

# Recommendations for a L&D (Finance) Gap Report

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With the operationalisation of the Fund for Responding to Loss and Damage (FRLD), the related funding arrangements for Loss and Damage, and the Santiago Network on Loss and Damage (SNLD), in addition to the already established Warsaw International Mechanism Executive Committee (WIM ExCom), the issue of Loss and Damage (L&D) is now firmly anchored within the United Nations Framework Convention on Climate Change (UNFCCC). At the same time, little knowledge or information exists on the aggregate (financial) needs of developing countries related to L&D, how they evolve over time and temperature rise, how much finance is already available, or on the financing gap that the FRLD would ideally close.

One way to close this knowledge gap is a Loss and Damage Gap Report, inter alia covering finance gaps. Such a report would be imperative for accurately assessing the L&D finance needs of countries of the Global South, contributions made thus far, and the existing finance gap. To effectively address L&D, it is essential to have a clear understanding of these elements. This paper focuses exclusively on the financial aspects of the Loss and Damage Gap Report. However, our advocacy extends beyond purely financial considerations, aiming for a comprehensive approach that addresses all gaps within L&D.

A first step for understanding L&D finance needs is formulating a clear approach to determine what constitutes climate-related needs. Additionally, potential

sources of information to calculate the finance needs must be identified, as well as tracking information on the financial contributions already provided through different channels (inc. multilateral funds, bilateral support, humanitarian assistance etc.). To cover the full range of losses and damages, a Loss and Damage (Finance) Gap Report would then also need to integrate perspectives from local communities and include finance needs due to slow onset events (SOEs) and non-economic losses and damages (NELDs).

Similar to this, gap reports are already being produced by the United Nations Environment Programme (UNEP) for the two other pillars of the Paris Agreement; the Emissions Gap Report since 2010 and the Adaptation Gap Report since 2014. The Emissions Gap Report tracks the gap between where global emissions are heading with current country commitments and where they ought to be to limit warming to 1.5°C. The Adaptation Gap Report analyzes adaptation gaps in important areas as well as costs of adaptation in developing countries, and compares them with public multilateral and bilateral adaptation finance flows. Both reports identify ways to bridge the gaps and increase relevant finance. What is now missing is an equivalent report for L&D.

Developing countries' negotiation groups,<sup>[1]</sup> individual countries such as Vanuatu,<sup>[2]</sup> and civil society organisations (CSOs) have long called for the preparation of a Loss and Damage Gap Report.<sup>[3]</sup> This call

<sup>1</sup> See the Loss and Damage Collaboration, 2023, [Did COP28 get us closer to the world we want? Assessing the outcome on Loss and Damage](#).

<sup>2</sup> See The government of Vanuatu, 2024, [Vanuatu submission on the 2024 Review of the Warsaw International Mechanism for Loss and Damage associated with climate change impacts](#).

<sup>3</sup> See Schäfer L., Künzel, V., 2019, [Steps towards closing the Loss and Damage finance gap](#); See The government of Vanuatu, 2024, [Vanuatu submission on the 2024 Review of the Warsaw International Mechanism for Loss and Damage associated with climate change impacts](#).

is now reflected in Article 134 of the Global Stocktake Decision agreed upon at COP28, which requests the UNFCCC Secretariat to prepare a synthesis report on information related to L&D, as provided by Parties in their biennial transparency reports and other submissions.<sup>[4]</sup> The decision highlights the need for enhanced information availability on L&D, and mandates the UNFCCC Secretariat to prepare a report on it - and hence provides the legal basis for a L&D Gap Report. Based on this, as part of the WIM review at COP29, Parties need to take a decision on the development of a L&D Gap report. The report should be hosted by an **international institution under the UN umbrella**. Ideally, this would be **UNEP**, which already publishes the Adaptation and Mitigation Gap Reports, as proposed by Vanuatu.<sup>[5]</sup>

Realising a L&D Gap Report has a technical and a political component. The technical component includes finding solutions for methodological challenges, which have stood in the way of calculating the L&D gap. The political component includes a process for deciding on and implementing a gap report. Climate Analytics and Germanwatch have worked out critical elements regarding the finance aspects of a future Loss and Damage Gap Report.<sup>[6]</sup> Based on this we developed recommendations and next steps for the finance part of the report.

