001). Additionally, the Fund's website indicates that 'restoring mangrove forest to help protect exposed coastal areas' is part of the focus, with a clear objective of driving nature-based adaptation solutions. The Fund's strategy document, however, also states that because the LDCF is a 'grants-only mechanism (…) it does not offer the rapid, large-scale financing that certain extreme events causing loss or damage incur' (GEF 2018), making provision of finance for rebuilding of infrastructure or livelihoods after an event extremely unlikely.

On migration and alternative livelihoods: The LDCF's programming strategy and operational policy notes that Fund support may be provided for the following categories to address fragility and security concerns related to climate adaptation: (a) land-based measures to address poverty, conflict, and displacement; and (b) policies and strategies for climate-sensitive resettlement that address displacement and forced migration (GEF 2018). What land-based measures include, however, is not specified.

Current funding portfolio[18]

The LDCF, to date, has a limited number of funding activities with an explicit component relating to addressing loss and damages. The identified activities relate to restoration of losses and damages to ecosystems and biodiversity (2) and areas of setting up and scaling up insurance schemes (3), e.g. securing resilience of smallholder farmers' livelihoods through weather index-based insurance in Burkina Faso[19] or designing and introducing index-based weather insurance including an insurance literacy programme and recommendations for a legal and regulatory framework for risk transfer in Sudan.[20] Moreover, we could identify three projects with sub-components on ecosystem rehabilitation, such as capacity building in Lesotho, wherein technical staff are trained on restoring and managing ecosystems in a climate-smart manner[21]. and one project with components on building alternative livelihoods.

No projects were found concerning the categories of setting and scaling up other types of financial protection measures other than insurance schemes, support measures for (planned) relocation and resettlement, support measures for climate-induced displaced persons and people effected by forced displacement or for measures to address non-economic loss and damage.

4.4 The Special Climate Change Fund's potential in funding loss and damage measures

Financing and funding mechanisms

Similar to the LDCF, the SCCF supports developing countries through smaller scale projects and has a country ceiling for funding of USD 20 million. As of October 2021, total contributions to the SCCF amount to 354 million. So far, the SCCF has committed USD 309 million to projects, making cash transfers of USD 273 million. The SCCF distributes financial support in the form of grants only. The process to access funding from the SCCF follows the GEF standard process to develop a concept for a project and requests assistance from one of the GEF Agencies and secure an endorsement of the national GEF Operational Focal Point. The project cycles vary between projects over and below $ 1 million. MSPs in contrast to FSPs are not approved by the LDCF/SCCF council and subsequently endorsed by the CEO, but rather directly approved by the CEO in a one-step process. However, if the proponent desires to access a PPG additional steps are required (see GEF 2011b). The project preparation period is set out for a duration of no later than 18 months and the GEF itself has a service standard of 10 business days to process project documents.

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[18] For a complete list of identified projects (mentioned in brackets below) see annex II 'List of identified projects including loss and damage measures'.

[19] https://www.thegef.org/project/promoting-index-based-weather-insurance-small-holder-farmers-burkina-faso.

[20] https://www.thegef.org/project/climate-risk-finance-sustainable-and-climate-resilient-rainfed-farming-and-pastoral-systems.

[21] https://www.thegef.org/project/reducing-vulnerability-climate-change-foothills-lowlands-and-lower-senqu-river-basin.

Theoretic funding scope

Decision 5/CP.7 mandated implementation of Article 4, paragraphs 8 and 9 of the Convention via the SCCF, under the GEF. The SCCF's objectives are to support adaptation and technology transfer projects and there are according funding windows for these two areas. The SCCF's special focus is, as indicated in decision 6/CP.9, on support for enhancing the 'endogenous capacities and technologies of developing country Parties' (UNFCCC Article 4, paragraph 5). Paragraph 8 of the decision and paragraph 2 of decision 5/CP.9 specified the scope of activities eligible for SCCF support, such as inter alia in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, integrated coastal zone management, and climatic disaster risk management (with a focus on support of national centres and information networks for rapid response). This expands the SCCF's potential funding range to loss and damage from extreme weather events and slow-onset processes. Through one of its funding windows related to its first objective, the SCCF specifically aims to foster innovation and technology transfer (see GEF 2018, 25), which could likely cover innovative financing measures to address loss and damage from slow-onset processes (see also UNFCCC 2019a).

On financial protection: Like the LDCF, the 'Type and No. of insurance schemes introduced to reduce climate induced damages' is listed as one indicator under the Fund's objective of 'Reducing Vulnerability' (GEF 2010). Moreover, the SCCF's programming strategy and operational policy notes the SCCF is 'poised to build on its track record of supporting comprehensive risk assessment and management approaches, risk insurance facilities, climate risk pooling and other insurance solutions, in coordination with the G7 InsuResilience initiative to increase the availability of risk transfer and insurance solutions for poor and vulnerable people' (GEF 2018).

