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REPORT

Operationalising the Loss and Damage Fund

Learning from the Funding Mosaic

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GERMANWATCH

SEI Stockholm Environment Institute

Imprint

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Acknowledgements:
The authors thank the 20 anonymous interviewees for their valuable insights and perspectives; the project's advisory board and 5 anonymous experts for their comments and feedback on earlier versions of this report; the Stockholm Environment Institute (SEI) and Germanwatch editing teams and SEI graphics team for their contributions; and the Scottish Government and the Open Society Foundations for the funding that made this work possible.

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July 2023

This publication can be downloaded at:
www.germanwatch.org/en/88557

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Abbreviations

ACTA	Anti-Corruption, Transparency and Accountability
AE	Accredited Entity
AF	Adaptation Fund
AOSIS	Alliance of Small Island States
CCM	Country Coordinating Mechanism
CDM	Clean Development Mechanism
CERF	Centralized Emergency Response Fund
CIF	Climate Investment Funds
CIFF	Children's Investment Fund Foundation
CJRF	Climate Justice Resilience Fund
CSO	Civil Society Organisation
DRR	Disaster Risk Reduction
EDA	Enhanced Direct Access
GCF	Green Climate Fund
GEF	Global Environment Facility
HA	Humanitarian Aid Institution
IBRD	International Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
IPAF	Indigenous Peoples Assistance Facility
L&D	Loss and Damage/loss and damage
LDCF	Least Developed Countries Fund
LORTA	Learning-Oriented Real-Time Impact Assessment
LTSs	Long-Term Strategies
M&E	Monitoring & Evaluation
MCF	Multilateral Climate Fund
MDB	Multilateral Development Bank
MEL	Monitoring, Evaluation, and Learning
NAP	National Adaptation Plan
NDA	National Designated Authority
NDC	Nationally Determined Contribution
NELDs	Non-Economic Losses and Damages
NGO	Non-Governmental Organisation
PHI	Philanthropies
PPCR	Pilot Program for Climate Resilience
PR	Principal Recipient
ROE	Rapid-Onset Event
SCCF	Special Climate Change Fund
SEI	Stockholm Environment Institute
SIDS	Small Island Developing States
SOE	Slow-Onset Event
STAR	System for Transparent Allocation of Resources
TC	Transitional Committee on operationalisation of new funding arrangements for responding to loss and damage
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNOCHA	United Nations Office for Coordination of Humanitarian Affairs
WIM	Warsaw International Mechanism
WWF	World Wide Fund for Nature

Executive Summary

After decades of advocacy from small island states, least developed countries, and civil society in the Global South, the 27th UN climate conference (COP27) ended with a landmark agreement to establish a new loss and damage (L&D) fund to enable vulnerable countries to respond to and recover from the climate impacts they are facing. This decision was heralded as a historical breakthrough and a victory for climate justice.

L&D is already a lived reality for many, with economic costs of losses and damages in the Global South expected to reach an alarming $290 billion to $580 billion per year by 2030 (Markandya and González-Eguino 2019). It is therefore essential for the operationalisation of the fund to respond quickly to address urgent needs, and for the process of setting up and governing the fund to be fair and inclusive – and to be perceived as such.

To flesh out the institutional arrangements, modalities, structure, governance, and terms of reference of the new fund, a Transitional Committee (TC)[1] of 10 Global North and 14 Global South representatives was created. It will develop recommendations for consideration at the 28th UN climate conference (COP28) about how the new fund can best be operationalised. Two critical questions surface in this process: (i) how can the fund learn from existing funds and enable comprehensive responses to L&D? (ii) how can the fund best serve the needs and priorities of vulnerable and marginalised communities facing losses and damages?

Our research – led by the Stockholm Environment Institute, Germanwatch, and the International Centre for Climate Change and Development – aims to shed light on these two questions. We provide recommendations to the TC on how the fund can be operationalised to best achieve its aims. We do this through two complementary outputs: (i) this report, "Operationalising the Loss and Damage Fund: Learning from the Funding Mosaic", which draws learnings from the existing funding landscape; and (ii) a complementary report, "Operationalising the Loss and Damage Fund: Learning from the Intended Beneficiaries", which draws on insights from those representing and working with potential fund applicants in governments and organisations throughout the Global South.

Although the L&D fund is filling a critical gap within the international finance architecture, much can be learned from existing funding institutions to inform its design and to offer lessons on practices to adopt or avoid. This report taps into the learnings, experiences, insights, and recommendations of people working in related funding operations in climate, development, and humanitarian causes, and philanthropic and charitable endeavours around the world. By doing so, we gather ideas for what forms of governance, access requirements, instruments, and channels have worked well in the past that could be adopted for the new L&D fund. These lessons and potential structures are broadly reviewed from the perspectives of four priorities: (i) effectiveness of funds delivering their intended purpose; (ii) participatory processes of decision-making; (iii) speed of funding reaching intended beneficiaries; and (iv) avoiding burdens for accessing and reporting on utilisation of funds.

The report draws on the following sources of information: a desk-based evaluation of existing funding institutions; interviews with representatives of existing funding institutions, including multilateral climate funds, multilateral development banks, humanitarian aid institutions, and philanthropies; and members of the TC.

The summary figure summarises our recommendations for how different elements of the L&D fund can be operationalised. Five cross-cutting recommendations emerge:

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[1] https://unfccc.int/topics/adaptation-and-resilience/groups-committees/transitional-committee

1

Sources of funding:
who should pay into the fund and how should the funding be generated?

- Integrate multiple funding sources beyond public finance
- Diversify donor base to include philanthropic organizations, foundations, the private sector, and alternative funding sources
- Allow for open replenishment at any time
- Adhere to historical responsibility rather than strict liability
- Include innovative sources of finance, including voluntary taxes and levies for revenue generation
- Consider additional MDB reforms
- Consider debt deferment

2

Governance:
how should decisions be made and by whom?

- Enforce robust anti-corruption, transparency, and accountability structures
- Establish an interim secretariat
- Ensure meaningful and inclusive representation of communities and CSOs at the global level
- Devolve and decentralize decision-making processes
- Consider a two-tiered governance system (eg through regional and thematic decision-making boards)

3

Access requirements:
what procedures and criteria for accessing finance should the fund have?

