



Scottish
Government
gov.scot

An Assessment on Mechanisms for Supporting Loss and Damage Financing at National Level

**Civil Society Network on Climate Change (CISONECC)
15th January 2024**

Acknowledgements

This research has been initiated by the Civil Society Network on Climate Change (CISONECC) with financial support from the Scottish Government through the Scottish Catholic International Aid Fund (SCI AF) and Trocaire. The views expressed in this report can in no way be taken to reflect the official opinion of CISONECC, the Scottish Government, SCI AF and Trocaire.

This report and guidelines are a product of consultations with various stakeholders and key informants from various sectors such as Health, Disaster Risk Management, Insurance, Agriculture, etc. CISONECC is thankful for the time and dedication provided by the various stakeholders and key informants in-order provide input and contexts of Malawi's Loss and Damage landscape

Executive Summary

Climate change is a global environmental and developmental problem that is threatening progress towards achieving the Sustainable Development Goals (SDGs) in both developing and developed countries. Climate change induced floods, droughts and storms are noted to cause losses and damages to various sectors at varying magnitudes.

Malawi, has in the recent decade experienced increased frequencies in adverse weather conditions and extreme weather events in the form of droughts, floods and cyclones. Such climate change induced weather conditions have led to various losses and damages. For example, the 2016 drought cost Malawi's economy damages and losses amounting to US\$370 million and Tropical Cyclone Freddy (2023) affected 2,267,458 people, displaced 659,278 people, killed 679 people, and had a total disaster effect of US\$506.7 million and total cost of recovery and reconstruction of US\$680.4 million. What is however worrying is that financing for emergencies, disasters and effective L&D quantification and responses is inadequate.

This report provides a synopsis of a study commissioned by the Civil Society Network on Climate Change (CISONECC) to Assess the Mechanisms for Supporting Loss and Damage Financing at National Level. The study revealed that:

- Malawi has ten broad categories and approaches on how state and non-state actors are utilising and mobilising financing for L&D programmes. The broad categories based on financing sources and instruments are: (i) Climate Finance (mitigation, adaptation and capacity building), (ii) Project Finance (for L&D, poverty alleviation and livelihood security), (iii) Insurance, (iv) Humanitarian Assistance/Official Development Assistance, (v) Disaster Risk Finance, (vi) Government of Malawi Resources, (vii) Private Sector Finance, (viii) Biodiversity Finance, (ix) Contingency Finance, and (x) Social Protection.
- Malawi has four plausible options that can be explored in-order to increase predictable and sustainable innovative financing for L&D programmes. The four options are (i) Financial Services Levy, (ii) Solidarity Levy, (iii) Extraction Levy and (iv) Local Carbon Tax
- Malawi can pursue five activities in-order to improve the L&D financing landscape and enhance L&D programme design and implementation. The five activities are: (i) create a good enabling environment for L&D financing, (ii) improve monitoring and evaluation of L&D financing, (iii) measure,

quantify and assess climate debt, (iv) the identification of optimum innovative financing approaches, and (v) integration of L&D in Malawi's Nationally Determined Contributions (NDCs).

The research also points out that financing for unavoidable losses and damages is still minimal in Malawi hence most financing and programmes can be said to be focusing on unavaoided and avoided losses and damages. However, with the launch of the L&D Fund and the growing interest in research and policy guidance on unavoidable losses and damages being published through CSOs, there is potential that various state and non-state actors will be able to access local and international financing for research, impact assessments and programmes on unavoidable losses and damages

Table of Contents

Acknowledgements.....	1
Executive Summary	2
Acronyms.....	6
1 Introduction.....	8
2 Importance of the study (L&D finance issues, challenges, and trends)	12
2.1 Decision making support.....	12
2.2 Improve understanding on climate finance transparency and monitoring	13
2.3 Improve the enabling environment for UNFCCC climate finance modalities	13
2.4 Identification of options for crowding-in more L&D finance	14
2.5 Stimulate discussions on funding options for NELD and slow-onset events in Malawi	14
3 Conceptualising and defining L&D finance	16
4 Global perspectives on contexts, sources and instruments for L&D finance	24
4.1 Climate Change Adaptation Finance	24
4.2 Disaster Risk Finance (DRF)	25
4.3 Humanitarian Assistance	28
4.4 Insurance.....	29
5 Malawi's L&D Financing Landscape	31
5.1 Data collection and stakeholder engagement approach	31
5.2 Categories and types of L&D financing in Malawi.....	31
5.3 Climate Finance (mitigation, adaptation and capacity building).....	35
5.4 Disaster Risk Finance (DRF)	37
5.5 Government of Malawi Resources Financing	39
5.6 Insurance.....	40
5.7 Private Finance.....	41
5.8 Project Finance for L&D, poverty alleviation and livelihood security ...	41

5.9 Contingency finance	42
3.10 Biodiversity Finance	43
5.11 Humanitarian Assistance/ ODA	45
5.12 Social Protection.....	46
6 Assessing Malawi’s potential for domestic resource mobilisation and innovative L&D Financing.	47
6.1 Context	47
6.2 Potential Innovative L&D Financing Approaches for Malawi	49
6.2.1 Financial Transaction Tax (FTT) Vs Financial Services Levy	49
6.2.2 Solidarity Levy	50
6.2.3 Fossil fuel majors carbon levy Vs extraction levy	51
6.2.4 Global carbon tax Vs local carbon tax	51
7 Recommendations to improve Malawi’s L&D financing landscape	53
7.1 Creating an enabling financial environment for L&D financing.....	53
7.2 Monitoring and Evaluation for L&D Financing	54
7.3 Measuring, quantifying and assessing climate debt.....	55
7.4 Identification of optimum innovative financing approaches	55
7.5 Integration of L&D in Malawi’s Nationally Determined Contributions (NDCs)	56
8 Concluding Remarks	57

Acronyms

AFDB	African Development Bank
ATM	Automatic Teller Machine
CARD	Churches Action in Relief and Development
CBD	Convention on Biological Diversity
CISONECC	Civil Society Network on Climate Change
CSO	Civil Society Organisation
DoDMA	Department of Disaster Management Affairs
DRA	Disaster Risk Financing
DRM	Disaster Risk Management
DRMTF	Disaster Risk Management Trust Fund
FTT	Financial Transaction Tax (FTT)
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environmental Facility
IAPAL	International Airline Passenger Levy
IFPRI	International Food Policy Research Institute
L&D	Loss and Damage
LDCF	Least Developed Countries Fund
M&E	Monitoring and Evaluation
NASFAM	National Smallholder Farmers Association of Malawi
NBSAP	National Biodiversity Strategy and Action Plan
NDC	Nationally Determined Contributions
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
SGR	Strategic Grain Reserve
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

VAT	Value Added Tax
WFP	World Food Programme

1 Introduction



Climate change is a global environmental and developmental problem that is threatening progress towards achieving the Sustainable Development Goals (SDGs) in both developing and developed countries. Climate change induced floods, droughts and storms are noted to cause losses and damages to various sectors at varying magnitudes. In a report by Richard and Schalatek (2017)¹ it was recorded that the climate change induced economic damage for developing countries

could be US\$428 billion per year (about 0.61% of Gross Domestic Product (GDP)) by 2030 and USD\$1.67 trillion per year (about 1.3% of GDP) by 2050 at 3°C of warming, and that Africa should expect Loss and Damage (L&D) of an estimated ~US\$100 billion per year by 2050 for warming below 2 °C. Whilst there might be divergences in the global estimates on the effects and impacts of L&D and the amounts of finance needed by developing countries to address L&D due to differences in methodologies and climate scenarios, it is generally agreed that the exposure of persons and assets to climate risks is increasing faster than vulnerability is decreasing.² Governments all around the world are therefore currently witnessing new climate risks and rising disaster related losses which are bringing significant detrimental economic, social, health, cultural and environmental impacts.

The United Nations Framework Convention on Climate Change (UNFCCC) is cognizant that even with the most effective mitigation and adaptation measures being implemented, climate change L&D will continue to perpetuate various injustices, human rights abuses and disasters. Article 8 of the Paris Agreement therefore stipulates that Parties should (i) enhance understanding, action and support on L&D; and (ii) recognise the importance of averting, minimising and addressing L&D associated with the adverse effects of climate change, including extreme weather events and slow onset events, and the role of sustainable development in reducing the risk of L&D.

¹ Richard, J. and Schalatek, L. (2017). Financing Loss and Damage: A Look at Governance and Implementation Options. A discussion paper. Heinrich Böll Stiftung North America, Washington, DC.

² Government of Malawi (2017). Capacity Development Plan 2017/2018–2019/2020 for the Malawi Department of Disaster Management Affairs. Ministry of Finance, Economic Planning and Development, Lilongwe.

There is no universally agreed definition for L&D but some working definitions define L&D as the adverse impacts of human-induced climate change that cannot be avoided by mitigation or adaptation, or that will not be avoided in the future by adaptation due to insufficient resources.³ As illustrated on figure 1, L&D affects productive, social and infrastructure sectors, hence a failure to prioritise financing to minimise, avert and address climate change L&D can lead to migrations, conflict and poverty due to dwindling access to water, food and productive land.

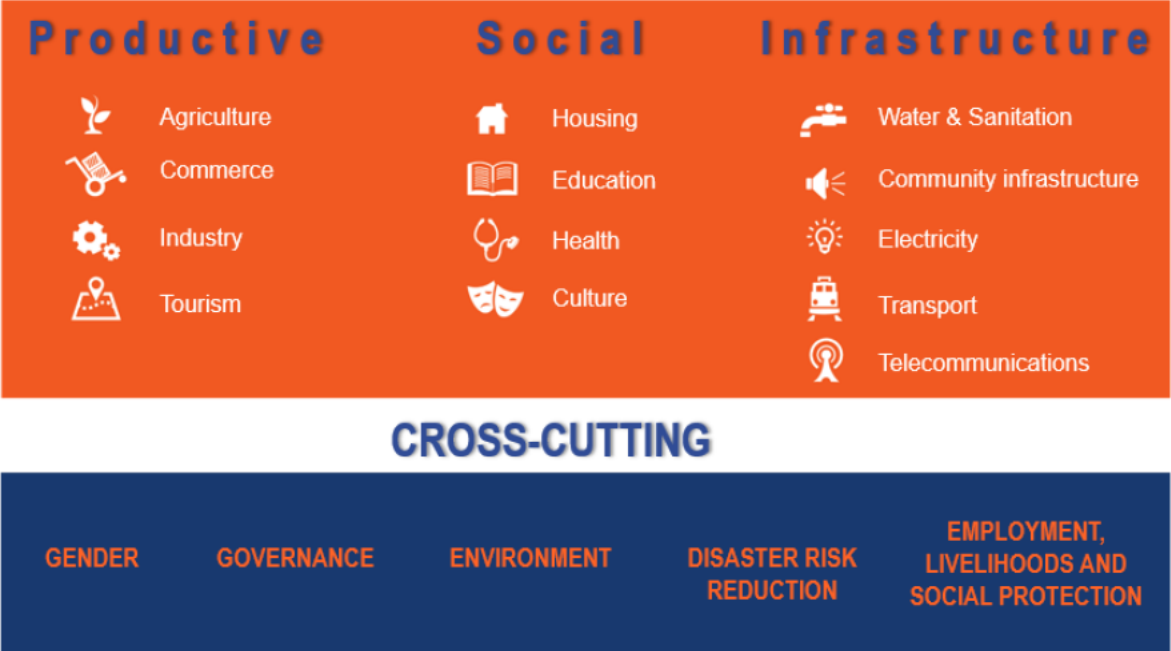


Figure 1: Typical Loss and Damage sectors, sub-sectors and cross-cutting issues

Malawi has not been spared from the adverse impacts of climate change as records indicate that Malawi has experienced severe disasters which have resulted in fiscal pressure and macro-economic instability. Additionally, disasters are also leading to losses in human life and damages in infrastructure which result in long-term adverse consequences on economic growth, development and poverty reduction. For example, in 2016, drought related damages and losses to Malawi’s economy amounted to US\$370 million, which was equivalent to 5.6% of (GDP); and Tropical Cyclone Freddy (2023) affected

³ Pandit Chhetri, R., Schaefer, L. and Watson, C. (2021) Exploring loss and damage finance and its place in the Global Stocktake. Part of the ‘Financing Climate Action: iGST Discussion Series’.

2,267,458 people, displaced 659,278 people, killed 679 people, and had a total disaster effect of US\$506.7 million, while the total cost of recovery and reconstruction was US\$680.4 million.⁴ What is however worrying is that many countries such as Malawi do not have sufficient funding for effective L&D quantification and responses hence with the increased occurrences of disasters and economic shocks, the available sources of L&D finance are underfunded. For example, globally, United Nations humanitarian appeals linked to extreme weather during the period 2017-2021 were only 54% funded on average, resulting in an estimated funding shortfall of US\$28–US\$33 billion.⁵ There is therefore an urgent need for governments to develop new programmes and policies to help with optimising available L&D funding and developing new sources of L&D finance.