On migration and alternative livelihood provisions: The SCCF, based on a 2018 Board decision, may begin to finance more innovative financial instruments, such as concessional loans and equity. The UNFCCC (2019) indicates these new instruments could allow the SCCF to, for example, offer loans for activities supporting human mobility. It should be noted, however, that loans or other non-grant finance as support for human mobility is very problematic from a social and climate justice perspective. Depending on who is granted the loan, these loans result in debts for those displaced - which can affect their livelihoods and access to education and health-care.

Current funding portfolio[22]

Also the SCCF, to date, has a limited number of funding activities with an explicit component relating to addressing loss and damages. For the SCCF's current funding portfolio, we identified three projects with components or a focus on setting and scaling up insurance schemes, such as scaling up risk transfer mechanisms for climate-vulnerable agriculture-based communities in the Philippines[23],

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[22] For a complete list of identified projects (mentioned in brackets below) see annex II 'List of identified projects including loss and damage measures.'

[23] https://www.thegef.org/project/scaling-risk-transfer-mechanisms-climate-vulnerable-agriculture-based-communities-mindanao.

or funds for technical and regulatory work needed to develop catastrophe and weather risk insurance markets in Albania, North Macedonia, and Serbia.[24] We identified one project with a component for restoring ecosystems: Smart Adaptation of Forest Landscapes in Lebanon, wherein both climate change and human intervention and exploitation accelerate the pace of forest degradation. With participatory reforestation, the project aims at increasing the adaptive capacity of fragile forest ecosystems.[25]

Non-economic losses were again neglected. Our analysis also found no activities with specific components related to social protection schemes, contingency finance, or other financial protection measures, nor did it find activities addressing migration, displacement, and rebuilding/restoring of destroyed livelihoods.

[24] https://www.thegef.org/project/southeastern-europe-and-caucasus-catastrophe-risk-insurance-facility-seec-crif.
[25] https://www.thegef.org/project/smart-adaptation-forest-landscapes-mountain-areas-salma.

5 Recommendations to address the lack of loss and damage finance at COP26

Based on the analysis we have identified both possibilities and significant gaps in the funding of loss and damage measures through the UNFCCC financial architecture. COP 26 is central to contribute to creating the framework conditions to take advantage of these possibilities and take steps to close the gaps. We offer the following recommendations to advance the discussion on loss and damage finance at COP in order to support those most affected by climate change impacts:

1 **Detailed guidance on how the funds of the UNFCCC financial architecture can provide funding to address loss and damage should be developed by the funds' boards.** Mandates and strategic documents providing the basis for funding decisions of the UNFCCC funds are formulated extremely broadly and thus leave considerable room for interpretation for the boards and advisory panels concerning concrete funding decisions. Our analysis showed that funding for measures might be possible even if loss and damage is not explicitly covered in the funding scope. To improve remaining lack of clarity regarding funding for loss and damage measures, all analysed funds (incl. GCF, AF, SCCF and LDCF) should develop detailed guidance for applicants on success criteria for loss and damage projects. In particular, the GCF Board should develop more detailed guidance on how to interpret strategic documents on means of providing financial resources for measures relevant for addressing loss and damage in developing countries. **COP 26 should therefore ask the boards of the UNFCCC funds to develop detailed guidance on how their respective funds can provide funding to address loss and damage within their current mandate.**

2 **The UNFCCC financial architecture's funding scope and financing mechanisms needs to be expanded to provide funding for key loss and damage measures that currently cannot be, or are extremely unlikely to be, funded by the UNFCCC financial architecture.** These measures include activities in the field of recovery and rehabilitation, and those to address non-economic loss and damage. Although it is often argued that mechanisms outside the UNFCCC regime (particularly humanitarian assistance) cover response, recovery and rehabilitation in particular, this funding is far from sufficient, particularly regarding the growing number and intensity of extreme weather events and other increasing climate impacts. Moreover, a key task for the UNFCCC is to manage climate change and its impacts in accordance with the principle of common but differentiated responsibilities and capabilities (CBDRC), which has special relevance with view to addressing loss and damage that most affects vulnerable communities that have contributed the least to climate change's drivers. The UNFCCC financial architecture must therefore create ways to finance these measures and make sure that the most vulnerable communities, in particular, can access these financial resources. One option to implement this is by extending the mandate and objectives of an existing UNFCCC fund and adjusting its financing mechanisms so that adequate loss and damage finance can be provided also beyond a project logic. Suggestions for this option include, for example, a loss and damage funding window for the GCF. Another option to create ways to finance loss and damage measures is by establishing a new loss and damage finance facility or

fund. **COP26 should mandate a process to assess these options so that COP27 can decide on the expansion of the UNFCCC financial architecture's funding scope and financing mechanisms in order to allow for the channelling of adequate loss and damage financing to vulnerable developing countries.**