- Prioritise simplified accreditation and access requirements
- Consider no accreditation, or fast-tracked access for existing accredited entities
- Vary due diligence requirements depending on size of funding
- Consider trigger-based distribution of funds
- Consider Enhanced Direct Access mechanisms
- Enable collaborative proposals between government actors and NGOs
- Include community participation in proposals as an access criterion
- Include specialised access windows for local communities and NGOs

4

Financing instruments for the L&D fund:
what instrument should be used to channel the funding to their recipients and beneficiaries?

- Prioritise grants-based finance
- Consider concessional loans for longer term reconstruction
- Incorporate programmatic approaches with flexibility
- Build an L&D policy-based program of funding

5

Structure and channels of the L&D fund:
what entities should the fund consist of and how should the funding be channeled to the national and local level

- Consider country-based pooled funds
- Consider enhanced direct access when appropriate
- Prioritise small-scale and targeted funding
- Channel funding through existing community-led philanthropic funds
- Fund local NGOs and actors
- Foster national social protection mechanisms to release funding
- Release funding in fragile contexts

6

Beneficiaries of L&D finance:
who should benefit from the funding at the regional, national and subnational levels?

- Prioritise countries unable to access other funds, e.g. smaller vulnerable countries and SIDS
- Include caps or flexible ceilings per country
- Prioritise particularly marginalised communities at local level
- Enable community ownership and leadership to ensure accessibility of vulnerable communities to funds
- Utilise locally led vulnerability assessments
- Prioritise conflict-prone areas and countries with limited capacity to access other funds

7

Reporting and accountability requirements:
what accountability, reporting, monitoring, evaluation and learning (MEL) provisions should the fund include?

- Enable continued recalibration of reporting requirements
- Allow for feedback at lowest levels
- Avoid unnecessary burdens to recipients
- Incorporate strong feedback loops into fund structure

8

Mosaic of solutions:
how should the fund relate to other institutions within the wider finance landscape?

- Include a connector role for the fund to complement existing institutions
- Ensure a comprehensive approach and coordinated responses
- Complement existing funding streams and address shortcomings
- Consider cross-funding strategies
- Avoid duplication with existing functions

Summary figure: Summary of recommendations for operationalising the L&D fund. These are based on a desk-based review of existing funds and financing institutions, and interviews with both funding institution representatives and TC members.

1. **Adopt alternative eligibility requirements**. Countries and entities that do not have the capacity to meet accessibility and due diligence requirements should not be left out of the eligibility criteria of the L&D fund. There are many ways to address these issues. The L&D fund could prioritise those countries that might struggle to access other funds. It could include specialised windows with lower access requirements for small countries, those with low capacity, and those in conflict-prone areas. Lower due diligence requirements could be put in place for requests for smaller amounts of funding or for entities that are already accredited, rather than imposing additional systems of accreditation. Eligibility could also be ensured for local non-governmental organisations (NGOs), such as through a specialised window. Traditional accessibility and due diligence requirements may not be appropriate at all in cases of L&D in fragile or conflict-affected areas. In such cases, alternative approaches can be explored, drawing on learnings from

the humanitarian sector. For instance, peer-to-peer networks, local cooperatives, or community-based organisations can also be involved in implementing and monitoring projects.

2. **Adopt approaches that have proved to work for philanthropic and humanitarian support to reach the local level**. A lot can be learned from philanthropic and humanitarian support about how to ensure that finance reaches the most vulnerable and marginalised communities on the ground, including in countries where governments might not represent (or may be in conflict with) local interests. Ideas from the philanthropic and humanitarian sectors include, for example, channelling finance directly through local NGOs, and providing knowledge- and capacity-building support for them to access and manage funds and serve as implementing agencies. Other ideas include requiring governments to have community engagement processes integrated into proposal development and project implementation processes, and requiring as a basic access criterion that a certain percentage of funding be dedicated to reaching the local level. Some philanthropic funders could also serve as recipients of the L&D fund, given that they may have already undertaken bureaucratic burdens related to access and that they may already have established processes of engaging communities and equitably disbursing funds in recipient countries. Given the country-driven nature of the UN climate negotiations, such approaches to direct access for the local level would still need to be paired with support for national and local governments.

3. **Adopt participatory and representative decision-making approaches.** Views differ on the extent to which governance and decision-making for the L&D fund should be decentralised, but there is general agreement for governance structures to be participatory and representative of civil society organisations (CSOs) and community groups. One approach could be multi-tiered governance: establishing a board at the global level similar to those of existing climate funds for the purposes of oversight and with broad representation of civil society, but then also establishing regional or thematic boards responsible for distributing funds at the subnational and local levels. Such boards could more directly involve local communities by, for example, providing better oversight of the extent to which programmes and projects represent community interests, and working directly with communities to build their capacity in managing and utilising funds. Trigger-based systems of disbursement could also apply at the more subnational level, where funds could be held by local governments, entities or boards and disbursed as and when needed.

4. **Adopt a flexible, grants-based approach.** There appears to be broad support for offering L&D finance largely through grants and programmatic finance, disbursed through flexible approaches that allow countries to use funds according to their own national L&D plans and priorities, rather than for strictly defined projects or proposals. Ultimately, the fund may find it useful to adopt a backtracking approach – that is, one in which the structure, instruments, and channels are guided by activities, recipients, and beneficiaries the fund wishes to target, and by the principles and priorities it wishes to adopt.

5. **Adopt comprehensive, full-spectrum approaches to L&D finance.** Some interviewees called for clearer boundaries between L&D finance and neighbouring fields. As part of this, it may also be beneficial to have greater clarity on the definition of L&D, including the specific activities that it intends to address, to better understand how this new fund can complement and build on existing adaptation, humanitarian, development, and disaster risk reduction (DRR) efforts. However, our research suggests that, rather than strictly delineating new categories, the fund should find ways to embrace overlaps between different fields. That is, the L&D fund could adopt a full-spectrum approach whereby it fills existing gaps and at the same time enables greater longer-term adaptation and resilience by supporting programmes and projects that are deliberately

designed to incorporate a combination of activities within different fields. This complementarity should be ensured not only in the activities of different funding streams, but also in the broader principles of equity and inclusion as embodied in different governance structures, access requirements, and disbursement models.