4 See UNFCCC, 2024, [Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its fifth session](#).

5 See The government of Vanuatu, 2024, [Vanuatu submission on the 2024 Review of the Warsaw International Mechanism for Loss and Damage associated with climate change impacts](#).

6 See Serdeczny O. et al., 2024, [Calculating the Loss and Damage Finance Gap: A Scoping and Feasibility Exercise](#).

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# Recommendations for the preparation of a Loss and Damage (Finance) Gap Report

## A Loss and Damage Gap Report should:

- Contribute to the objectives and strengthen efficacy of the FRLD and the WIM
- Provide an overview of:
  - Aggregate financial needs of developing countries related to L&D, how they evolve over time and temperature rise
  - L&D funding available and
  - The finance gap resulting from both
- Present evidence-based guidance to the FRLD Board and the WIM which helps them achieve their respective objectives to support those most vulnerable to climate change impacts and enhance action and support
- Propose options and solutions for closing L&D financing gaps, including new, innovative, and additional sources of finance, also holding carbon majors accountable

## Preconditions to develop a L&D Gap Report<sup>[7]</sup>

- To adequately assess financial needs and financing gaps in developing countries, a **clear approach on what is climate-related loss and damage** needs to be formulated. A consistent calculation of L&D finance should be based on an agreed level of evidence that classifies finance to address L&D as “climate related” while keeping persistent data and capacity limitations in mind. This data collection should not place undue and unrealistic burdens on those in need of financial support. Here the SNLD could play a vital role providing technical support for data collection to countries of the Global South.
- Potential sources of information used in calculating the L&D Finance Gap should include the **cost of direct and indirect losses and damages**

and the **cost of activities to address L&D**, always considering both **economic and non-economic dimensions**. So far, quantified needs are only sporadic and illustrative. However, documents such as **NAPs, NDCs**, BTRs, Biennial Update Reports, National Communication on Technology needs assessment, aggregate reports produced by the Standing Committee of Finance, and post-disaster needs assessment and disaster loss databases outside the UNFCCC, as well as the status reports on humanitarian finance by UN OCHA, can be used to serve as a basis for the first order estimate of current known and quantified L&D needs. However, **no aggregate number will emerge yet**. Additionally, it is essential to ensure **careful coordination with the Adaptation Gap Report** to minimise the **risk of double counting**.

- To assess finance which has already been contributed we propose an **activity-based finance marker (more information in the appendix)**, which includes **recommended L&D activities by the Technical Support Unit of the Transitional Committee (preparedness, response, recovery, rehabilitation or reconstruction** following an extreme event), **complemented by activities specifically reflecting NELDs and SOEs** (such as counselling, societal identity and cultural heritage protection, social protection schemes, and building up alternative livelihood provisions).
- To guarantee that all needs are sufficiently covered, **integrating perspectives of local communities in assessing losses and damages** is key, especially in dealing with the effects of SOEs, which are likely to be missed in national reports. Here Nepal can be an example to learn from. There, in the context of the 2021 Melamchi Floods, a locally led L&D assessment was conducted.<sup>[8]</sup>

7 The following recommendations are based on Serdeczny O. et al., 2024, [Calculating the Loss and Damage Finance Gap: A Scoping and Feasibility Exercise](#).

8 Prakriti Resource Centre, 2023, [Locally-led assessment of loss and damage finance in Nepal: A case of Melamchi Flood 2021](#).