3 **New and additional funding to address loss and damage needs to be provided by the international community and a specific share of a new finance goal from 2025 onwards should be dedicated to loss and damage**, based on the CBDRC principle and solidarity and a needs-based approach. The analysis revealed that AF, GCF and LDCF have potential for providing funding for loss and damage measures. We have to note, however, that the current resources of these funds are earmarked for mitigation and adaptation activities. Loss and damage measures can have adaptation co-benefits but are distinct from adaptation and mitigation measures and therefore need dedicated and additional funding. Drawing finance for loss and damage measures from these existing resources risks 'cannibalising' these if no additional resources are provided (Loss and Damage Collaboration 2021). Current estimates indicate financial damage of at least $290–580 billion by 2030 for developing countries (Markandya/González-Eguino 2018). This does not include non-economic losses such as loss of biodiversity and cultural sites. One key step on the way to providing this funding is to **adequately include loss and damage in the post-2025 finance goal at COP26**, recognising that loss and damage finance must be new and additional to increased and balanced funding allocations for adaptation and mitigation finance and guided by the needs of developing countries. Grants and other non-debt-generating instruments should be prioritized, so as not to exacerbate the debt situation of climate vulnerable nations and communities. Loss and damage finance must be given the same importance as mitigation and adaptation finance, while keeping the accounting separate. Accordingly, loss and damage finance should be included in the UNFCCC's climate finance reporting, particularly the SCF's biennial 'Assessment and Overview of Climate Finance Flows'. To better understand countries' finance needs, **COP26 should decide on the commission of an annual stocktake of national financial needs to address loss and damage and loss and damage funding available in a loss and damage finance gap**. Similar to Adaptation and Emissions Gap reports, this report should outline experienced loss and damage in a year and analyse the availability of loss and damage finance against the needs of developing countries to address current and projected climate impacts.

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Annex I

Key words used for the analysis of the theoretic funding scope and the current project portfolio

General	Loss and damage, dealing/managing/addressing/coping with climate impacts (from extreme weather events and slow-onset processes/events)
A. Financial protection	Climate risk financing, risk retention, risk transfer, (climate risk) insurance, Integrating climate change risks and impacts into and/or scaling up social protection schemes (also: social safety nets, social assistance schemes, public works and employment guarantee programmes), contingency funds (also: calamity, reserve, disaster funds)
B. Recovery and rehabilitation	Recovery, rehabilitation, disaster response, disaster relief, rebuilding/reconstruction/reparation (of infrastructure that have been destroyed by extreme weather events or slow-onset processes), building back (better), rebuilding/restoring of livelihoods, restoration/rehabilitation (of ecosystems and landscapes)
C. Migration and alternative livelihoods	Human mobility, migration, displacement, planned relocation, resettlement, building up alternative livelihood provisions
D. Addressing non-economic loss and damage	Non-economic loss and damage, loss of ecosystems/biodiversity/freshwater availability/identity/heritage/territory/health/knowledge/land and habitat active remembrance, societal identity and cultural heritage protection, counselling