Overall, it is critical to recognise that the exact structures and modalities of the L&D fund will crucially depend on its scope. Many of the recommendations are conditional on the exact function of the fund and the gap that it will be mandated to fill. Given that different actors have different answers for how to best design the fund, the process for determining which recommendations are adopted will matter as much as the decisions themselves. In the run-up to COP28, the TC should ensure that it adopts equitable and inclusive procedures that enable learning from diverse voices and perspectives – particularly from those most affected by L&D. Such voices must be at the heart of any process to design and operationalise the fund.

1 Introduction

As climate change intensifies, the frequency and severity of both slow-onset events (SOEs) and rapid-onset events (ROEs) are escalating, leading to increasing loss and damage (L&D). These events disproportionately impact the Global South (V20 2022), with recent calamities including severe floods and landslides in the Democratic Republic of Congo (Princewill and McCluskey 2023), twin cyclones in Vanuatu (Al Jazeera 2023), and extreme heatwaves across Asia (Ratcliffe 2023) leading to loss of homes, lives, and livelihoods. Predictions suggest that, by 2030, economic costs of losses and damages in the Global South could reach an alarming $290 billion to $580 billion per year by 2030 (Markandya and González-Eguino 2019).

Although the urgency for action and financial support for those affected is evident, discussions on L&D finance within official United Nations Framework Convention on Climate Change (UNFCCC) negotiations have been historically stalled due to fears of liability for compensation from the Global North (Richards et al. 2023). The first proposal for a financial mechanism to address this issue was brought forward by the Alliance of Small Island States (AOSIS) during the Convention's establishment in 1991, and aimed to compensate Small Island Developing States (SIDS) and low-lying developing countries for sea-level rise through an insurance pool (Calliari et al. 2019). However, it took nearly three decades of persistent lobbying for L&D finance to be put on the official agenda of COP27. There, the Parties decided to establish an L&D fund and funding arrangements, with the aim of operationalising them at COP28. The TC was set up to provide recommendations for consideration and adoption by COP28 on how to operationalise the fund and funding arrangements, marking a significant milestone in addressing L&D.

The TC now faces the complex task of answering politically sensitive questions within a tight timeframe, as outlined in the Scenario Note prepared for its second meeting (Transitional Commitee 2023). These questions range from the fund's structure, governance, and modalities, to ensuring coordination and complementarity with existing funding arrangements. As raised by Richards et al. (2023): “What is L&D money, and what is it for? Where should the money come from? Who should receive it, and when? How does the fund fit within the broader climate finance landscape? How should the fund be structured and governed?” These politically charged issues are of immense importance, particularly considering the escalating climate impacts and the urgent need to support the most vulnerable.

This report addresses these crucial questions and provides insights on how to best operationalise the new L&D fund within the context of other funding arrangements. By drawing on lessons and learnings from existing climate, development, humanitarian, and philanthropic funding institutions, this report aims to provide technical insights to these political questions, shedding light on the structures, approaches, and instruments that have worked best for other international funding measures; the challenges and shortcomings faced; and the approaches that can be adapted for the purpose of providing finance needed to address L&D. By focusing on existing funds and response organisations, we hope to provide valuable lessons, allowing the L&D fund to build on established structures rather than starting from scratch. Through semi-structured interviews with funders and TC members, desk research, and analysis of statements from the first TC meeting in March 2023, we sought to both understand the perspectives of funders and consider political feasibility.

This report builds on a previous report led by the SEI on principles and modalities for L&D finance, published in advance of COP27 (Bakhtaoui et al. 2022). Our research is therefore guided by what we identified as key principles and modalities for ensuring that L&D finance is fair, feasible, and effective. We use six principles as a lens for assessing learnings and recommendations: historical responsibility, equitable and targeted support, grant-based and programmatic finance, accessibility, recipient ownership, and transparency and accountability. This report complements another publication on the recipient perspective on the fund's design, where insights on similar questions were gathered from potential recipients and beneficiaries of the L&D fund in the Global South (Bakhtaoui et al., forthcoming).

This brief is structured along the eight key elements that we identified for the new L&D fund, as summarised in Figure 1 below. After presenting our learnings and recommendations for these elements, we provide insights on the potential activities the L&D fund could support, and conclude with some key takeaways for the fund and the TC moving forward.