The UNFCCC Conference of Parties 27 (2022) culminated in the establishment of a L&D Fund, that will among other things provide financial assistance to nations most vulnerable and impacted by the effects of climate change. Whilst the introduction of this fund is a welcome development as it can increase L&D finance disbursements to developing countries, historical evidence and financing trends on UNFCCC finance for mitigation and adaptation shows that climate finance through UNFCCC modalities has not been sufficient and accessible to address the vulnerabilities of developing countries. There is therefore still a threat that developing countries like Malawi will continue to have L&D financing gaps in the absence of national and global reforms to improve the L&D financing landscape.



The Civil Society Network on Climate Change (CISONECC) with financial support from the Scottish Government through the Scottish Catholic International Aid Fund (SCIAF) and Trocaire are implementing the L&D Action Research Project in Malawi. The project seeks to ensure the development of effective

⁴ Malawi 2023 Tropical Cyclone Freddy Post Disaster Needs Assessment, available from: https://reliefweb.int/report/malawi/malawi-2023-tropical-cyclone-freddy-post-disaster-needs-assessment-april-2023?gad_source=1&gclid=CjwKCAiAx_GqBhBQEIwAIDNAZvM-RD8pgpzoRouWYAZYasUAlb-bmnhWHx-rFrzBtgGiBmjWuJLCSxoCjeoQAvD_BwE

⁵ Oxfam (2022). Footing the Bill: fair finance for loss and damage in an era of escalating climate impacts. Oxfam briefing paper – June 2022. Oxfam International, Oxford.

recommendations on national mechanisms for L&D in Malawi, and wide dissemination of knowledge and experiences to inform the global discourse on addressing L&D. The project will therefore facilitate improvements of L&D systems in Malawi and address conceptual issues surrounding L&D.

Noting that Malawi lacks an assessment and documentation of the impacts, challenges and opportunities for L&D financing, CISON ECC engaged a consultant to undertake an “Assessment on Mechanisms for supporting Loss and Damage Financing at National Level.” This report provides a synopsis of that study to show the main L&D finance sources and instruments used across various sectors in Malawi. The report also provides insights on some technical, policy and institutional factors that warrant further attention in-order to scale-up L&D finance and improve access to international L&D sources and instruments.

This report has eight sections. Section 2 gives provides a narration on why this study is important in national and international contexts. Section 3 gives definitions and conceptualisation of L&D including L&D financing. Section 4 provides background information on the major L&D financing sources and instruments used globally. Section 5 follows by elaborating on the data collection and analysis methods used in this study, and the main financing sources and instruments that are used across various sectors and programmes in Malawi. In section 6, an analysis focusing on some innovative L&D financing approaches that can be used to scale-up domestic L&D finance in Malawi is provided. Section 7 has a focus on providing recommendations on how the landscape for mobilising L&D finance and implementing L&D programmes can be improved. Finally, the concluding remarks for the study are provided in section 8.

2 Importance of the study (L&D finance issues, challenges, and trends)

The interest in improving the mobilisation of L&D financing nationally and globally is on the rise, in large part, because of the ongoing UNFCCC discourses that are focusing on having L&D finance as the third pillar of UNFCCC climate finance, and Malawi's increasing vulnerabilities to climate impacts and disasters. The increasing occurrences of disasters is also putting pressure on the Governments of Malawi to provide a range of financing and services to ensure that communities that are adversely affected by climate change are able to maintain their livelihoods.

On the other hand, Non-Governmental Organisations (NGOs), Civil Society Organisations (CSOs) and development cooperation partners have also got vested interests in Malawi's climate change policy and financing frameworks as they initiate different projects and programmes to complement government programmes. This study can therefore serve as a report to introduce government officials, policy makers, professional practitioners, civil society, and academics to the current issues in L&D financing in Malawi.



Below are some aspects that make this study important for various state and non-state actors involved in climate change programming and L&D financing:

2.1 Decision making support

The impacts and effects that various extreme weather events and slow onset events have on countries and communities varies. The financial tools and instruments that the government and other stakeholders can use to address climate impacts and L&D therefore also vary. In this case, it is important for all stakeholders to have access to information on various financing sources and instruments across various sectors as this can guide sound financial planning, resource mobilisation and resource allocation. This report is important in the L&D financing ecosystem as it will help in L&D finance decision making by providing a compendium of how various L&D financing sources and instruments are being accessed and utilised across various sectors.

2.2 Improve understanding on climate finance transparency and monitoring

In Pandit et al (2021)⁶ it was highlighted that there is no process for systematically collecting, recording and reporting information on L&D and related financial needs by countries under the UNFCCC. Nor is there a process to clearly track and report finance associated with L&D – either by developed or developing countries, collectively or individually. However, Article 13.6 of the Paris Agreement has stipulations that the UNFCCC should create a transparency framework that can help to provide clarity on support provided and received by relevant individual Parties in the context climate change mitigation, adaptation and capacity building. With the launch of the L&D Fund, it might therefore be envisaged that countries will now be required to enhance their capacities to track and monitor L&D finance. This report is important in the L&D financing ecosystem as it will help in providing insights on existing transparency requirements for existing L&D financing sources and provide insights on how stakeholders can enhance L&D financing transparency.

2.3 Improve the enabling environment for UNFCCC climate finance modalities

The introduction of the L&D Fund has potential to raise expectations amongst various stakeholders that are implementing climate change projects that Malawi will shortly be in receipt of new streams of funding through the L&D Fund. However, when reference is made to the UNFCCC climate finance global pledge, it can be seen that developed countries are failing to meet their pledge of providing US\$100 billion a year by 2020 to developing countries. Similarly, Africa's climate change adaptation costs are rising with some estimates showing that Africa requires over US\$100 billion per year by 2050, but Africa is likely to have an enormous finance gap as UNFCCC processes and modalities might not have the capacity to mobilize resources of such a magnitude.⁷ There is therefore a threat that L&D financing through the UNFCCC and L&D Fund might not be timely and adequate when available. This report is important in the L&D financing ecosystem as it will help in providing descriptions on how Malawi's L&D institutional set up can be organised to improve the enabling environment for accessing L&D finance through both the UNFCCC and other routes.

⁶ Pandit Chhetri, R., Schaefer, L. and Watson, C. (2021) Exploring loss and damage finance and its place in the Global Stocktake. Part of the 'Financing Climate Action: iGST Discussion Series'.

⁷ Adenle AA, Ford JD, Morton J, Twomlow S, Alverson K, Cattaneo A, Cervigni R, Kurukulasuriya P, Huq S, Helfgott A, Ebinger JO (2017) Managing climate change risks in Africa – a global perspective. *Ecol Econ* 141:190–201.

2.4 Identification of options for crowding-in more L&D finance

Both the Government of Malawi and the numerous stakeholders that help in mobilising resources for disaster responses and undertaking disaster response actions are overwhelmed with the financial needs for such activities. This is evidenced from the various international appeals for funding and support, short-term borrowing and budget reallocations that the government makes following some extreme weather events. Funding for disaster responses is therefore reliant on external assistance hence usually unpredictable and untimely in most instances. The government and other stakeholders are therefore in need of advice and information on other financing options that are available to increase the availability of sufficient and predictable L&D and disaster financing. This report is important in the L&D financing ecosystem as it will identify various L&D and disaster finance instruments and innovations that can be explored in-order to increase the amount of L&D and disaster finance available in Malawi.

2.5 Stimulate discussions on funding options for NELD and slow-onset events in Malawi

Globally, over 700 thousand people have lost their lives, over 1.4 million have been injured and approximately 23 million have been made homeless as a result of disasters. Overall, more than 1.5 billion people have been affected by disasters in various ways, with women, children and people in vulnerable situations disproportionately affected. What is more worrying is that the economic and non-economic costs attributed to climate change impacts can be higher than reported since most quantifications or assessments of climate change impacts capture the economic (marketed) impacts of climate change (e.g. agricultural productivity, infrastructure damage, etc.) but omit the crucial costs related to non-economic (non-marketed) goods and services (e.g. biodiversity loss, cultural heritage, human health, etc.), and as such the non-economic goods and services go unnoticed and remain unaddressed in overall risk analyses and policymaking (see table 1).^{8,9}



⁸ Diaz, D. and Moore, F. (2017). Quantifying the economic risks of climate change. *Nature Climate Change* 7, 774-782.

⁹ Serdeczny, O.M., Bauer, S and Huq, S. (2018). Non-economic losses from climate change: opportunities for policy-oriented research. *Climate and Development* 10(2), 97-101.

Similarly, there are critical gaps in financing for slow-onset and non-economic losses, and the absence of funding for slow-onset, irreversible, and non-economic L&D was the basis for justifying the need for the creation of a dedicated mechanism for financing L&D under the UNFCCC. Stakeholders in Malawi therefore need to take a lead in assessing L&D related to NELD and slow onset events, and developing systems that can help in improving the financing for L&D related to NELD and slow onset events. This report is important in the L&D financing ecosystem as it will provide insights on any potential funding sources for NELD and slow-onset events in Malawi in-order to stimulate discussions on how Malawi can access more L&D finance for NELD and slow onset events.

Table 1: Difference between and examples of economic and non-economic losses
Source: Thomas et al., 2018¹⁰

Category of L&D	Definition	Examples
Economic	Impairment to goods and services that are traded in markets and can thus be quantified and priced	Damage to infrastructure, disruption of economic activities and livelihoods, decreased agricultural and fisheries production, decreased provision of goods and services (e.g. tourism)
Non-economic	Impairment to things that are generally not traded in markets and are thus difficult to quantify or price	Loss of life, detrimental health effects, displacement and migration of communities, loss of terrestrial territory, decreased biodiversity, decreased ecosystem services, loss of indigenous knowledge, loss of cultural heritage, loss of sense of place, decreased social cohesion

¹⁰ Thomas, A, Menke, I., & Serdeczny, O. (2018) Loss and Damage Costing and Financing Mechanisms: Caribbean Outlook. Climate Analytics. Available at: <https://climateanalytics.org/publications/2018/loss-and-damage-costing-and-financing-mechanisms-caribbean-outlook/>

3 Conceptualising and defining L&D finance

Climate change L&D is a topic that faces challenges in definitions, conceptualisation and consensus on liability. For example, in general terms, developed countries do not want legal liability for L&D suffered by developing countries and want L&D to be addressed through disaster risk reduction approaches whilst developing countries advocate for compensation from developed countries to deal with the residual impacts of climate change and L&D to be addressed through legal frameworks, liability and compensation.¹¹ Nonetheless, different countries including Malawi are in the forefront of pursuing different avenues to ensure that L&D financing is available for government and non-government L&D programmes.

Some working definitions for L&D include:

- The adverse effects of climate variability and climate change that occur despite global mitigation and local adaptation efforts; and
- The adverse impacts of human-induced climate change that cannot be avoided by mitigation or adaptation due to insufficient resources.

In other contexts, loss describes climate change impacts that are permanent and irreversible whilst damage describes impacts where reparation or restoration is possible.



¹¹ Calliari, E., Surminski, S. and Mysiak, J. (2019). The Politics of (and Behind) the UNFCCC's Loss and Damage Mechanism. In Mechler, R. et al. (eds.), Loss and Damage from Climate Change, Climate RiskManagement, Policy and Governance, https://doi.org/10.1007/978-3-319-72026-5_6.

In trying to understand how L&D occurs at household level, Warner and van der Geest (2017)¹² provided a framework focusing on how L&D can be a function of (i) mitigation efforts, (ii) livelihood context, (iii) household vulnerability profile, and (iv) household coping and adaptive capacity. As shown in figure 2, the framework on households potential L&D are also dependent on the political environment- ability of governments to protect the citizens and the country's level of economic development. Using such a framework it can be seen that the poor countries are the ones most likely to be affected by L&D by virtue of the low levels of economic development and also the ones that need the most finance for addressing L&D and development deficits.