Annex II

List of identified projects including loss and damage measures

AF		
A. Financial protection measures	Setting up, scaling up, or capacity building for climate risk insurance schemes	■ https://www.adaptation-fund.org/project/rural-integrated-climate-adaptation-and-resilience-building-project-ricar-2/ ■ https://www.adaptation-fund.org/project/enhancing-the-adaptive-capacity-and-increasing-resilience-of-small-scale-agriculture-producers-of-the-northeast-of-argentina/ ■ https://www.adaptation-fund.org/project/reducing-the-vulnerability-by-focusing-on-critical-sectors-agriculture-water-resources-and-coastlines-in-order-to-reduce-the-negative-impacts-of-climate-change-and-improve-the-resilience-of-these/ ■ https://www.adaptation-fund.org/project/building-adaptive-capacities-of-small-inland-fishers-for-climate-resilience-and-livelihood-security-madhya-pradesh-2/ ■ https://www.adaptation-fund.org/project/adapting-to-climate-change-through-integrated-risk-management-strategies-and-enhanced-market-opportunities-for-resilient-food-security-and-livelihoods/ ■ https://www.adaptation-fund.org/project/developing-climate-resilient-flood-and-flash-flood-management-practices-to-protect-vulnerable-communities-of-georgia/ ■ https://www.adaptation-fund.org/project/enhancing-climate-resilience-of-rural-communities-living-in-protected-areas-of-cambodia/ ■ https://www.adaptation-fund.org/project/climate-smart-agriculture-enhancing-adaptive-capacity-of-the-rural-communities-in-lebanon-agrical/ ■ https://www.adaptation-fund.org/project/ecosystem-based-adaptation-approach-to-maintaining-water-security-in-critical-water-catchments-in-mongolia/
B. Recovery and rehabilitation	Restoration of ecosys-tems and landscapes	■ https://www.adaptation-fund.org/project/ecosystem-based-adaptation-to-climate-change-in-seychelles/ ■ https://www.adaptation-fund.org/project/increasing-climate-resilience-restoration-degraded-landscapes-atlantic-region-central-america-belize-guatemala-honduras/ ■ https://www.adaptation-fund.org/project/climate-change-adaptation-through-protective-small-scale-infrastructure-interventions-in-coastal-settlements-of-cambodia-2/
C. Migration & alternative livelihoods	Support measures for planned relocation or resettlement	■ https://www.adaptation-fund.org/project/reducing-vulnerability-to-climate-change-in-north-west-rwanda-through-community-based-adaptation/ ■ https://www.adaptation-fund.org/project/enhancing-resilience-of-samoas-coastal-communities-to-climate-change/
	Building up alternative livelihood provisions	■ https://www.adaptation-fund.org/project/economic-social-and-solidarity-insertion-for-resilience-in-the-governorate-of-kairouan-iess-adapt-2/ ■ https://www.adaptation-fund.org/project/enhancing-the-resilience-of-the-agricultural-sector-and-coastal-areas-to-protect-livelihoods-and-improve-food-security/

GCF		
A. Financial protection measures	Setting up, scaling up, or capacity building for climate risk insurance schemes	https://www.greenclimate.fund/project/fp049 https://www.greenclimate.fund/project/sap007 https://www.greenclimate.fund/sites/default/files/document/funding-proposal-fp162.pdf
B. Recovery and rehabilitation	Rebuilding of infra-structure	1. https://www.greenclimate.fund/project/fp015
	Restoration of ecosys-tems and landscapes	https://www.greenclimate.fund/project/fp158 https://www.greenclimate.fund/project/fp003 https://www.greenclimate.fund/project/fp084 https://www.greenclimate.fund/project/fp011 https://www.greenclimate.fund/project/fp167
C. Migration and alternative livelihoods	Building up alternative livelihood	https://www.greenclimate.fund/project/sap002 - https://www.greenclimate.fund/project/fp072 - https://www.greenclimate.fund/project/fp067 https://www.greenclimate.fund/project/fp160 https://www.greenclimate.fund/project/fp034
	Support measure for (planned) relocation or resettlement	https://www.greenclimate.fund/document/senegal-integrated-urban-flood-management-project

LDCF		
A. Financial protection measures	Setting up, scaling up, or capacity building for climate risk insurance schemes	■ https://www.thegef.org/project/promoting-index-based-weather-insurance-small-holder-farmers-burkina-faso ■ https://www.thegef.org/project/climate-risk-finance-sustainable-and-climate-resilient-rainfed-farming-and-pastoral-systems ■ https://www.thegef.org/project/community-based-climate-risks-management-chad
C. Migration and alternative livelihoods	Restoration of ecosystems and landscapes	■ https://www.thegef.org/project/reducing-vulnerability-climate-change-foothills-lowlands-and-lower-senqu-river-basin ■ https://www.thegef.org/project/building-climate-resilience-through-rehabilitated-watersheds-forests-and-adaptive
	Building up alternative livelihood provisions	■ https://publicpartnershipdata.azureedge.net/gef/PMISGEFDocuments/Climate%20Change/Rwanda%20-%20(5495)%20-%20Increasing%20the%20Capacity%20of%20Vulnerable%20Rwandan%20Comm/2015_11_09_5495_GEF_Rwanda_PRODOC_4.pdf
SCCF		
A. Financial protection measures	Setting up, scaling up, or capacity building for climate risk insurance schemes	■ https://www.thegef.org/project/southeastern-europe-and-caucasus-catastrophe-risk-insurance-facility-seec-crif ■ https://www.thegef.org/project/southeast-europe-and-central-asia-catastrophe-risk-insurance-facility ■ https://www.thegef.org/project/scaling-risk-transfer-mechanisms-climate-vulnerable-agriculture-based-communities-mindanao
B. Recovery and rehabilitation	Restoration of ecosystems and landscapes	■ https://www.thegef.org/project/smart-adaptation-forest-landscapes-mountain-areas-salma

Notes

Germanwatch

Following the motto of *Observing. Analysing. Acting.* Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their worldwide consequences. The situation of marginalised people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

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