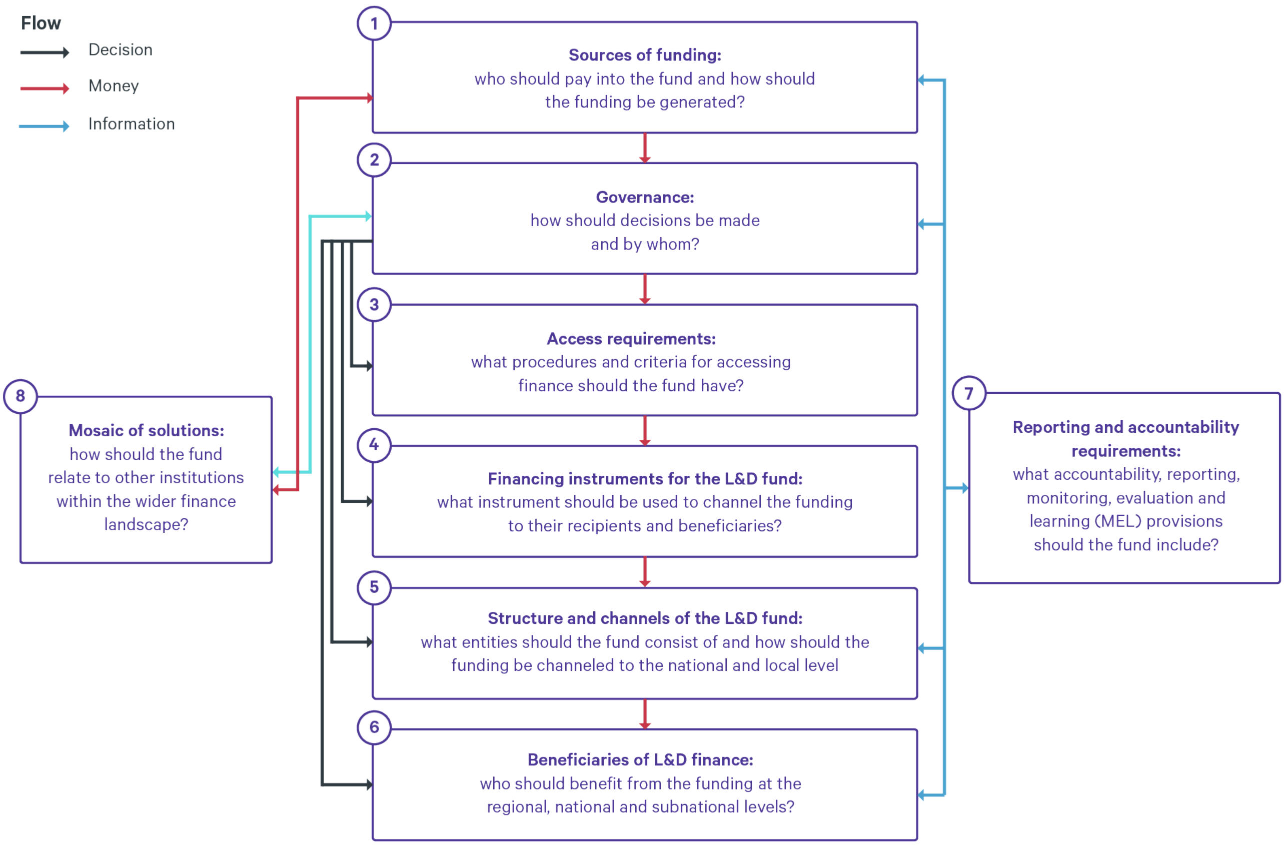

Fig. 1: Key elements of the L&D fund, used as an analytical framework in this report

2 Methodology

This report draws on three key sources of data: a desk-based review, interviews with informants at other funding institutions, and interviews with members of the TC.

Desk-based review. A desk-based evaluation was conducted of key climate, development, humanitarian, and philanthropic funding institutions according to a framework based on the aforementioned six principles for how L&D financing can be aligned with climate justice. The purpose of this was to: (i) assess the extent to which the existing international financial architecture is aligned with these principles; and (ii) gather best practices and lessons of governance systems, structures, instruments, and modalities that have been working well in adhering to these principles, so as to determine what could be replicated or adopted for the L&D fund.

Annex 1 lists the 23 funding institutions evaluated. The focus of the evaluation was on multilateral and philanthropic institutions (rather than bilateral finance or national-level funds). The funds within the scope of our analysis were those that:

- Are major climate funds (either within or outside the UNFCCC) and provide a substantial amount of multilateral climate finance. This allows us to investigate the extent to which existing climate finance might be adhering to our principles, and identify how L&D finance would need to shift from existing models.
- Are examples of an attempt to operationalise and apply at least one of our principles. These funds were primarily identified based on studies conducted by Price (2021) and Soanes et al. (2017), which flag good practice examples of funds for many of our principles. Given that we aimed to generate lessons and best practices to be replicated for the L&D fund, we focused on examples that may already be applying our principles.

Informant interviews. Interviews were conducted with representatives of funding institutions to: (i) validate and build on the lessons and learnings gained from the desk-based evaluation; and (ii) provide recommendations for what key elements of the new L&D fund could look like, taking into account the specificities of L&D response as well as technical and political feasibility. The interview protocol was structured along the six principles. To identify the funding institutions for interview, we started with those identified as eligible for the desk-based evaluation (see Annex 1), but also identified additional institutions of relevance through suggestions from interviewees.

We thus incorporated additional multilateral development banks and humanitarian actors. Note that the final list of interviewees reflects those who responded to our request, and is thus not identical to the institutions evaluated in the desk-based exercise. Fifteen interviews were conducted with a variety of representatives. These include representatives of four multilateral climate funds (MCFs), four multilateral development banks (MDBs), five humanitarian aid institutions (HAs), and two philanthropies (PHIs). Interviewees are referred to by their anonymised identities in subsequent sections. We use these at the ends of sentences to indicate the source of different remarks and inputs, to give a sense of differences of opinions and points of agreement among interviewees in different categories.

Transitional Committee member interviews. To gain a comprehensive understanding of the political feasibility of lessons drawn, we also conducted interviews with members of the TC. Five TC members provided their insights through interviews, with one additional member contributing in writing. Four of the members were from the Global North (TC_GN), and two were from the Global South (TC_GS). To ensure a comprehensive analysis and to better reflect Global South perspectives, we also extracted and coded statements made by TC members during the first TC meeting. These insights build on interviews we conducted with primarily Global South negotiators last year in advance of COP27 for our previous report (Bakhtaoui et al. 2022).

The interview insights and TC statements were coded and analysed using a coding matrix adhering to our principles and structured along the key elements in Figure 1. For interviews with funding institutions, insights were extracted on the following questions:

- To what extent/how is the fund element fulfilling this principle?
- How is the fund element falling short of this principle?
- To what extent are existing structures in the fund for this element applicable to the L&D fund?
- What should this element include in the new L&D fund to be aligned with this principle?
- For TC member interviews and statements, recommendations adhering to each key element were extracted.

3 Learnings and recommendations for operationalising the L&D fund

3.1 Sources of funding

3.1.1 Integrating multiple funding sources

Seven of those interviewed suggested that the structure of the L&D fund should integrate multiple funding sources beyond public finance (HA4, MCF2, MCF3, MDB4, PH1, MCF2, and MDB1). They advocated diversifying funding sources as much as possible by incorporating contributions from philanthropic organisations, foundations, the private sector, and innovative funding sources (see below).

The funds we examined are also financed through a diverse range of contributors. For example, the Green Climate Fund (GCF) enabled regions and cities to pitch in during its initial resource mobilisation period (GCF Independent Evaluation Unit 2023). Its governing instruments furthermore allow contributions from both public and private sources, and offer flexibility to contributors on whether they are contributing grants or loans (GCF Independent Evaluation Unit 2023). This open approach could be beneficial for the L&D fund. However, it is worth noting that, despite this model, the GCF has still been unable to raise sufficient funds. This limit is applicable to climate finance in general, as the target of securing $100 billion per year for adaptation and mitigation has not been met (Pauw et al. 2022).

The Adaptation Fund (AF) also accepts spontaneous private and public donations, which could form an additional revenue stream for the L&D fund. An MCF representative suggested this “donation button” feature as a model to consider; in practice, however, its contribution is marginal, and it would necessitate a comprehensive and costly communication campaign (MCF1). An MDB representative suggested that, should the fund opt for a replenishment cycle, an open replenishment system would be beneficial, allowing for donations at any time (MDB1).