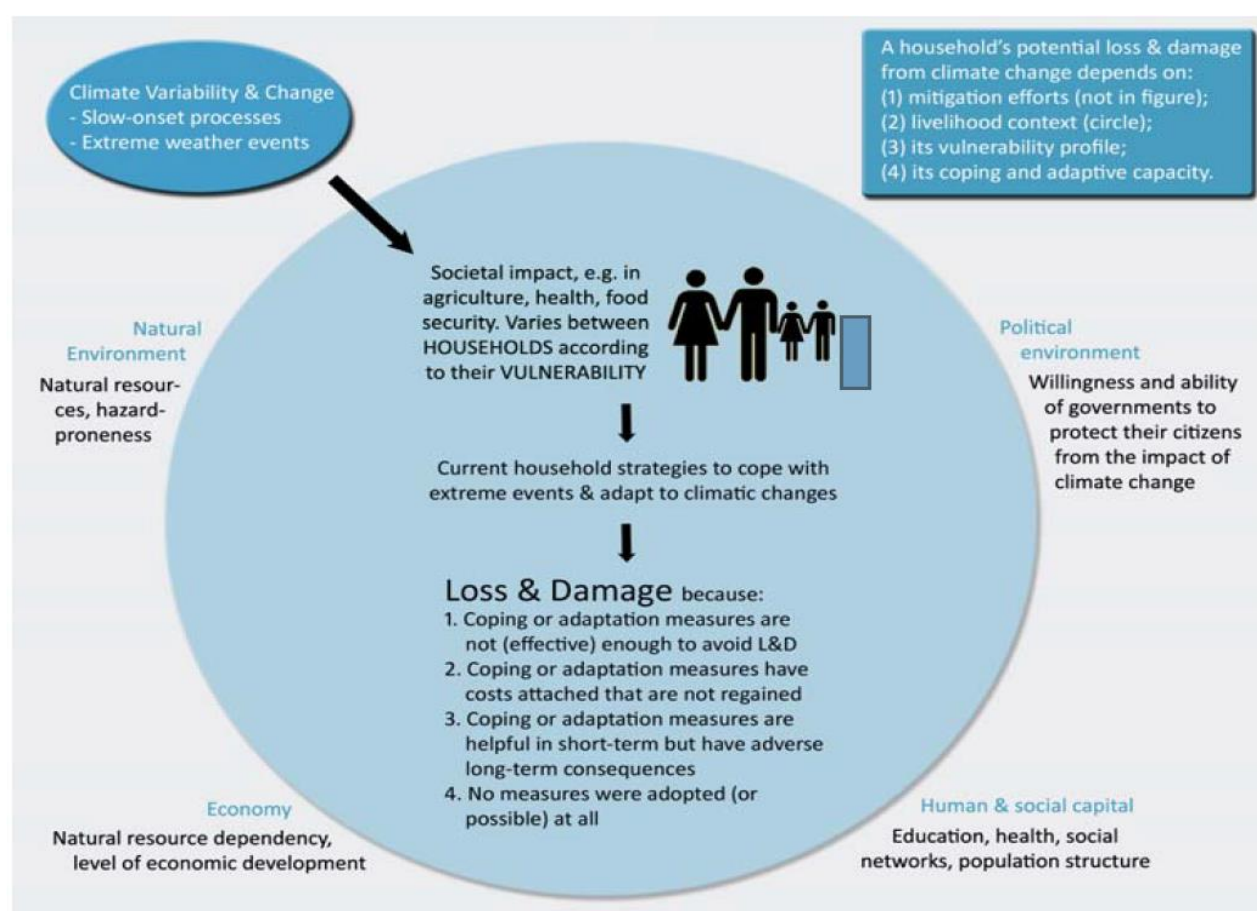


Figure 2: Household potential for loss and damage
Source: Warner and van der Geest (2013)

¹² Warner, K and van der Geest, K. (2013). Loss and damage from climate change: local-level evidence from nine vulnerable countries. *International Journal of Global Warming* 5 (4), 367-386.

In Article 8 of the Paris Agreement, it was stressed that work on L&D should have a focus on supporting cooperation and facilitation to enhance understanding, action and support for: (a) Early warning systems; (b) Emergency preparedness; (c) Slow onset events; (d) Events that may involve irreversible and permanent L&D; (e) Comprehensive risk assessment and management; (f) Risk insurance facilities, climate risk pooling and other insurance solutions; (g) Non-economic losses; and (h) Resilience of communities, livelihoods and ecosystems. Climate change L&D therefore has some overlaps with Disaster Risk Management (DRM) and Humanitarian efforts that focus on helping countries and communities to normalise their lives and livelihoods after being faced with catastrophes. Added to this, in some contexts, adaptation efforts might also seem as L&D measures, such as for example, the installation of climate early warning systems. It is therefore common for Disaster Risk Financing (DRF), Humanitarian Aid Financing, Official Development Assistance (ODA) and Climate Change Adaptation finance to be categorised as L&D finance.

There is also a need to provide some clarity on some issues or challenges that can hinder how L&D programmes are designed and financed. Table 2 provides five challenges for financing L&D as described by Pandit et al. (2021).¹³ The challenges include challenges in: (i) modelling L&D and articulating support needs; (ii) determining which countries should be prioritised for L&D finance, balancing vulnerability and respective capabilities; (iii) understanding the roles of differing sources of finance, including public and private, international and domestic, ex ante and ex post, as well as the potential for alternative sources of financing; (iv) identifying and putting in place the most appropriate actors and institutions to deliver L&D responses; and (iv) distinguishing the characteristics of L&D finance from those of adaptation, development and humanitarian financing streams. There is therefore some flexibility in what can be classified as L&D finance and some of L&D finance is mobilised from other sectors such as humanitarian aid sector and insurance.

¹³ Pandit Chhetri, R., Schaefer, L. and Watson, C. (2021). Exploring loss and damage finance and its place in the Global Stocktake. Part of the 'Financing Climate Action: iGST Discussion Series'.

Table 2 Five practical challenges for financing loss and damage

Source: Pandit et al. (2021)

Challenge	Description	Implication
The capacity to model L&D and articulate finance needs is lacking	There is no current process for systematically collecting, recording and reporting information on L&D and related financial needs by countries.	This hinders the ability of developing countries to assess the degree to which the finance available is aligned with their needs and priorities. It also challenges contributors in understanding the best routes through which to address L&D finance needs.
It is not clear which countries have the greatest need for L&D finance	The principle of prioritising countries with high vulnerability and low capacity to finance climate action could well be applied to the funding of loss and damage. However, vulnerability draws diverse justifications and interpretations in climate negotiations.	It is not clear how to balance the needs of countries with the lowest indicators of socio-economic development, income and capacity to respond with those of countries facing existential threats, such as SIDS, regardless of their current levels of socio-economic development, income and capacities.
The roles of different sources of finance in averting, minimising and addressing L&D are not clear	Where estimates of L&D finance needs exist, they are not always accompanied by an understanding of the roles of differing sources of finance – domestic, international, public and private – and how they may interact.	This challenges the ability of recipients and contributors of finance to put finance to work in the most efficient and effective ways possible. While there will be a strong role in loss and damage finance for public finance, with concessional international public finance playing a key role in the most vulnerable countries, a better consideration of different sources and the systems governing them could lead to broader systemic changes in the way that risks are managed in investment decision-making.
The current climate finance architecture does not necessarily have the right framework and expertise to programme loss and damage finance	The operating entities of the financial mechanism of the UNFCCC – the Adaptation Fund, the Global Environment Facility and the Green Climate Fund – do not have explicit mandates to fund loss and damage activities. Investment and	While some institutions and actors in the climate finance architecture may have relevant processes, knowledge and experience of how projects and programmes for loss and damage might be carried out, they do not necessarily have the full suite of knowledge needed to support an

	results frameworks currently in place largely ensure and measure outcomes from a mitigation and an adaptation perspective, while the accredited entities – through which projects are implemented – do not necessarily have expertise on L&D.	appropriate or effective L&D response.
It is hard to differentiate L&D finance from development and humanitarian finance	Despite these broadly describable characteristics, there remain challenges in identifying the boundaries between humanitarian, development and climate finance, and L&D finance therein. Activities and actions over these themes are likely to have overlaps.	While the difficulty in differentiation between finance sources reflects that there are no clear buckets to receive funding at national and subnational levels, the lack of clear definitions hinders the programming and tracking of and learning from each source of finance on its own, much less accountability to any goals and commitments.

Sudden-onset events and slow-onset events both cause L&D. However, research such as that of McNamara et al. (2021)¹⁴ and Bakhtaoui et al. (2022)¹⁵ highlighted how quantifying NELD and slow onset process is fraught with challenges such as not all losses and damages due to climate change can be quantified or compensated in economic terms, and non-economic aspects of L&D are plagued by difficulties in quantifying intangible losses. This therefore means that some assessments, evaluations and quantifications of L&D are subjective and incomplete. Nonetheless there are some approaches and activities that are generally considered to address slow onset events and NELD despite the quantification challenges. Additionally, Since Article 8.1 of the Paris Agreement makes reference to the need to avert, minimise and address L&D, there have been efforts to describe these terms and also provide context on the types of finance that can be used for these measures. This is shown in table 3 below.

¹⁴ McNamara, K.E., Westoby, R. and Chandra, A. (2021). Exploring climate-driven non-economic loss and damage in the Pacific Islands. *Current Opinion in Environmental Sustainability* 50, 1-11.

¹⁵ Bakhtaoui, I., Shawoo, Z., Chhetri, R.P., Huq, S., Hossain, M.F., Iqbal, S.M.S., Lindsay, C., Mustapha, S., Naushin, S. Schaefer, L., Schalatek, L., Sircar, A., Tahsin, K.T., Thomas, A. & Wilkinson, E. (2022). *Operationalizing Finance for Loss and Damage: From Principles to Modalities*. SEI Report. Stockholm Environment Institute, Stockholm.

Table 3: Types of activities to fund when minimising, averting and addressing loss and damage
Source: Shawoo et al. (2021)¹⁶

	Sudden-onset events	Slow-onset events
Averting loss and damage (addressed through mitigation finance)		
	Decarbonisation measures	Decarbonisation measures
	Reforestation and land use management	Reforestation and land use management
	Behaviour change	Behaviour change
Minimising loss and damage (addressed through adaptation finance)		
	Early warning system triggering effecting pre-event prevention and response actions	Forecasting and early warning triggering pre-event risk red
	Preventative building measures (retrofitting and new building codes to increase the resilience of infrastructure)	Physical risk reduction measures (e.g. dykes and sea walls)
	Contingency planning	Other risk reduction measures (e.g. climate resilient agriculture)
	Vulnerability reduction and capacity building	Vulnerability reduction and capacity building
Addressing loss and damage (as yet unfunded through climate finance)		
Economic loss and damage	Compensation and other social protection measures	Planned relocation/assisted migration
	Short and long-term recovery and rehabilitation	Reskilling and alternative livelihoods provision
	Rebuilding damaged infrastructure	Compensation and other social protection measures
	Planned relocation/assisted migration	
	Support for rebuilding livelihoods	
	Insurance and risk transfer	
Non-economic loss and damage	Recognition and repair of loss (whether or not accompanied by financial payment)	Recognition and repair of loss (whether or not accompanied by financial payment)
	Enabling access/safe visits to abandoned sites	Enabling access/safe visits to abandoned sites
	Active remembrance (e.g. through museum exhibitions, school curricula)	Active remembrance (e.g. through museum exhibitions, school curricula)
	Counselling	Counselling
	Official apologies	Official apologies

¹⁶ Shawoo, Z., Maltais, A., Bakhtaoui, I. and Kartha, S. (2021). Designing a fair and feasible loss and damage finance mechanism. SEI briefing paper October 2021. Stockholm Environment Institute, Stockholm.

Lastly, it is important to explain the climate change impacts or L&D triad of avoided, unavoided and unavoidable L&D. According to Yaguma (2023)¹⁷:

- (i) Avoided losses and damages can and will be averted or minimised through mitigation efforts, adaptation interventions and effective disaster risk reduction techniques (for example, changing crop varieties to accommodate increasing temperatures or planting mangroves to slow down coastal erosion),
- (ii) Unavoided losses and damages are risks that have not or could not have been avoided due to resource or capacity constraints but where there was, at some stage, the possibility of doing things differently to avoid loss, and
- (iii) Unavoidable losses and damages are risks and impacts that go beyond existing mitigation and adaptation measures.

The L&D triad provided here signifies that the extent of L&D/irreversible L&D significantly depends on mitigation and adaptation efforts, where efforts can either avoid climate change impacts or, where not sufficient or unsuccessful – whether due to technical, financial or political constraints and limits – lead to unavaoided or unavoidable L&D. This triad is explained in table 4 and figure 3 below.

Table 4 Avoided, unavaoided and unavoidable loss and damage

Source: Verheyen, 2012¹⁸

Avoided Avoidable damage and loss avoided	Unavaoided Avoidable damage and loss not avoided	Unavaoidable Unavaoidable damage and loss (irreversible)
Damage prevented through mitigation and/or adaptation measures	Where the avoidance of further damage was possible through adequate mitigation and/ or adaptation, but where adaptation measures where not implemented due to financial or technical constraints	Damage that could not be avoided through mitigation and/or adaptation measures: -slow-onset changes such as sea level rise, glacial melting -damage due to extreme events where no adaptation efforts would have helped prevent physical damage

¹⁷ Yaguma, P., Chin-Yee, S., Vanhala, L., Maslin, M., Taylor, R., Parikh, P., Roberts, C., and McGlade, J. A sectoral approach to the Loss and Damage fund: exploring potential applications and guiding principles, UCL Open Environment.