- At the moment L&D assessments mostly focus on impacts of extreme events and economic losses and damages. Efforts to **include SOEs in L&D assessments** must be explicit and methodical. One feasible approach is to review available **cost estimates associated with SOEs per event**. However, this approach alone is insufficient. **Additional and innovative methodologies are required** to comprehensively assess the losses and damages linked to SOEs. Additionally, NELDs must be included in the assessments.
- **Identifying financial support** provided for L&D can be achieved by tracking contributions that are explicitly **marked by contributors** and using the **OECD's Creditor Reporting System**. Additionally, **machine learning tools** can be used to extract data on financial support allocated for L&D activities. Explicit **pledges to the Fund for responding to L&D** can also be used to calculate financial support. A specific subgoal in the new collective quantified goal on climate finance (NCQG) would include reporting obligations and hence would enable to track funding provided.
- **Calculating the preliminary L&D finance gap presents several challenges**. While aggregating information from the sources mentioned above can be used to compare needs with support provided, **significant gaps** remain, particularly concerning SOEs and the dynamic nature of L&D amid steadily rising temperatures. To address these issues, adopting a **data harmonisation approach** similar to that used in the Adaptation Gap Report could help accurately calculate aggregate needs. Furthermore, it is crucial that all reporting clearly **distinguishes between the nominal/face value and the grant equivalent value** to ensure transparency. Overcoming **methodological challenges** is also essential to bridge data gaps and prevent double counting.

### Next steps towards a L&D (Finance) Gap Report

With a view to COP29 in Baku, we will provide recommendations on how such a L&D Gap Report can be realised. To effectively develop the report, we propose the following **next steps**:

- 1. Decision on a L&D Gap Report at COP29 in Baku:** As a result of the 2024 WIM review, Parties need to take a decision on the preparation of a L&D Gap Report (based on the mandated synthesis report from Article 134 of the Global Stocktake).
- 2. Institutional host:** Identify and secure an **international institution under the UN umbrella to host the Loss and Damage Finance Gap Report**. Ideally, this would be **UNEP**, which already publishes the Adaptation and Mitigation Gap Reports. This choice could help prevent potential overlaps with the Adaptation Gap Report.
- 3. Methodological-political questions:** Before the preparation of the L&D Gap Report, methodological questions which also have a political dimension need to be clarified. The Executive Committee of the Warsaw International Mechanism could play a role here and organise this process. The questions include:
  - **Scope of Loss and Damage Finance:** It is crucial to strategically determine whether the **scope of activities delineating L&D finance should include preparedness and response**. Additionally, careful consideration of the **potential interconnections with the Adaptation Gap Report** is essential to minimise the risk of double counting. This can be achieved through methodological rigour and transparency.
  - **Defining “Climate Related”:** A group of actors need to **determine the approach(es) for calculating the aggregate L&D finance gap**. The report could then apply a set of approaches and report the final numbers accordingly to the chosen approach.
- 4. Publication of the first L&D Gap Report:** First publication in 2026 to inform the review of the FRLD.

## Appendix

### A possible loss and damage finance marker.

Elements in brackets require further consideration by authors of a Loss and Damage Gap Report.

## CLIMATE CHANGE LOSS AND DAMAGE ACTIVITIES

### Definition

An activity should be classified as a loss and damage activity if:

It contributes to [preparedness], response, recovery, rehabilitation, or reconstruction to/from economic and non-economic climate impacts following a climate-related extreme event or due to a climate-related slow onset process.

This encompasses a range of activities from [the implementation of early warning systems], [emergency relief], cultural heritage protection, counselling, restoration of vital infrastructure services, restoration of functional capabilities, resettlement, alternative employment/livelihood opportunities, social protection schemes, and the resilient rebuilding of physical and social infrastructure.

### Criteria for eligibility

An activity is eligible for the climate change loss and damage marker if:

The climate change Loss and damage Response objective is:

- a) explicitly indicated in the activity documentation, and
- b) the activity contains specific measures targeting the definition above and
- c) [evidence base for proving link to anthropogenic climate change to be determined; possible options:

- the climatic event or process necessitating the activity is within the range of all possible climatic effects
- the climatic event or process necessitating the activity is within the range of climatic effects expected for a given region as detailed in the Annex.
- the climatic event was evidentially influenced by anthropogenic climate change in a quantifiable manner.
- the relative contribution of anthropogenic climate change to the event necessitating the activity can be quantified to allow the percentage of a contribution to be recognised as climate-related, with the remainder of resources to be reported under the DRR policy marker.]