Given the urgency of the situation, both Global North and Global South TC members deemed it politically feasible to accumulate funding for the L&D fund from a variety of sources. It was also emphasised that the need for sufficient funding for the L&D fund is critical. However, one humanitarian representative noted that this should not result in the diversion of funds from ongoing development and humanitarian initiatives (HA4).

3.1.2 Incorporating historical responsibility in a landscape of voluntary contributions

Several recommendations emerged from different funders about who should pay into the fund. There was some consensus that those who have contributed most to climate change should provide L&D finance (HA4, HA5, and MDB3). However, interviewees also raised questions about how the matter of historical responsibility should be addressed (MCF3 and MDB4). One MCF representative advocated for a more inclusive approach that broadens the contributor pool to include some countries currently classified as developing, suggesting that addressing L&D is a shared responsibility that calls for concerted global efforts (MCF4). By contrast, a humanitarian representative suggested a division of responsibility between those currently classified as Annex I and non-Annex I countries under the UNFCCC, supplemented by existing carbon-credit mechanisms and the private sector (HA5).

The potential for the use of liability as an underlying principle to be counterproductive also surfaced in interviews. A concern was expressed that stringent use of liability could dissuade developed countries that are significant climate-finance contributors from contributing more. Noting that emerging economies such as India and China have been reluctant to contribute L&D finance even as their emissions grow, an MCF representative expressed the importance of establishing clear rules and procedures to determine financial contributions from the inception of the fund (MCF1). This would prevent political disagreements from interfering with the subsequent operation of the fund.

Only a limited number of existing funds explicitly address the principle of historical responsibility, but most contributors to the examined funds are Global North countries. The main attempt to implement historical responsibility as a guide for climate finance was the Clean Development Mechanism (CDM), through which Annex-I countries supported non-Annex-I countries in their pursuit of sustainable development. The replenishment of the AF relied in principle on a 2% levy on Certified Emissions Reduction administered under the CDM. In practice, though, the AF now depends on voluntary contributions that do not explicitly include historical responsibility, as the CDM revenue stream collapsed (Climate Funds Update n.d.). The GCF is also primarily funded through voluntary contributions from developed countries. Without additional and reliable revenue streams independent of direct contributions from national budgets, the L&D fund will likely follow a similar approach; this brings into question whether voluntary contributions can really fulfill the principle of historical responsibility while ensuring sufficient and predictable funding volumes.

The question of financing for the L&D fund has indeed become a highly politicised issue. TC members from the Global North expressed a desire to move beyond the traditional categorisations of Annex-I and non-Annex-I countries, and advocated for a broadened donor base (TC_GN2-GN4). They hope that the TC will encourage others to also become donors. Establishing obligatory contributions is viewed as challenging, with one Global North representative suggesting that such contributions should be seen as an act of solidarity and voluntary assistance rather than being set as a binding responsibility (TC_GN4). This sentiment contrasts with those expressed by a Global South member, who envisioned a solidarity-based funding scheme that nevertheless acknowledges historical responsibility (TC_GS2).

Global South TC members generally believed that the wealthiest nations should bear the financial responsibility for L&D. One representative acknowledged the difficulty in translating this belief into actual contributions (TC_GS1). A novel perspective was offered by another Global South member, who suggested departing from the binary donor-recipient model and instead advocated an approach similar to that used by the Alliance of Small Island States (AOSIS), which identifies countries as neither a donor nor a recipient, and instead refers to all as contributors addressing L&D costs (TC_GS17). Another Global South member had a similar idea, proposing that the fund be viewed as a shared investment, with all nations acting as shareholders and cooperating, rather than negotiating against each other to raise the necessary funds (TC_GS2). A Global North member put forward bilateral funding as another option (TC_GN2).

3.1.3 Tapping into innovative sources of finance

Both Global North and Global South TC members recommended the use of taxes and levies to generate L&D finance (TC_GN2, TC_GN_3, TC_GS18, and TC_GS1). These could target a wide array of sectors, including aviation, consumption, fossil fuels, financial transactions, or cross-border carbon adjustments. Two Global South members viewed innovative financing as a potential area for compromise, given that traditional contributions alone may not suffice (TC_GS18 and TC_GS19).

However, one Global North member asserted that, while voluntary contributions would be welcome, the Paris Agreement does not authorise the creation of taxes and levies (TC_GN4).

TC members raised the potential for MDB reforms to contribute to L&D finance by increasing fiscal space in developing countries (TC_GN2, TC_GN3, TC_GN4, and TC_GS1). One Global South member suggested that internal MDB policies should change because the current loan structure places an undue burden on the Global South (TC_GS19). Another member suggested that MDBs could provide loans for resilience-building measures, which could result in future cost savings for climate-vulnerable countries (TC_GS1). However, they strongly believed that this approach should be kept separate from L&D funding. Other Global South members expressed reservations about MDB reforms because loans, by definition, are expected to be repaid; they felt that this would impose further financial burdens on recipient nations.

The topic of debt deferment sparked disagreement among TC members. A Global North member strongly argued against incorporating debt deferments or debt reductions into the L&D fund (TC_GN4), while a Global South member advocated for this approach (TC_GS18). Meanwhile, two Global South members emphasised that any mechanism should avoid exacerbating the financial burdens or debts of involved parties (TC_GS4 and TC_GS20).

3.2 Governance

3.2.1 Setting up a fit-for-purpose governance structure

Most existing funds are governed through a centralised board. For example, the GCF's board is charged with governance and oversight of the fund's management, with decisions made on a consensus basis by 24 members from developed and developing countries. The Least Developed Countries Fund (LDCF) council uses a similar approach, with a voting option when consensus cannot be reached (GEF 2006). Several interviewees warned that the risk of politicisation with boards could hinder speedy decisions because of the time required to reach consensus-based decisions (MDB2, TC_GS19, MCF5). On the other hand, an MCF representative suggested that consensus-based decisions enable a board to maintain pragmatism by focusing on what is best for the fund, rather than being influenced by political factors (MCF1); this is particularly true in the case of the AF, which has a Global South majority on the board.

An alternative suggested was the approach used by the Climate Investment Funds (CIF) of governance through Trust Fund Committees, where technical aspects take precedence over negotiation and scoring points. The Global Environment Facility (GEF) uses another method: governance structures (GEF Assembly and the GEF Council) that rely on a formula-based approach to decide on resource allocation, although the validity of the formula itself is contested.