¹⁸ Tackling loss and damage: a new role for the climate regime? Bonn: Germanwatch (http://www.geo.uzh.ch/~chuggel/files_download/phd_colloquium/verheyen_tackling_loss_damage_cdkn12.pdf).



Figure 3: Averting, minimising and addressing loss and damage
Source: Schäfer et al., (2021)¹⁹

¹⁹ Schäfer, L., Jorks, P., Seck, E. et al. (2021). National and international approaches to address loss and damage from slow-onset processes: status quo, challenges, and gaps. Germanwatch, Bonn.

4 Global perspectives on contexts, sources and instruments for L&D finance

This section focuses on explaining how Climate Change Adaptation Finance, Humanitarian Aid, Insurance, DRF and Social Protection are utilised as sources and instruments for L&D financing. Reference can be made to figure 3 which describes how mitigation, adaptation and risk reduction measures tackle avoidable L&D whilst curative and transformational measures to address L&D tackle unavoided and unavoidable L&D. It is therefore not uncommon for mitigation, adaptation and risk reduction measures to also be considered as L&D financing in some contexts, rather than considering L&D finance to only encompass financing for unavoidable losses and damages.



4.1 Climate Change Adaptation Finance

Measures implemented to facilitate climate change adaptation are adding financial burdens to both central governments and local governments. In some cases, the additional costs of adaptation mean that governments under-invest in other areas or streamline their budgets so that increasing funding for adaptation should not be at the expense of other services. It is therefore always a priority of governments to determine or design how adaptation costs can be financed through existing budgets or other means.

Some well known adaptation actions that require financing include: (i) assessments of vulnerability, risk, and adaptive capacity; (ii) installation of early warning systems and associated public education; (iii) modification to the proposed design of an investment, resulting in increased construction expenses; and (iv) conferences, workshops, and trainings for communities and other stakeholders.

Developing countries generally have challenges in accessing climate finance for adaptation programmes despite the existence of numerous climate finance

funding streams through the UNFCCC and other funding modalities. Some general reasons why developing countries have not been able to access sufficient climate finance for adaptation include restrictive access requirements and a bias towards mitigation projects. Added to this, the global pledge for developed countries to provide at least US\$100 billion annually in climate finance has not yet been attained. This therefore brings new threats that whilst climate change adaptation finance can support various L&D measures, the existing problems that climate finance modalities have in mobilising and disbursing finance to developing countries will continue to hinder the impact that adaptation finance could have on averting and minimising L&D.

For more information on climate change adaption funding opportunities available to both state and non-state actors, reference can be made to the Climate Finance Options website -<http://www.climatefinanceoptions.org>.

4.2 Disaster Risk Finance (DRF)

The Sendai Framework is an international agreement that lays out clear responsibilities, targets and priorities for reducing global disaster risk. The Sendai Framework's goal is to reduce existing disaster risk and prevent new risks from arising. Many governments around the World have therefore set up their DRM and DRF policies and programmes to achieve the goals of the Sendai Framework. The Sendai Framework makes reference to the need to invest in DRR for resilience and enhance preparedness hence these are also aspects that have links to L&D response measures.

Figure 4 provides a framework of how various sources of DRF are intertwined for post disaster financing and figure 5 provides an illustration of the available insurance instruments available under L&D finance. Both figure 4 and figure 5 help to explain how financing for DRR actions sometimes focuses on fast responses to disasters, building resilience ex ante and building back better. Also on figure 5, there is an illustration of how governments can create a portfolio of risk financing instruments for risk retention and risk transfer covering different stages of disasters and risks.

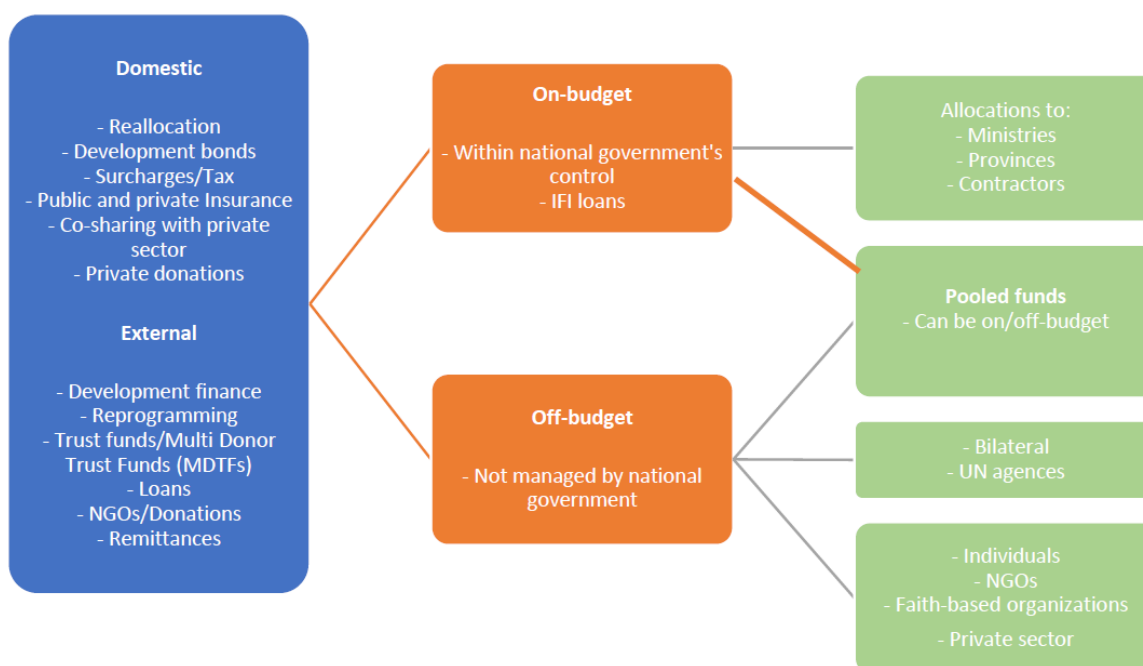


Figure 4: Framework on financing sources for DRF for state and non-state actions

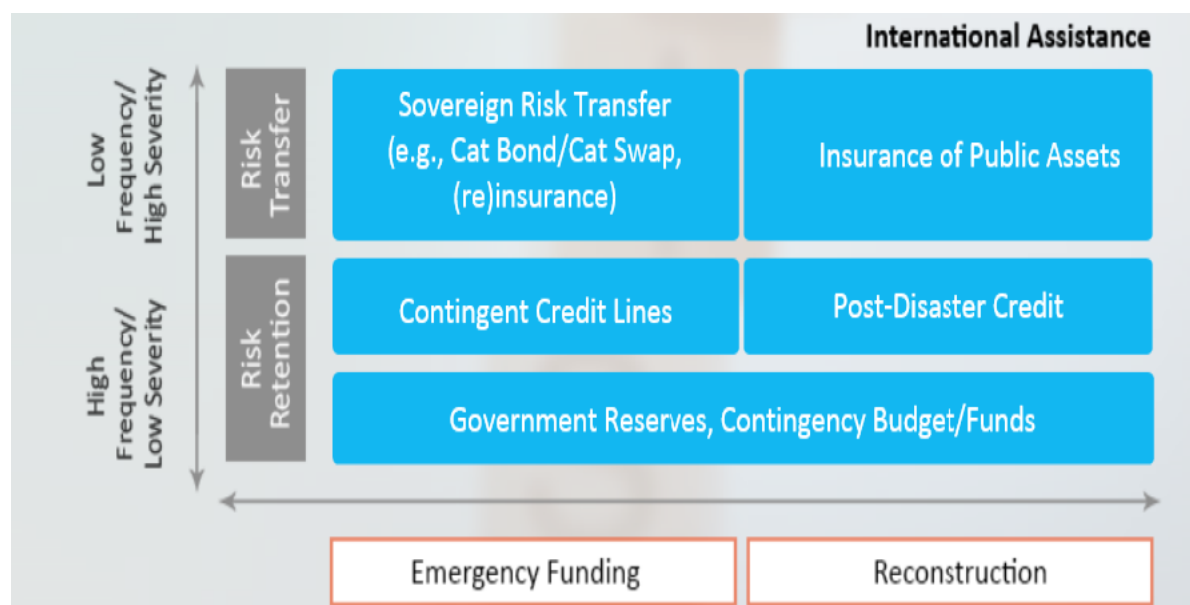


Figure 5: Risk financing instruments for disaster settings

Source: Government of Malawi (2019)²⁰

²⁰ Government of Malawi (2019). Disaster Risk Financing Strategy and Implementation Plan (2019-2024). Ministry of Finance, Economic Planning and Development, Lilongwe.

DRR and climate change adaptation actions and measures sometimes share various similarities in approaches to make communities and infrastructure more resilient to climate change. Table 5 provides some differences and areas of convergence for DRR and climate change adaptation. The table can be used to provide clarification on how L&D programmes can tap into DRR and climate change adaptation systems in-order to increase impact and create synergies.

Table 5: Initial Differences and Areas of Convergence between Disaster Risk Reduction (DRR) and Climate Change Adaptation
Source: World Bank (2011)²¹

Differences		
Disaster Risk Reduction	Climate Change Adaptation	Areas of Convergence
Relevant to all hazard types.	Relevant to climate-related hazards.	
Historically focused on humanitarian assistance following a disaster event; increasingly focused on prevention, mitigation and preparedness, including changes to development processes.	Historically rooted in scientific theory.	Climate change adaptation (CCA) specialists now recruited from engineering, water and sanitation, agriculture, health, and DRR sectors. Both DRR and CCA need to be mainstreamed into development decision processes.
Most concerned with the present—i.e., addressing existing risks.	Most concerned with the future—i.e., addressing uncertainty/new risks.	DRR increasingly forward-looking. Existing climate variability is an entry point for climate change adaptation.
Traditional/indigenous knowledge at community level is one basis for preparedness and resilience.	Traditional/indigenous knowledge at community level may be insufficient for resilience against types and scales of risks that are yet to be experienced.	Examples where integration of scientific and traditional knowledge for DRR provide learning opportunities.
Structural measures designed for safety levels modeled on current and historical evidence and risk tolerance.	Structural measures designed for safety levels modeled on predicted changes, current and historical evidence, and risk tolerance. Some adaptation measures might address maladaptation from initial responses to disasters that are not sustainable or cost-effective in the long term.	DRR increasingly forward-looking in design of structural measures and safety standards.

²¹World Bank (2011). Guide to Climate Change Adaptation in Cities. The World Bank, Washington DC

Traditional focus on vulnerability reduction and societal preparedness.	Traditional focus on reduction of physical exposure through infrastructure investments (for example, sea walls).	There is an increasing focus in climate change adaptation on community focused vulnerability assessments that include measurement and improvement of social resilience.
Community-based process stemming from experience, technical inputs, and external support.	Community-based process stemming from policy agenda.	Communities do not tend to differentiate between current and projected risks, presenting an opportunity to build resilience to both at the same time.
Full range of established and developing tools (for example, legislation and institutional arrangements, early warning systems, insurance, building design codes, siting, and ecosystem protection).	Limited range of tools under development, evolving and expanding rapidly.	Increasing recognition that more adaptation tools are needed, especially those that leverage DRR experience.
Political and widespread recognition often quite weak.	Political and widespread recognition increasingly strong.	Climate-related disaster events are now more likely to be analysed and debated with reference to climate change.
Funding streams <i>ad hoc</i> and insufficient.	Funding streams dedicated but still small relative to the problem.	DRR community engaging in climate change adaptation funding mechanisms.

4.3 Humanitarian Assistance

Humanitarian assistance can be provided through multilateral and bilateral arrangements as grants or in-kind support. Humanitarian assistance can also be packaged as part of the overall ODA package in bilateral arrangements. Some NGOs are also intermediaries in that they provide humanitarian assistance with funding from donations and/or public finance from developed countries.

Oxfam and the United Nations have put forth two trends in the disbursement of ODA and humanitarian assistance that have implications on the extent to which ODA and humanitarian assistance may be regarded as sustainable sources of L&D finance. Firstly, United Nations humanitarian appeals linked to extreme weather are eight times higher today than they were 20 years ago and that over the past five years, United Nations humanitarian appeals linked to extreme weather were only 54% funded on average, resulting in an estimated funding shortfall of US\$28–US\$33 billion.²² Similarly, rather than developing countries increasing their contributions towards climate finance targets and ODA targets,

²² Oxfam (2022). Footing the Bill: fair finance for loss and damage in an era of escalating climate impacts. Oxfam briefing paper – June 2022. Oxfam International, Oxford.

the actual case is that in some circumstances, ODA commitments are being reduced or being repackaged as part of climate finance. These issues mean that in real terms, funding available through ODA and humanitarian assistance is not increasing to be commensurate with the growing numbers of disasters and programmes that need financing and L&D support.