Reflecting on lessons from governance outside the UNFCCC, a Global North TC member expressed caution about weighted vote systems, which rely on subjective principles and criteria (TC_GN1). Citing the World Bank's International Bank for Reconstruction and Development (IBRD), which bases voting power proportionally to the number of the bank's shares owned, the interviewee underscored the ethical challenges related to principles of historical responsibility and vulnerability.

Lessons from other funds demonstrate the importance of establishing robust anti-corruption, transparency, and accountability (ACTA) structures from the outset to prevent cases of fraud and corruption (Chang et al. 2021). For example, the CIF's good disclosure practices and reliance on the

MDBs' existing accountability mechanisms strongly support programme legitimacy (ICF 2014). However, it has been noted that contributor members have influenced governing decisions more, and that recipient countries have had limited engagement (Barnard and Nakhooda 2014; ICF 2014).

Ultimately, key challenges for the L&D fund are to avoid the politicisation of the governance process once the fund is operational, and to keep the governance accountable to the fund's recipients and beneficiaries (see Section 3.7 on reporting and accountability). An MCF representative suggested that the fund have an interim secretariat that can accelerate learning from other funds and ensure inclusion and accountability in the setup of the fund itself (MCF3).

Regarding where the L&D fund is hosted, some Global North TC members expressed the view that it does not necessarily have to be an operating entity of the UNFCCC's financial mechanism, and urged decision-makers to keep an open mind about where to place the fund (TC_GN1, TC_GN2). In contrast, a Global South TC member strongly emphasised the need for the fund to be under the guidance of both the Convention and the Paris Agreement, arguing that the fund must remain within the process that grants it its mandate (TC_GS2).

3.2.2 Enabling representative and inclusive decision-making

One of the challenges that surfaced regularly in our interviews and in the general debate around L&D finance thus far concerns the inclusion of recipients, particularly local-level recipients and civil society organisations, in decision-making processes (Omukuti 2020; Omukuti et al. 2022). Climate funds have only achieved this to a limited extent. For example, while UNFCCC-registered observers can attend board meetings of the GCF and AF, they have no voting or decision-making power. Although the GCF acknowledges the need to engage directly with local actors in developing countries, it does not have a consistent framework to identify actors who would be considered local (Omukuti et al. 2022).

Another interesting approach comes from the Pilot Program for Climate Resilience (PPCR) under the CIF, which has put a technical committee in charge of selecting countries to participate in the programme, and approving funding allocation. It is constituted of not only representatives of donor and recipient countries with decision-making power, but also civil society members representing most vulnerable groups.

An alternative to representation at the global level is to enable more devolved governance that shifts decision-making to lower levels, which, according to philanthropies interviewed, may be more effective in ensuring that activities are owned by and determined by most affected communities. For example, the Climate Justice Resilience Fund (CJRF) is governed by a practitioner-led board that includes representatives from its core constituencies, such as women, youth, and Indigenous Peoples. This increases the legitimacy of CJRF activities and the fund's accountability to its recipients. It further connects local actions to global impacts and includes participatory grant-making and governance structures. Similarly, the Indigenous Peoples Assistance Facility (IPAF) is governed by the full participation of Indigenous Peoples, with its board mostly composed of indigenous members.

However, one MDB representative, emphasising the difficulty of devolving decision-making for an international fund across 100 countries, suggested the need to establish a board that can make fair decisions on behalf of those countries (MDB2). The Global Greengrants Fund offers an option that combines both approaches by delegating decision formulation to civil society-based advisory boards. Recipient selection, allocation, and learning activities are handled by 24 regional or thematic advisory boards made up of about 200 volunteer experts (environmental leaders, activists, lawyers, and community organisers) who have a deep knowledge and understanding of the environmental, organisational and socio-political landscape. This structure combines a decentralised and participatory approach to allocation and application design with strong local ownership, anchored in science and experience, but leaves the final approval to a centralised board.

This serves as a potential example for the L&D fund to learn from and adopt. For example, the fund could include a two-tiered system of governance, whereby a global board would be responsible for broader decisions of finance distribution among countries and for ensuring accountability; this could be complemented by more regional or local governance structures that still enable local actors to make decisions on how funds are utilised (PHI2).

3.3 Access requirements

3.3.1 Enabling simplified accreditation and access requirements

The challenges that developing countries face in meeting accreditation requirements to access existing climate funds are well documented, and these concerns underscore the need for the L&D fund to adopt different approaches. The second evaluation of the AF found that the accreditation process is time-intensive and burdensome, leading to long delays in project approval (Adaptation Fund 2018). The independent evaluation unit of the GCF found that "the accreditation process remains protracted, inefficient and not sufficiently transparent, with high transactions costs and unclear decision-making" (GCF Independent Evaluation Unit 2023). An evaluation of the GEF also found that the accreditation process "is strenuous, time consuming, and represents a missed opportunity for building capacity and expertise, particularly for smaller entities that have not gone through the process previously" (United Nations 2022, p.15).

Interviews with representatives of climate funds largely echoed these findings. One MCF representative stated that accreditation is becoming increasingly difficult, with countries having a hard time finding organisations that meet the fiduciary standards required (MCF1). Another representative emphasised that "the recipient countries that have the most resources are the ones who access the funds the most"; this means that, because most funds lack caps on how much each country can access, limited funds often flow to the same countries that have the capacity to generate proposals quickly (MCF2). These challenges have been observed despite the readiness support offered by the GCF and AF, which provide grants to offer peer support to entities seeking accreditation with the funds and to build capacity for climate finance activities. As a humanitarian representative noted, these capacity challenges also exist in the humanitarian sector because donors often want quite detailed plans and budgets outlining how the money will be used, with very little flexibility allowed (HA2).

Therefore, many representatives of the MCFs who participated in our interviews recommended avoiding the creation of yet another accreditation process for the L&D fund. Indeed, both Global North and Global South TC members agreed that access requirements should not follow the same model as the GCF or other climate funds. One MCF representative instead recommended establishing a project-specific accreditation model, through which the right national-level actor would be assessed and selected for specific projects or interventions and to channel funds appropriately (MCF3). This model is partly implemented in the Global Fund to Fight AIDS, Tuberculosis and Malaria. Due-diligence criteria could also be eased for organisations that have already successfully received and managed funding, particularly for organisations that are seeking to undertake smaller projects or pilot projects; this would better enable a learning-by-doing approach.

Many representatives of MDBs that participated in our interviews shared steps they have taken within their own organisations to improve accessibility. For instance, one representative said that the organisation starts with a call for a five-page concept note, to identify from the start the relevant institutions and projects, and to invite those eligible to proceed with the proposal process (MDB1); this provides early feedback and helps those seeking funding to avoid long delays in accessibility. One example to learn from could be the CDM, which has a simplified approval process for small-scale projects that are deemed less risky, thereby increasing accessibility for smaller and less-developed countries.

Most Global South TC members prioritised having trigger-based systems for accessing funds – that is, automatically channelling funds to countries as soon as a disaster hits – over a system of developing proposals for accessing funds. One Global North TC member, however, noted the challenge presented by seeking to implement a trigger-based system and establish equitable decision-making and governance processes that account for the voices of communities (TC_GN4). A Global South TC member suggested that a minimum allocation amount could be set for countries to access on the spot, with any additional funds then requiring meeting some criteria, such as community engagement (TC_GS2). Along these lines, due-diligence requirements could vary depending on the size of the funding.

3.3.2 Enabling accessibility for local communities and vulnerable groups

Stringent access requirements can also impede the prioritisation of the most vulnerable populations. According to an evaluation, access to the GCF by indigenous peoples is lacking, particularly as they are not sufficiently high enough on the agendas of accredited entities (AEs) or National Designated Authorities (NDAs) (GCF Independent Evaluation Unit 2023). Many MCFs interviewed recommended learning from and considering the Enhanced Direct Access (EDA) model pioneered by the AF and now also being piloted by the GCF, which aims to let beneficiaries of funding decide how it will be used after its allocation. However, one study found that the GCF's EDA modality has had surprisingly low demand due to difficulties in gaining accreditation (Murray and Muller 2021).

Even in cases where EDA is enabled, all funded projects must be approved by the entity's national government. For instance, the Special Climate Change Fund (SCCF) requires project proponents to secure the endorsement of the national GEF operational focal point when submitting a proposal. Similar requirements are imposed by the GCF and the AF, as well as the PPCR and the CIF, which require approval from MDBs operating in the country and partnering on the project. Interviewees have highlighted how such requirements limit local ownership in the access of funds, and instead serve donor or government priorities.

One option could be for funding proposals to be developed through collaboration, with local actors working with governments, or multiple organisations representing different community interests collaborating to draw on one another's capacity to access and utilise funds (HA4). The L&D fund could even include community participation in proposal development as an access criterion (MDB1). The Global Fund to Fight AIDS, Tuberculosis and Malaria illustrates these suggestions. It distributes an envelope per country, following a formula that pre-allocates funding per area of focus of the fund (i.e. AIDS, Malaria, Tuberculosis) in a programmatic approach, but devolving the responsibility of designing the programme to the recipients. The funding is distributed to subnational levels through Country Coordinating Mechanisms (CCMs), which are national committees including representatives of all sectors and groups involved in the response to the diseases (including government, academic institutions, civil society, people living with the diseases, the private sector, multilateral and bilateral agencies). However, these options are not suitable in situations where the national government undermines all or part of its population.

Other funds might offer some lessons. The GEF/United Nations Development Programme (UNDP) small grants programme enables registered CSOs to access grants for community-based projects. Small private grants and philanthropies such as CJRF, IPAF, the Global Greengrants Fund, and the Dema Fund do not have strict requirements for accessing funds or for accreditation. Instead, they either rely on open calls for proposals, or community groups or NGOs might be approached directly and invited to submit a short concept note describing how the funds would be utilised, although this last option lacks transparency. These intermediary grant-making agencies could also play a role in absorbing the bureaucratic hurdles and access requirements of the L&D fund by being recipients and channelling finance more easily to beneficiaries that they have already built connections with, through their existing systems.

Alternatively, the L&D fund could include a specialised window for local actors to directly access funding. This would ensure that funds are accessible by the most vulnerable funds even in high-risk contexts that might not have the capacity to meet all accessibility and accreditation criteria. One MDB representative stated that they work closely with humanitarian actors to channel funds to countries in emergency situations that might not be able to access funds directly (MDB3); the L&D fund could adopt a similar complementarity approach.

3.4 Financing instruments for the L&D fund

3.4.1 Prioritising grants-based finance

Several interviewees emphasised that L&D finance should be largely grants-based. Grants have been identified as particularly suitable for L&D finance due to their cost-effectiveness (UNFCCC 2022), and they do not compound the debt burdens of nations and communities vulnerable to climate change (Schaefer et al. 2021). With their inherent flexibility, grants are less demanding regarding due diligence and operational requirements, thus enhancing the capabilities of local entities (Bakhtaoui et al. 2022). Grants also uphold the principles of climate justice, ensuring a fair approach to addressing climate change (CAN International et al. 2022). Conversely, financial instruments other than grants can pose significant challenges regarding social and climate justice, especially in scenarios involving human mobility (Schaefer et al. 2021). Furthermore, grants foster resilience to climate shocks among individuals and communities by providing nations with greater fiscal room to invest in climate measures, social systems, and safety nets (Richards et al. 2023).

Grants can also be a tool to build capacity and catalyze further investments, potentially involving the private sector and philanthropies (MCF4). One philanthropy representative suggested that the L&D fund could sustainably replace expiring grants that already exist and provide unconditional grants to local governments or NGOs (PHI2). These entities could then regrant funds according to L&D needs that arise within communities. On the other hand, an MDB representative argued that grants need to be tied to explicit deliverables to ensure effectiveness (MDB1).

Within the existing architecture, adaptation funds and programmes (AF, GEF, GCF) mostly provide grants for adaptation, while investment banks and mechanisms (World Bank and other MDBs) offer grants but also loans and guarantees at a concessional rate. Highly vulnerable countries are also eligible to receive grants from the World Bank. The GCF offers grants, loans, and guarantees, and includes a private sector dedicated window. A carbon offset market mechanism under the UNFCCC has historically also been in use (the CDM).

It is worth noting, however, that finance for adaptation and L&D tends to be incompatible with profit-generating business models, making them unattractive to investors; a loans-based model for L&D finance would therefore carry the risk of insufficient funds being generated. A mostly grant-based L&D fund seemed also politically feasible, with both TC members of the Global South and North emphasising the need for grants-based finance. However, interpretations of what that means differ between each, Global North being sometimes more ambiguous or restrictive on eligibility for grants (as stated by TC_GN2).