4.4 Insurance

The insurance sector has a variety of products that can address various scales and types of losses and damages for individuals, public institutions, and private entities. At national or regional level, risk pooling allows risk holders to spread their risk over larger geographical areas by aggregating risks across large areas so that climate-related losses and damages in one area will be offset by relatively minor losses and damages in another. At household level, insurance can also be obtained for the protection of important assets such as crops, houses and livestock. Insurance can therefore ensure that affected households or countries are compensated and not left destitute after a disaster.



Some best practice on insurance and risk management instruments include the World Bank's catastrophe bond issuance platform, the MultiCat programme, which allows developing country governments to use a standard framework to buy parametric insurance on affordable terms.

Insurance is an instrument to provide finance hence requires various intermediaries as sources of the premiums and subsidies to make insurance more accessible, especially to low-income households. Discussions and disagreements on insurance in the L&D sector have therefore focused on how insurance can be deployed at a larger scale in developing countries and which

parties should be responsible for arranging insurance and paying insurance premiums.

Another important issue focuses on the low penetration of insurance in developing countries since insurance is more widely used in developed countries than developing countries. This is illustrated in Linnerooth-Bayer et al. (2019)²³ where it was reported that the percentage of losses from natural hazards covered by private or public insurance in 2014 in the U.S.A. and Europe were 42% and 34%, respectively, compared to only 1.4% in Africa and 12.5% in Asia.

So, whilst progress in collecting and analysing data to help with making projections on potential disaster risks has helped with making insurance more affordable through parametric insurance products, more strides are required to help with increasing access to insurance products for the most vulnerable in developing countries.

²³ Linnerooth-Bayer, J., Surminski, S., Bouwer, L.M., Noy, I. and Mechler, R. (2019). Insurance as a Response to Loss and Damage? Mechler et al. (eds.), Loss and Damage from Climate Change, Climate Risk Management, Policy and Governance. Pp 483-512.

5 Malawi's L&D Financing Landscape

5.1 Data collection and stakeholder engagement approach

This study aims to identify some of the L&D finance instruments that are in use in Malawi across various sectors. The study adopted mostly four approaches to collect data and engage stakeholders. The main methods and approaches for data collection and stakeholder engagement for the study included:

- (i) Comprehensive literature review- an extensive review of relevant documents and literature related to the policy and implementation of L&D financing locally and globally to determine the adequacy of mechanisms for mobilising and disbursing L&D financing;
- (ii) Key-informant semi-structured interviews- discussions and engagements with experts from different sectors that have an influence on L&D policy design and programme implementation. The key informants provided their perspectives on the L&D financing sources and instruments used in their sector and insights on other pertinent national and international policy discourses on how L&D financing can be improved.
Table 6 provides a list of the sectors engaged for input in the study;
- (iii) Case study analysis- an analysis of how various L&D finance instruments have been used and impact they are having based on the literature and engagements with various stakeholders; and
- (iv) Key-expert input/peer review at a validation workshop. (Pending)

Table 6: L&D financing stakeholders by sector

1	Climate Change Adaptation	9	Disaster Risk Management
2	Humanitarian Aid	10	Official Development Assistance (ODA)
3	Insurance	11	Environmental Management
4	Health	12	Financial Services
5	Agriculture	13	Heritage and Culture
6	Biodiversity and Ecosystem Services	14	Gender Equality and Inclusion
7	Economic Development	15	Migration and Displacement
8	Education		

5.2 Categories and types of L&D financing in Malawi

L&D is an issue that is recognised at different degrees in various sectors and in different programmes. After an analysis of the data collected, the various instruments and sources of L&D finance were disaggregated into ten types/categories of L&D financing based on how various stakeholders are accessing, mobilising and utilising finance for their L&D programmes.

The categories identified are (i) Climate Finance (mitigation, adaptation and capacity building), (ii) Project Finance (for L&D, poverty alleviation and livelihood security), (iii) Insurance, (iv) Humanitarian Assistance/ODA, (v) DRF; (vi) Government of Malawi Resources, (vii) Private Sector Finance, (viii) Biodiversity Finance, (ix) Contingency Finance, and (x) Social Protection.

It has to be pointed out that these categories are not mutually exclusive as these categories are sources of finance in some contexts and in other contexts can be disbursement channels. For example, the Government of Malawi can implement a project using financing that they have accessed through climate finance modalities. In this case, we can classify the L&D financing as Government of Malawi resources finance because the government system has been used for developing the proposal and disbursing the finance at implementation. Other scenarios include: (i) the Government of Malawi using taxes and donations from the private sector to undertake DRM activities, hence the L&D finance being categorised as Government of Malawi Resources finance (rather than DRF or private sector financing), and (ii) international aid organisations and NGOs receiving financing from ODA allocations from donor countries which is channelled as project finance in various programmes in Malawi, hence the L&D finance being categorised as project finance (regardless of it being provided because of bilateral and ODA commitments).

Such distinctions can only be made on a case by case basis, hence for clarity, the categories have been provided to offer the main distinctions between L&D financing based on sources and disbursement channels.

Table 7 is based on Article 8.4 of the Paris Agreement which suggests eight L&D priority areas in need of understanding, action and support. The areas include (i) Early warning systems; (ii) Emergency preparedness; (iii) Slow onset events; (iv) Events that may involve irreversible and permanent loss and damage; (v) Comprehensive risk assessment and management; (vi) Risk insurance facilities, climate risk pooling and other insurance solutions; (vii) Non-economic losses; and (viii) Resilience of communities, livelihoods and ecosystems.

Table 7 has been provided to show (i) how the various instruments and sources of L&D finance used by various stakeholders in Malawi are tackling or focusing on Article 8.4 priorities, (ii) which instruments and sources of L&D finance can be selected to tackle Article 8.4 priorities, and (iii) to show which Article 8.4 priorities are receiving the most or least attention in programmes and L&D financing.

Table 7: Malawi' L&D financing framework

		Early warning systems	Emergency preparedness	Slow onset events	Events that may involve irreversible and permanent loss and damage	Comprehensive risk assessment and management	Risk insurance facilities, climate risk pooling and other insurance solutions	Non-economic losses	Resilience of communities, livelihoods and ecosystems
01	Climate Finance (mitigation, adaptation and capacity building)	Yes (minimise and avert L&D)	Yes (minimise and avert L&D)			Yes (minimise and avert L&D)	Yes (minimise and avert L&D)		Yes (minimise and avert L&D)
02	Project Finance for L&D, poverty alleviation and livelihood security	Yes (minimise, avert and address L&D)		Yes (minimise, avert and address L&D)	Yes (minimise, avert and address L&D)			Yes (minimise, avert and address L&D)	Yes (minimise, avert and address L&D)
03	Insurance					Yes (address L&D)	Yes (address L&D)		Yes (address L&D)
04	Humanitarian Assistance/ODA	Yes (minimise and avert L&D)	Yes (minimise and avert L&D)			Yes (minimise and avert L&D)			Yes (minimise and avert L&D)
05	Disaster Risk Finance (DRF)	Yes (minimise and	Yes (minimise			Yes (minimise	Yes (minimise and		Yes (minimise

		avert L&D)	and avert L&D)			and avert L&D)	avert L&D)		and avert L&D)
06	Government of Malawi Resources	Yes (minimise and avert L&D)	Yes (minimise and avert L&D)			Yes (minimise and avert L&D)	Yes (minimise and avert L&D)		Yes (minimise and avert L&D)
07	Private Sector Finance								Yes (minimise and avert L&D)
08	Biodiversity Finance			Yes (minimise, avert and address L&D)	Yes (minimise, avert and address L&D)	Yes (minimise, avert and address L&D)		Yes (minimise, avert and address L&D)	Yes (minimise, avert and address L&D)
09	Social Protection			Yes (minimise and address L&D)					Yes (minimise and address L&D)
10	Contingency Finance				Yes (address L&D)				Yes (address L&D)

5.3 Climate Finance (mitigation, adaptation and capacity building)

Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation, adaptation, capacity building and technology transfer actions that will address climate change. Some of the prioritised sectors for climate change mitigation and adaptation include: agriculture (e.g. irrigation, development of drought tolerant seeds), energy (renewable energy and energy efficiency), forestry (resilient landscapes, afforestation and natural regeneration), water, waste, transport, and fisheries.

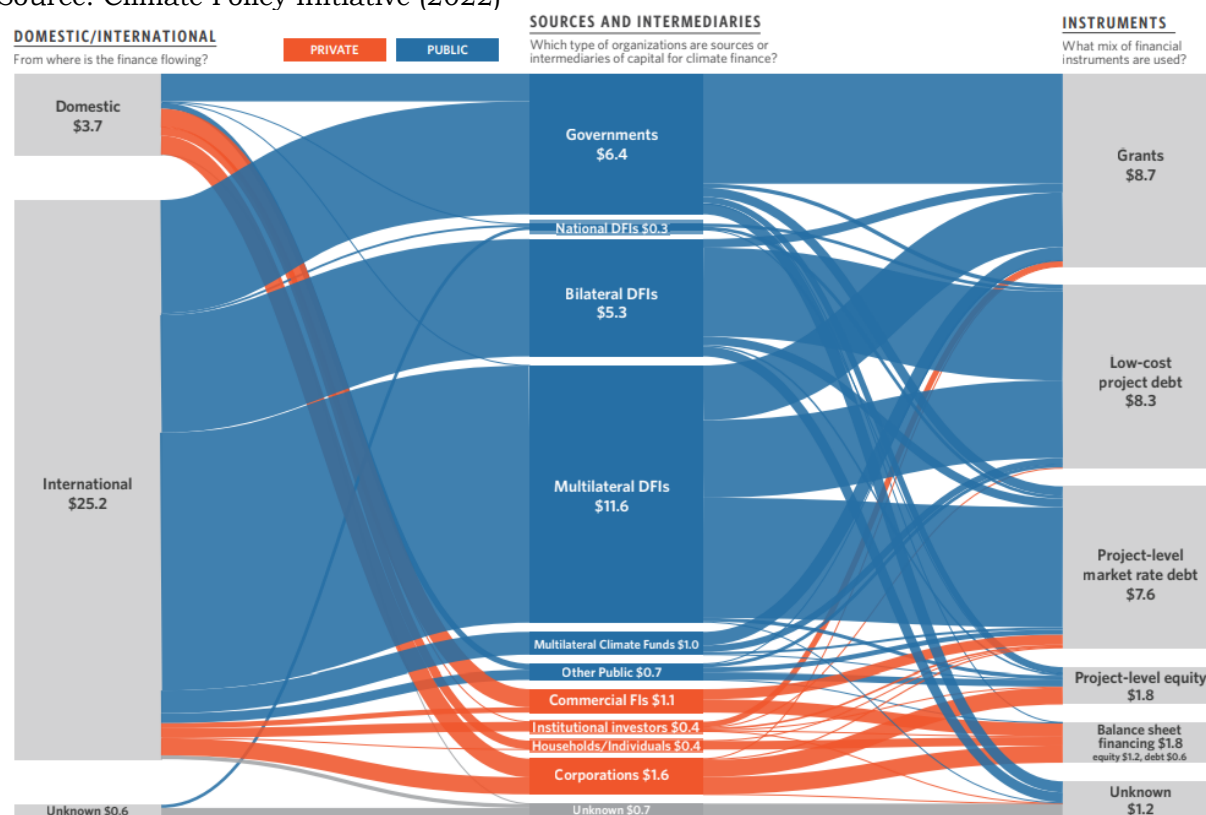
Climate finance sources include funding through UNFCCC modalities such as the Green Climate Fund (GCF), the Adaptation Fund and the Least Developed Countries Fund (LDCF); and funding through other multilateral funders such as the World Bank, the Global Environmental Facility (GEF) and the African Development Bank (AfDB).

The 2022 Landscape of Climate Finance in Africa showed that Africa needs US\$277 billion annually to implement its NDCs and meet 2030 climate goals but annual climate finance flows in Africa stand at only US\$29.5 billion.

Figure 6 shows the complex web of the main actors and sources of climate finance including the values of climate finance that they provided in Africa in 2019/2020.

Figure 6: Climate finance flows in Africa, 2019/2020 (USD billion)

Source: Climate Policy Initiative (2022)²⁴



Most climate change programmes in Malawi are financed by bilateral and multilateral financing instruments. This means that private sector financing for climate action is low despite various opportunities for climate positive action from the private sector. Some examples of practical private sector climate positive actions could be in the form of Corporate Social Responsibility, financing and investment in climate positive businesses and changing business models and practices to become climate positive.

Malawi has accessed funding from the GCF, Adaptation Fund and LDCF. Some projects include: (i) Scaling Up of Modernized Climate Information and Early Warning Systems in Malawi (total cost of US\$16.2m (US\$12.3m GCF grant; co-financing Government of Malawi US\$2.2 & US\$1.8m United Nations Development Programme (UNDP)) and (ii) Climate Investor One – financing to develop renewable energy projects in regions with power deficits to reduce energy costs and carbon dioxide emissions. (total project financing US\$821.5; GCF grant US\$100m). Another important climate change project was financed

²⁴ Climate Policy Initiative (2022). Landscape of Climate Finance in Africa.

through the Adaptation Fund and is titled “Adapting to climate change through integrated risk management strategies and enhanced market opportunities for resilient food security and livelihoods.”

Different stakeholders such as international NGOs; bilateral and multilateral institutions; development banks; United Nations programmes; academic institutions; the private sector and various non-state actors have the liberty to access different climate finance sources and funds in-order to implement appropriate projects.

Most climate finance projects in Malawi are for mitigation and adaptation therefore they provide L&D financing for minimising and averting L&D.

5.4 Disaster Risk Finance (DRF)

DRF encompasses various risk financing tools that can help with the financial management of disaster risks. DRF can apply to the five phases of disaster management namely:

1. prevention- focusing on preventing hazards from occurring, (developing evacuation plans and improving design standards);
2. mitigation- efforts to reduce loss of life and property by lessening the impact of disasters and emergencies;
3. preparedness- the continuous cycle of planning, organising, training, equipping, exercising, evaluating and taking corrective action;
4. response- reactions to the occurrence of a catastrophic disasters or emergencies (e.g. actions which are aimed at saving lives, reducing economic losses and alleviating suffering such as evacuating threatened populations, opening shelters and providing mass care); and
5. recovery- activities that continue beyond the emergency period to restore critical community functions and begin to manage stabilisation efforts (e.g. restoration of basic services and the repair of physical, social and economic damages including financial assistance to individuals and governments, rebuilding of roads and bridges). This can therefore encompass disaster insurance, regulatory measures, subsidies, investments in risk reduction, and various approaches supporting financial protection among vulnerable populations.

The Malawi Disaster Risk Financing Strategy and Implementation Plan (2019-2024) highlights the following as the ex-ante and ex-post instruments that the Government of Malawi utilises to address various disasters and emergencies.

Ex-ante instruments:

- A contingency budget line – the Vote of Unforeseen Expenditure: The annual appropriation to the Vote of Unforeseen Expenditure does not exceed 2% of the total expenditure budget. Furthermore, allocations to the Vote can be used for other unforeseen circumstances which are not related to disaster risk management.
- Strategic Grain Reserve (SGR). The government allocates resources to the National Food Reserve Agency (NFRA) to stock the SGR with staple grain. The drawdown is done as and when necessary to mitigate the impact of potential disaster related shocks.
- Sovereign insurance against weather-related risk. The Government has purchased sovereign risk transfer against weather related shocks in the past.

Ex-post instruments:

- Budget reallocations: In the event of a disaster, Government postpones other sectoral programs, projects, and activities and reallocate the resources to disaster related activities.
- Post disaster borrowing: Government borrows both domestically and internationally to finance post disaster related programs thereby increasing the national debt burden.
- External assistance: Development partners play an important role in financing disaster mitigation, response and recovery activities.
- Post-Disaster Support: In the aftermath of disasters, government provides a standard food basket to affected households to support their livelihoods.
- Scalable Social Protection: Government is implementing social protection programmes to uplift the lives of poor and vulnerable households.

Financing for disasters through government resources is usually inadequate. There are therefore various donors and NGOs that provide supplementary finance for DRF.

DRF has tools and instruments to address the various phases of disasters, hence Malawi's DRF modalities be it through government mechanisms or non-state actors mainly cover minimising and averting L&D. Whilst Malawi's DRF

modalities have scope to address L&D (unavoidable L&D), the lack of research and impact assessments on unavoidable L&D and NELD means that the current measures implemented by most stakeholders are not significantly focused on tackling (unavoidable L&D).

5.5 Government of Malawi Resources Financing

The Government of Malawi plays different roles in financing L&D measures and programmes. Some of these roles include: (i) collecting various taxes and directing the funds from taxes to sectors in need of support or development, and (ii) developing L&D related projects.

Some projects that the government has implemented in collaboration with various other organisations and development cooperation partners include:

- (i) the Malawi Floods Emergency Recovery Project- this project aimed to sustainably restore agricultural livelihoods, reconstruct critical public infrastructure to improved standards in the flood-affected districts, and improve the Government of Malawi's disaster response and recovery capacities (stakeholders- World Bank and the Government of Malawi);
- (ii) the Japan – Malawi - UNDP Partnership for Inclusive Disaster Recovery Initiative;
- (iii) the Post Cyclone Idai and Kenneth Emergency Recovery and Resilience (PCIREP) Project- (stakeholders- the Government of Malawi and AfDB);
- (iv) M-CLIMES Project (Scaling-Up the use of Modernised Climate Information and Early Warning System (stakeholders- the Government of Malawi, UNDP and GCF funding);
- (v) Malawi Resilience and Disaster Risk Management Project (MRDRMP) (stakeholders- the Government of Malawi and World Bank); and
- (vi) Post Cyclone Idai Emergency Recovery and Resilience Programme (PICREP) for Malawi, Mozambique and Zimbabwe (stakeholders- the Government of Malawi and AfDB).

In other roles, the government employs various staff and experts in-order to ensure that at most levels of the country, there are experts in L&D related fields such as DRM, environmental management, etc.

The government, through the Department of Disaster Management Affairs (DoDMA) also plays a vital role of coordinating national activities related to mobilising financing for disasters and emergencies, and creating policies that help with addressing the challenges experienced in DRM programming.

The other interventions and funding initiated by the government are covered under DRF.

Government of Malawi resources and financing cover a wide spectrum of L&D issues mainly related to minimising and averting L&D. The limited financial and technical resources that the government has for responding to disasters and preparing for disasters also means that the government does not have sufficient capacity to assess the extent of unavoidable losses and damages and initiate specific measures and funding streams for addressing (unavoidable) losses and damages.

5.6 Insurance

Insurance is a form of risk transfer financing used in both developing and developed countries as part of an integrated climate and disaster risk management approach. Insurance products and instruments allow one party (the insured or policyholder) to transfer the risk of future economic losses to a second party (the insurer) willing to bear this risk for the payment of a premium. By transferring the risk *ex ante*, insurance clients are guaranteed payments for the agreed upon losses and damages from events *ex post*. In this way insurance, as one of a number of *risk financing* instruments, provides reimbursement in return for the payment of a premium such that households, businesses, governments and whole regions can recover in a timely way from the damages from extreme events.

Malawi has experience with both private insurances for households and businesses and sovereign insurance where the government buys insurance for certain risks and regions.

Disaster risk insurance, which can include agricultural insurance, property catastrophe risk insurance, and social protection can increase the financial response capacity of national and sub-national governments to secure cost-effective access to adequate funding for emergency response, reconstruction, and recovery

Some insurance trends include NGOs buying insurance as a means of protecting farmers and banks in agriculture projects. As for sovereign insurance, some successes in this field include drought-affected households in Malawi/the

Government of Malawi receiving a US\$14.2 million insurance pay-out through the African Risk Capacity (ARC) Limited in June 2022.²⁵

Insurance has many roles to play in the L&D finance sector but it has to be emphasised that insurance is poorly suited to slow-onset processes but is appropriate where liquidity is important after a disaster and addressing L&D.

Insurance is re-active to emergency and disaster events hence insurance provides L&D financing for addressing L&D.

5.7 Private Finance

Private sector financing is from diverse sources such as: private household donations to disaster appeals; businesses using Corporate Social Responsibility to support infrastructure development and social services provision in communities; private philanthropies and charities; financial institutions offering commercial and concessional loans which can facilitate the development of projects and businesses related to infrastructure development, livelihoods, health; etc.

Private sector organisations can also secure funding from development banks to implement projects that can have a bearing on L&D measures.

Current private sector responses and activities in the L&D sector are more aligned to supporting social services, environmental management and poverty alleviation hence minimise and avert L&D.

5.8 Project Finance for L&D, poverty alleviation and livelihood security

Project finance is available to government departments, research institutions, NGOs, CSOs and the private sector to implement various initiatives and programmes. Project finance is also flexible as it can cover both research projects and real context projects tackling particular themes and/or supporting the government and vulnerable communities.

Very few projects directly deal with understanding and tackling unavoidable L&D. For example, the Scottish Government through Scottish Catholic International Aid Fund (SCIAF) are providing financial support to CISONECC,

²⁵ Malawi gets \$14m drought pay-out from ARC. <https://www.reinsurancene.ws/malawi-gets-14m-drought-pay-out-from-arc/>

Trocaire and Church of Action in Relief and Development (CARD) to undertake the Loss and Damage Action Research Project. This project has a sole focus on investigating L&D themes such as community vulnerability to L&D and L&D awareness across various stakeholders.

On the other hand, climate change is generally seen as a crosscutting issue hence projects in sectors such as health, agriculture and livelihood security sometimes have components related to climate change resilience.

Project finance also provides an opportunity for more work on L&D to be undertaken once the right modalities or funding sources for the projects are identified. The main issue is therefore ensuring that the developed countries prioritise L&D in their international assistance and Research and Development budgets so that there are various options for Malawian organisations or international NGOs to access L&D finance.

Current project finance programmes and activities in the L&D sector have aspects of minimising, averting and addressing L&D.

5.9 Contingency finance

Contingency finance encompasses a broad range of funds or secured loans from multilateral finance institutions set aside for the purpose of managing climate-related L&D before the disaster occurs to enable countries to disburse funds faster in the wake of an emergency. Contingency finance instruments include disaster relief funds, restoration funds with preferential interest rate, contingent credit, voluntary budget allocations and microcredit.

In the wake of growing disasters and emergencies, some programmes include extra finances or contingency finances on top of strictly necessary funds, in case of cost overruns or unforeseen circumstances such as unpredictable climate-related disasters. During climate-related disasters, contingency finance can also be used to extend existing low-level resource coverage to benefit a larger number of people, such as topping up on cash transfers or other social cash transfer mechanisms.

The World Bank has also made strides in creating contingency finance structures that can help developing countries to finance L&D. In this case:

(i) Catastrophe Deferred Drawdown Options (Cat-DDOs): this instrument aims to provide immediate liquidity following a disaster with requirements for a risk

reduction policy program. As a contingent financing instrument, Cat-DDOs provide budget support after major natural catastrophes.

(ii) Contingent Emergency Response Component (CERC): this is an ex ante mechanism available to borrowers to gain rapid access to World Bank financing to respond to an eligible crisis or emergency. CERCs allow for the rapid reallocation of uncommitted funds towards urgent needs in the event of a crisis or an emergency. CERCs are embedded in a programme or project hence the funds can be provided quickly to the borrower during an emergency without the need for approval for restructuring the project or programme.

The government of Malawi, through the Disaster Risk Management Act (2023) has provisions for the establishment of a Disaster Risk Management Trust Fund (DRMTF) which can help in pooling and mobilising financing to help with disaster preparedness, reduction response and recovery. In the current set up, the government's budget has 2% of the expenditure budget allocated for various unforeseen expenditures related to disasters and other aspects. The DRMTF can be better suited to addressing Malawi's disasters and L&D since it will enable donors, the private sector and other parties to directly provide financing to the Fund and provide un-earmarked resources (contingent funds) that can address the various financial gaps for disaster management programming.

Contingency funds are now being incorporated in various bilateral, multilateral and project finance programmes with the aim of keeping programmes on track despite emergencies and disasters hence they can be considered as L&D financing for addressing L&D.

3.10 Biodiversity Finance

The Biodiversity Finance Initiative (BioFin)²⁶ is a global initiative launched in October 2012 by the UNDP to respond to the need for detailed national-level analysis regarding biodiversity finance and boost the mobilisation of financial resources for parties to the Convention on Biological Diversity (CBD) to achieve the Aichi Targets. BioFin is present in 40 countries and working with governments, CSOs, vulnerable communities, and the private sector to catalyse investments in nature. The implementation of the BioFin in Malawi started in 2019. BioFin Malawi aims to support the development of a comprehensive

²⁶ UNDP (United Nations Development Programme) (2018) The biodiversity finance initiative workbook 2018: finance for nature. UNDP, New York. Available from: <https://www.biofin.org/knowledge-product/biofin-2018-workbook>

resource mobilisation strategy for the implementation of the National Biodiversity Strategy and Action Plan (NBSAP).

Biodiversity provides goods and services in the form of ecosystems, species and genetic resources for human well-being and economic development. However, Malawi's biodiversity is in decline due to a combination of conflicting private and public interests, incoherent policy and governance, insufficient financing and climate change. BioFin is therefore geared to protect and conserve biodiversity through innovations in finance and policy re-design.

The BioFin approach (figure 7) aims to protect biodiversity and ecosystem by addressing financing gaps using four approaches namely:

- (i) Avoid future biodiversity expenditures through pre-emptive strategic biodiversity investments and policy changes;
- (ii) Improve the delivery of biodiversity conservation programmes through improved effectiveness, efficiency and synergies;
- (iii) Realign expenditures to reduce negative impacts on biodiversity and improve positive outcomes (i.e. reduce harmful subsidies); and
- (iv) Generate new revenues targeted towards biodiversity.

Through the adoption of such a holistic approach, it can be seen that policy changes and new sources of revenue are explored concurrently to ensure that the funding gaps in various biodiversity programmes are reduced.

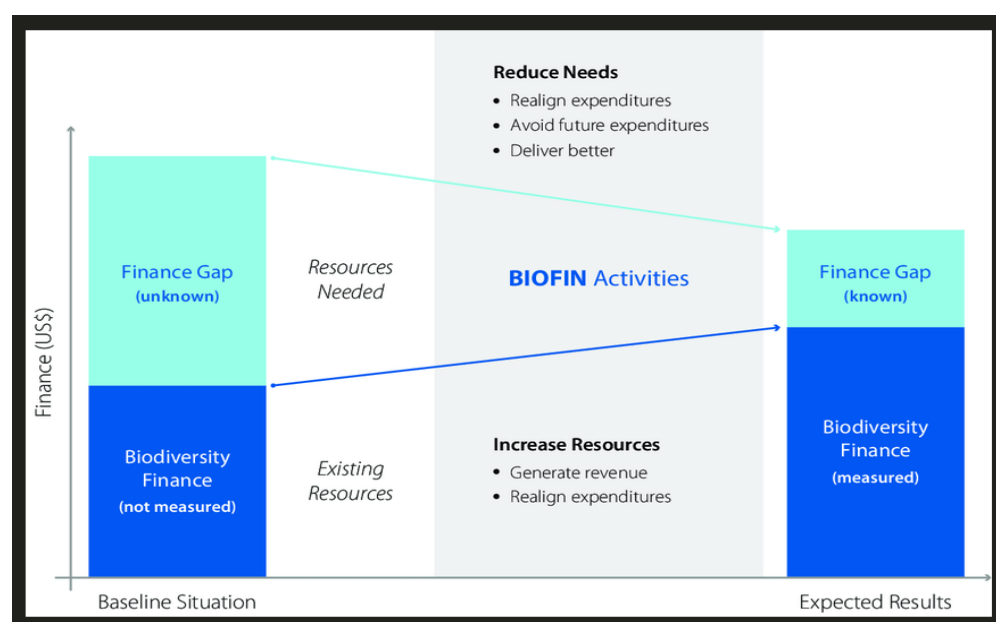


Figure 7: The BioFin Approach
Source: BioFin workbook (2018)

The Malawi BioFin prioritised solutions include:

1. Establishment and Enforcement of Payment for Ecosystem Services in Nyika National Park and Dzalanyama Forest;
2. Tagging Biodiversity Expenditure in the National Budget to influence both the recurrent budget and the investment budget financing; and
3. Scaling-up Carbon Trading for Conservation of Biological Diversity in Malawi.

With the above priorities, BioFin solutions provide L&D financing to minimise, avert and address L&D.

5.11 Humanitarian Assistance/ ODA

Humanitarian assistance to Malawi is mainly channelled through bilateral arrangements (ODA), multilateral funding and international NGO modalities. Humanitarian Assistance is mostly seen as a response to disasters such as cyclones and droughts.

However, with evidence showing that investments in disaster prevention and mitigation are more cost effective than investments in disaster response and recovery, there could be more efforts in humanitarian assistance efforts going towards pre-disaster activities. For example, some interventions undertaken by the United States Agency for International Development (USAID) Bureau for Humanitarian Assistance (BHA) in Malawi²⁷ include:

- Support to Malawi by providing US\$9.7 million of funding (2022 fiscal year) to the World Food Programme (WFP) to support more than 122,000 people in seven districts with food-for-assets programming, providing food assistance through cash transfers and encouraging smallholder farmers to build and maintain productive community livelihood assets, such as community gardens, fish ponds, and small-scale irrigation systems.
- Support to Malawi by being the main donor for the Titukulane Project (2019- 2024 at US\$75 million) which is being implemented by CARE together with partners such as Emmanuel International, International Food Policy Research Institute (IFPRI), National Smallholder Farmers Association of Malawi (NASFAM), Save the Children, and WaterAid. Some project interventions include supporting communities to develop disaster

²⁷ https://www.usaid.gov/sites/default/files/2022-12/USAID-BHA_Malawi_Assistance_Overview-December_2022.pdf

risk management plans, and enabling households to invest financial, labour, and material resources in preparation for future shocks.

Humanitarian Assistance/ODA is mostly L&D financing to minimise and avert L&D. Humanitarian Assistance/ODA has been excluded as financing to address L&D since the current levels of ODA are not new and additional to address L&D or tackle unavoidable L&D.

5.12 Social Protection

Social protection measures include policies and programmes designed to reduce and prevent poverty and vulnerability. As it stands, the impacts of climate change disproportionately affect low- and middle-income countries, which generally have weak social protection mechanisms. The physical effects of climate change in these contexts not only challenge poverty reduction interventions, but create new risks not covered by existing programmes and put more people in need of temporary or permanent social assistance. There are also threats that social protection programmes have gaps in coverage and comprehensiveness, and there are growing inequities and inadequacy of benefits across communities since some social protection systems are not adapted to respond to the growing climate challenges and most social protection programmes in developing countries are under-funded.

The Government of Malawi in collaboration with its development partners and bilateral partners is implementing various social protection programmes. Some of the instruments or modalities incorporated in social protection programmes include: free inputs distribution (mostly agriculture inputs), fertiliser subsidies, public works programmes, social funds, food aid, school feeding programmes, unconditional cash transfers and conditional cash transfers.

Social protection has a bearing on supporting the poor and ultra-poor, and reducing vulnerability hence is a L&D financing tool for minimising and addressing L&D.

6 Assessing Malawi's potential for domestic resource mobilisation and innovative L&D Financing.

6.1 Context

The available climate, development, risk reduction and disaster recovery financing is falling short of the needs by Global South and Global North countries. The magnitude and scale of emergencies, disasters and climate change threats and risks are increasing hence the Government of Malawi and donors all over the world are failing to mobilise sufficient financial resources to address the challenges.

It is very hard to accurately estimate the cost of L&D or L&D financing gaps given uncertainties in methodologies, processes, time horizons, climate scenarios, and countries' socio-economic, adaptation and political choices. However, there is various literature to suggest that current financing instruments and sources are overwhelmed, hence the need to develop new innovative financing instruments to complement existing sources of financing for L&D. Unfortunately, whilst Global North countries should be able to provide more L&D support to Global South countries in the name of solidarity and justice, it is very unlikely that Global North countries will significantly scale-up their contributions to climate and L&D financing under the UNFCCC or other channels. Global South Countries should therefore also take the initiative to establish innovative and sustainable L&D and development funding streams that are independent of traditional financing streams such as ODA and domestic national budgets.

Malawi needs to reduce its dependence on donors and other external stakeholder in its L&D, climate change and disaster risk programmes in-order to improve the predictability and adequacy of L&D financing and reduce financing gaps. Disasters and emergencies do not only bring about socio-economic shocks to communities but they also cause fiscal and budget shocks that divert funds from development programmes to response and recovery activities. The current situation where DoDMA is allocated contingency funding for disasters in the budget has led to shortfalls for activities related to risk reduction and disaster response and recovery.

It has also been noted that current climate finance modalities for mitigation and adaptation are failing developing countries because they are inaccessible to vulnerable countries/communities because of stringent accreditation and conditionality requirements, and it is also stated that most donors prefer to fund countries where they already have a presence. There is therefore a threat that

financing through the new L&D Fund might not be able to provide sufficient financing to vulnerable countries like Malawi. This therefore provides another incentive and justification for Malawi to develop its own innovative L&D financing modalities.

The need to prioritise the development of innovative instruments for mobilising L&D finance is something that has also been an important concern in global L&D discourses since Global North countries are overwhelmed in providing humanitarian aid and disaster risk financing. There have therefore been various efforts and research aimed at identifying innovative mechanisms for mobilising and crowding-in L&D finance. Some research and literature regarding options, approaches and strategies that can be used to mobilise L&D finance from new streams include Richard and Schalatek, (2017)²⁸, Shawoo et al. (2021),²⁹ and Franczak (2022)³⁰. Some of the notable proposed innovative financing sources include: (i) Financial Transaction Tax (FTT), (ii) Solidarity Levy, (iii) Bunker Fuels Levy, (iv) Fossil Fuel Majors Levy; (v) International Airline Passenger Levy (IAPAL) and (vi) Global Carbon Pricing. See table 8 below on their potential to mobilise financing.

This section provides some suggested innovative financing options and approaches that can be explored to crowd-in and mobilise additional L&D finance in Malawi in a bid to have a significant pool of locally generated predictable L&D financing. The suggested options and approaches are based on the well-researched and discussed global innovative options (table8) but adapted in the context of Malawi's technical feasibility, policy and institutional frameworks to make them relevant, applicable and implementable. This makes them understandable in the contexts of both the international community and local settings.

Another important reason why this section has been included is to stimulate discussions and research on what financial innovations can be politically and technically feasible in mobilising L&D financing in Malawi. Moreover, it might be

²⁸ Richard, J. and Schalatek, L. (2017). Financing Loss and Damage: A Look at Governance and Implementation Options. A discussion paper. Heinrich Böll Stiftung North America, Washington, DC.

²⁹ Shawoo, Z., Maltais, A., Bakhtaoui, I. and Kartha, S. (2021). Designing a fair and feasible loss and damage finance mechanism. SEI briefing paper October 2021. Stockholm Environment Institute, Stockholm.

³⁰ Franczak, M. (2022). Options for a Loss and Damage Financial Mechanism, The International Peace Institute (IPI), Issue Brief October 2022. IPI, New York.

more beneficial to utilise some of the existing support and financing that is received to go towards designing, implementing and unlocking the proposed options for Malawi, since some of them have potential to generate continuous income streams.

Table 8: New options for L&D finance
Source: Richard and Schalatek (2017)

Innovative finance tool	Estimates of annual revenue
Carbon Levy/Fossil Fuel Levy	A Levy on fossil fuel extraction applied at a level of US\$2 per tonne of carbon dioxide would raise US\$50 billion per year, could be introduced at a higher price or increased annually. Could add a price incentive to shift to renewable energy. Based on the compensation fund run by the international regime governing oil spills at sea (IOPC).
IAPAL and Or Solidarity Levy	Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and South Korea have implemented an air ticket levy (amounts vary per country), which raises approximately EUR 200 million per year paid towards malaria, tuberculosis and HIV/AIDS drugs.
Bunker Fuels (international aviation and shipping fuels) levy	Currently fuels used in international aviation and shipping are largely untaxed. Tax on airplane & ship fuel of US\$30 per tonne carbon dioxide would raise about US\$25 billion (from advanced economies only).
Global Carbon Pricing	Levy of US\$2 tonne of carbon dioxide would raise US\$40-50 billion per year.
FTT	A small levy on trades of financial instruments, such as bonds, stocks, options and foreign currencies. Proposed FTT levies are usually only a tiny fraction of a per cent but still have the potential to generate substantial revenues. EU proposal for 0.1% share & bond trading, and 0.01% for derivatives = US\$63 billion annually in Europe only.

6.2 Potential Innovative L&D Financing Approaches for Malawi

6.2.1 Financial Transaction Tax (FTT) Vs Financial Services Levy

International Approach: A FTT is a small levy placed on monetary transactions or trades of financial instruments, such as bonds, stocks, options and foreign currencies. Proposed FTT levies are usually only a tiny fraction of a per cent but still have the potential to generate substantial revenues. An international FTT has been suggested as a partial solution to the significant shortfall of funds available to support climate change-related initiatives. FTT has been used

successfully implemented in domestic financial markets, but there could be obstacles to overcome when implementing an FTT at the global level. Some countries may be unwilling to impose such a tax or may not be logistically prepared to administer the tax.

Malawian Approach: Malawi can introduce a Financial Services Levy as a replica of a FTT. Reference can be made to the introduction of Value Added Tax (VAT) to banking services which was recently introduced as a new tax measure. In the case of L&D financing, a levy or tax can be imposed for bank transactions such as Automatic Teller Machine (ATM) withdrawals or the VAT on bank services can have an additional 1-2 percent mark-up which can be directed towards L&D financing/towards a L&D common resource pool.

6.2.2 Solidarity Levy

International Approach: In 2006, France imposed a levy on passengers departing from French airports, ranging from EUR 1 to 40 and assigned according to class of service and destination. This Solidarity Levy is not a universal tax that produces revenue to be allocated by a single global actor. Instead, it is levied domestically by participating countries. Nine countries have implemented the air ticket levy, including Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and South Korea. Each nation decides upon the amount of its own levy and agrees to allocate funds collected to support a common cause. The revenue from the Solidarity Levy as it currently exists supports UNITAID, an international drug purchase facility that combats malaria, tuberculosis and HIV/AIDS in developing countries. As of 2007, total revenue from this levy was approximately EUR 180 million per year from France alone and an estimated EUR 22 million annually from seven other participating countries. Although the Solidarity Levy in France represents a large percentage increase in existing air travel tax rates, the levy remains small relative to the total cost of a trip and was never intended to be significant enough to affect passenger behaviour.

Malawian Approach: Malawi can introduce a Solidarity Levy collected through toll roads (an additional K50.00 added to the current toll fees on roads) or through the fuel price build-up (an additional K50.00 added to the current price of fuel).

6.2.3 Fossil fuel majors carbon levy Vs extraction levy

International Approach: The concept of a fossil fuel majors levy linked to L&D finance provision is based on the 2013 Carbon Majors Study, which found that just 90 companies were responsible for 63 per cent of anthropogenic greenhouse gas emissions. The organisation providing the driving force behind the concept of a carbon majors levy, the Climate Justice Programme (CJP), has proposed that a global fossil fuel extraction levy be imposed to target large oil, coal, and gas producers.

Malawian Approach: Malawi can introduce an extraction levy based on collecting money from targeted sectors and goods that are considered as high polluters or with potentially high negative environmental impacts. Such sectors include mining, construction, etc. Alternatively, all projects that are required to have an Environmental Impact Assessment can be required to pay an extraction levy that is directed towards L&D financing/towards a L&D common resource pool.

6.2.4 Global carbon tax Vs local carbon tax

International Approach: A worldwide system of carbon pricing could raise funds for L&D in the form of either a tax or auction revenues generated from trading schemes, such as the European Union Emissions Trading System. The pricing system could apply to all carbon across industries, or to carbon only in specific industries such as energy and transport. Levied on the carbon content of fossil fuels rather than on energy content (as in conventional energy taxes), a carbon tax would raise funds that could be applied to financing L&D while simultaneously promoting substitution of cleaner energy sources. The tax could also be levied on carbon dioxide emissions, rather than on the fuels themselves, to similar effect. Such a tax could raise funds to support L&D programmes regardless of their profitability; thus, it is an attractive option for funding mitigation and adaptation initiatives as well.

Malawian Approach: Malawi can introduce a carbon tax for L&D. There is already a carbon tax for the climate change fund based on the fuel price build-up. A new L&D financing carbon tax can therefore mean increasing the value of the carbon tax so that some funds go to the climate change fund and the other to the L&D fund.

Another approach that can be explored, is to introduce a tax on carbon credits or money obtained from the carbon markets. The Cyclone Freddy PDNA stated that Malawi's voluntary carbon markets can generate approximately US\$24.8

million to US\$74.3 million per year. A tax of levy of 1-2% on carbon finance revenues can therefore be feasible.

7 Recommendations to improve Malawi's L&D financing landscape

The following are some suggestions and recommendations aimed at improving the enabling environment for mobilising and accessing L&D finance and addressing some gaps related to Malawi's policy, legal, institutional and financing framework for supporting L&D.

7.1 Creating an enabling financial environment for L&D financing

The government and CSOs need to work together in-order to create an environment that enables district councils, government agencies, the private sector, and other stakeholders to undertake L&D actions. The World Bank³¹ suggested five measures that can be pursued to improve the enabling environment for climate change adaptation actions. The five actions include: (i) assessment, measurement, reporting and verification (ii) regulation, plans and policies, (iii) fiscal incentives, and (iv) inducement prizes and public recognition of corporate responsibility. This is described in table 9 below. Using these actions as guidance, Malawi can benefit from undertaking an assessment of how the enabling environment for L&D finance can be improved using the aforementioned five actions. A conducive enabling environment will not only attract more positive action in the L&D sector but can also increase the effectiveness and impact of L&D finance.

Table 9: Factors for creating enabling environments

Source: World Bank (2011)

Category of Government Action	Purpose	Examples
Assessment, measurement, reporting and verification	Demonstrate a commitment to evidence-based and transparent adaptation investment.	Publication of vulnerability, risk, or adaptive capacity assessments.
	Demonstrate the logic of public investments and attract additional funding.	Tracking and public reporting of adaptation performance indicators on a city's website
Regulations, plans and policies	Raise and maintain confidence that the operating environment of a given sector (for example, land use) will be consistent.	Sound, consistent and transparent land use administration.
	Demonstrate a commitment to climate change adaptation and an ability to deliver service effectively.	Climate-smart policies to influence private sector activity, ranging from stricter land use administration to guide development away from vulnerable floodplain lands, to positive incentives to

³¹ World Bank (2011). Guide to Climate Change Adaptation in Cities. The World Bank, Washington DC

	Develop a culture of proactive leadership and innovation.	promote green infrastructure among building and infrastructure developers.
Fiscal incentives	Cover the incremental costs of adaptation (for example, building a stronger foundation for a facility already under construction). Encourage investments primarily dedicated to adaptation (for example, increasing the elevation of existing buildings in zones exposed to frequent flooding).	Tax benefits, subsidies, property taxes differentiated by risk, differentiated insurance premiums, subsidised loans. Provision of cash payments for home renovations that reduce vulnerability can motivate some homeowners, especially if viewed as a time limited opportunity.
Inducement prizes and public recognition of corporate responsibility	Promote excellence and leadership by example among private sector actors	Green building ratings Corporate sustainability awards

7.2 Monitoring and Evaluation for L&D Financing

Actions, interest and financing related to L&D can be expected to increase as the establishment of the UNFCCC L&D Fund necessitates the need for more investments in institutional frameworks for mobilising and disbursing L&D finance at national and global levels. Malawi needs to create an effective Monitoring and Evaluation (M&E) system that can be able to track L&D financial inflows and disbursement so that the impact of various L&D activities can be measured and tracked, and disaggregated data on how L&D finance is being prioritised across various L&D actions can be generated. This can also help with Malawi's conformity to Article 13.6 of the Paris Agreement which focuses on data and financial transparency and can form a foundation on requirements to provide regular and comprehensive information on allocation and disbursement of L&D financing.

Another important consideration or justification for the need for a M&E system is that L&D finance from the Global North should be additional to other financing such as climate change adaptation finance and ODA. However, there is always a threat that L&D funds will not always be new funds, but rather the reassigning or relabelling of already-committed funds from donors. There is therefore a need to show, track or demonstrate additionality- how L&D finance is additional to ODA and additional to existing climate finance targets both on the recipient country and also on the side of the donors. Having a M&E system can therefore help in measuring and tracking additionality of various L&D financing commitments.

7.3 Measuring, quantifying and assessing climate debt

Climate change is imposing different types of injustices on developing countries. A known injustice is how developing countries are more vulnerable to the adverse impacts of climate change whilst the most significant greenhouse gas emissions are from developed countries. However, noting how climate disasters have increased in occurrences, many countries are borrowing money to finance disaster response and recovery actions. In Malawi, the country experienced Cyclone Freddy in March 2023, Cyclone Gombé in March 2022 and Cyclone Guambe February 2021. This is in addition to other weather shocks such as droughts. There could therefore be compelling evidence that Malawi could be increasing its debt burden because of the various actions and programmes it has initiated in response to climate induced disasters.

Whilst financing instruments used to deliver L&D financing should not impose additional burden or injustice on the recipient (country/community or individuals) such as through loans, the likely scenario is that Malawi has to resort to loans from both concessional and non-concessional lenders to address various emergencies, disasters and adaptation gaps. It might therefore be prudent to undertake studies to determine how much of Malawi's debt stock can be attributed to climate change impacts and how much of the debt stock could be for minimising, averting and addressing L&D. Moreover, with a better quantification of the climate debt, there could be a strong basis for lobbying for such debts to be repackaged or forgiven.

7.4 Identification of optimum innovative financing approaches

In section 6, there was an attempt to demonstrate how Malawi's L&D financing framework can benefit from the introduction of new innovative approaches to increase the available funding for L&D programmes. Developing on those arguments, there is also a need to determine which ones of the suggested approaches can mobilise the highest revenues and which ones could be the simplest to implement. It might therefore be prudent for comprehensive assessments to be undertaken to demonstrate how and how much the various approaches can mobilise in L&D finance.

On the other hand, some literature suggests that that the net cost of late response can be four to seven times higher than multi-year resilience-building, and making infrastructure more climate-resilient can have a benefit-cost ratio of

about 6 to 1.³² This suggests that where more effort is provided to systems and measures to prevent and mitigate disasters and risks, governments and communities can make financial savings in the future by having lower response and recovery costs. By Malawi having various streams of predictable domestic financing sources, there will be new opportunities for state and non-state actors to be supported to initiate and invest in disaster prevention and mitigation and for more resources to be available to tackle “unavoided losses and damages.”

An assessment to identify optimum innovative L&D financing approaches can therefore be beneficial to the country as it will show the potential that Malawi has to mobilise additional L&D finance, help in engaging local and international stakeholders to provide support focusing on unlocking the proposed L&D financing approaches and provide a foundation for creating more projects related to tackling “unavoided losses and damages.”

7.5 Integration of L&D in Malawi’s Nationally Determined Contributions (NDCs)

Nationally Determined Contributions (NDCs) are a mandatory requirement under the UNFCCC and Paris Agreement to help with documenting the climate change commitments and vulnerabilities of different Parties. Moreover, climate change support from developed countries to developing countries is mostly formulated to help countries to achieve the priorities provided in the NDC. Whilst the NDC for Malawi has over 130 priorities or measures for addressing climate change, L&D needs and gaps are not explicitly mentioned as a priority in such an important policy document. Notwithstanding this challenge, there is an opportunity for L&D to be incorporated in the next version of NDCs that will be published towards 2026. It might therefore be prudent for stakeholders to start having deliberation on how L&D can be conceptualised and integrated in the next version of Malawi’s NDC so that the global community will have a reference point of Malawi’s L&D gaps and priorities through the NDC.

³² For every dollar invested in climate-resilient infrastructure six dollars are saved, Secretary-General says in message for Disaster Risk Reduction Day.
<https://www.preventionweb.net/news/every-dollar-invested-climate-resilient-infrastructure-six-dollars-are-saved-secretary-general>

8 Concluding Remarks

The climate finance global landscape is in transition as the introduction of the L&D Fund under the UNFCCC will require various changes on how L&D funds are mobilised and utilised. Malawi is witnessing constant threats and risks from adverse weather conditions. In recent times, the occurrences of floods, cyclones and flooding have become more frequent, whilst the resources and financing for disaster prevention, mitigation, preparedness, response, and recovery have become more scarce. There is therefore a glaring threat that programmes to avert, minimise and address L&D are underfunded in Malawi.

As shown in this research, financing for unavoidable losses and damages is still minimal in Malawi hence most financing and programmes can be said to be focusing on unavaid and avoided losses and damages. However, with the launch of the L&D Fund and the growing interest in research and policy guidance on unavoidable losses and damages being published through CSO programmes, there is potential that various state and non-state actors will be able to access local and international financing for research, impact assessments and programmes on unavoidable losses and damages

This study has provided an analysis of Malawi's sources of financial support, including the financial mechanisms and institutions which channel financial L&D related financing. The study also provides insights some conceptualisations of L&D and provides some suggestions of approaches that can be adopted to increase L&D financing in Malawi. The study shows that Malawi has various financial instruments for L&D that are used by different stakeholders to address L&D. In this report, the instruments have been placed in ten categories namely (i) Climate Finance (mitigation, adaptation and capacity building), (ii) Project Finance for L&D, poverty and livelihood security, (iii) Insurance, (iv) Humanitarian Assistance/ ODA, (v) DRF, (vi) Government of Malawi Resources, (vii) Private Sector Finance, (viii) Biodiversity Finance, (ix) Contingency Finance, and (x) Social Protection.

Malawi's institutional framework for climate change action and disaster management is generally good as the Government and various stakeholders work together in mobilising finance and developing programmes and responses to reach the needy. Nonetheless, the government and other stakeholders both face financing gaps due to the scale and intensity that disasters and emergencies are occurring, and the myriad of economic and non-economic L&D that are occurring. To help with improving the landscape for mobilising and accessing

L&D financing, this study provides five recommendations based on the following themes: (i) creating an enabling financial environment for L&D financing, (ii) M&E for L&D financing, (iii) measuring climate debt, (iv) identification of optimum innovative financing approaches, and (v) integration of L&D in Malawi's NDCs. Adopting these recommendations will not only improve the landscape for mobilising L&D finance locally and internationally, but will also lead to the creation of various tools, datasets best practices and case studies that will make Malawi to be a pioneer in establishing L&D frameworks that promote justice and transparency in L&D finance.