Other ideas were also raised, however. For example, a humanitarian representative suggested a tiered approach where Least Developed Countries and SIDS would qualify for soft loans and grants (HA5). Other developing countries would be eligible for loans, while the remaining countries would not be eligible for these instruments. Global South TC members suggested that the L&D fund could expand on the humanitarian model, based on immediate response grants, followed by concessional finance for long-term reconstruction (TC_GS2 and TC_GS18). A Global North TC member further elaborated that the choice of financing instrument should depend on the scope of funding, with Non-Economic Losses and Damages (NELDs), such as loss of cultural heritage or mental health impacts, being addressed through grants, for instance (TC_GN4).

3.4.2 Enabling programmatic approaches to financing

Project-based investments are made based on a detailed cohesive plan for a set of activities, to be implemented in a given – relatively short – timeframe. Broadly speaking, programmatic strategies offer a more flexible and enduring funding structure, which is highly advantageous for addressing L&D issues (Bakhtaoui et al. 2022). These strategies enable the provision of financial resources over an extended period rather than on a project-to-project basis (Bakhtaoui et al. 2022). Programmatic approaches also preclude the isolation of projects based on a single country's programme or investment plan (Richards et al. 2023).

This approach is particularly fitting for L&D, given its broad impact across various sectors, as well as the difficulty in pre-designing projects or planning in advance what funds would be used for. Community needs for longer term recovery, resettlement, or rehabilitation are likely to change over time, particularly as losses compound or as communities are left more vulnerable following multiple disasters (PHI2). Similarly, in the case of SOEs, flexibility is required to deal with the unanticipated impacts of ongoing events, such as sea-level rise. The majority of interviewees also favoured programmatic approaches, suggesting that this would facilitate scalability (MDB2) and enable cross-sectoral issue resolution (MCF4). A philanthropy representative stressed that the L&D fund should permit swift adjustments to emerging changes or needs (PHI2).

Most funds' portfolios are a combination of project-based and programmatic approaches. Programmatic approaches are compatible with GCF's and AF's EDA windows, which rely on a devolution of design of the activities to the local level after the funding is approved. The Global Fund also uses a programmatic approach, and relies on multi-stakeholder panels at the country level (CCMs) to agree on a plan post-allocation. Similarly, the PPCR adopts an approach of mainstreaming climate change activities into development planning and processes across sectors.

There seems to be political feasibility for a programmatic approach (endorsed by TC_GN2 and TC_GS1) and flexibility (as suggested by TC_GN7), according to both Global North and South TC members. A Global North TC member proposed an L&D policy-based programme to establish national systems and ensure both short-term and long-term stakeholder involvement through policies (TC_GN2). For example, countries' National Adaptation Plans (NAPs), Nationally Determined Contributions (NDCs), or Long-Term Strategies (LTSs) could specifically include L&D (MDB2), and the L&D fund could use these plans as a basis for distributing funds.

3.5 Structure and channels of the L&D fund

3.5.1 The choice between integration or devolution of functions

Most funding institutions studied have a composite structure in which they delegate or subcontract part of their functions to other institutions. Some are more decentralised, such as the PPCR or the CJRF, while others are more vertically integrated, such as the World Bank. Multilateral funds integrate most of their functions within their own structures, besides the trustee role, which is delegated to the World Bank for all UNFCCC funds (GEF, AF, GCF).

Creating new implementation structures takes time, and delegating them to existing and operational structures is an option to speed up the operationalisation process of the L&D fund. This is the path followed by the PPCR, which delegates most of its functions to the MDBs that constitute it. While this leads to speed, it can create a less harmonised and transparent structure, with difficulties in enforcing consistent safeguards and standards to which its programmes should adhere. It also complexifies accountability of the fund to its recipient and to the international community. These are some key tradeoffs that the L&D fund will have to consider.

3.5.2 Selecting and enabling the right implementing entities based on principles and priorities of the fund

Studies have shown that the choice of implementing entities (or primary recipients) affects the funding amounts received by recipient countries, with non-egalitarian agencies like the World Bank potentially negatively impacting economically weaker nations (Bayer et al. 2015; Khan et al. 2020). Capacity is also key, and in the case of L&D in particular, it is important for the implementing entity to have the competence necessary to maintain longer-term sustainability of projects and programmes after funding ends, to enable longer-term recovery (MDB1).

The type of recipient structure allowed to receive finance heavily influences the type of work a fund can support, as well as its operations. This decision should therefore be made with the principles and objectives of the fund at its core. For instance, humanitarian actors act under emergency, and those reviewed all described how their organisations are built to channel funding as rapidly and effectively as possible to the affected locations. The UN Office for Coordination of Humanitarian Affairs (UNOCHA) plays a coordination role in humanitarian response and combines the distribution of its un-earmarked Centralized Emergency Response Fund (CERF) to other specialised UN agencies with a system of integrated national and regional offices for rapid dissemination and coordination.

More recently, UNOCHA also created country-based pooled funds for long-term, persistent and predictable situations in individual countries (such as the ongoing war in Ukraine), to which donors can contribute specifically. These earmarked funds present the advantage of attracting funding from countries with specific interest in the issue, and to avoid depleting the CERF, which primarily supports unexpected crises. These country-based pooled funds also allow for more ownership from the recipient country, which uses the funding in alignment with its own priorities and plans, and also allows national and local organisations to receive funding, which is not possible with the CERF. On the other hand, the scale of funding in such arrangements is also susceptible to donor interests.

Existing MCFs are not built around the provision of emergency response but do have other constraints. They must align with the different international agreements that created them and adhere to a certain number of climate finance effectiveness principles (OECD-DAC 2019). Recipient ownership, being one of them, has been interpreted by most funds as a need to align their activities with the priorities and plans of beneficiaries. With these funds being country-led, the focus has been given to national government ownership.

National ownership is implemented through different structures for MCFs. The GEF and the PPCR offer only indirect access modalities – meaning that the funding is received and managed by an organisation not representing or not based in the country in which the funding is spent (typically a UN agency or a Global North-based NGO, such as the World Wide Fund for Nature [WWF] for the GEF or a multilateral development bank for the PPCR). Indirect access modalities are supposed to ease issues of access and implementation capacity often met by many Global South countries' institutions and allow a low risk strategy for funders. The GEF guarantees national ownership through national government focal points, which must co-develop and approve the funding proposals.

Despite relying on indirect access modalities, the PPCR requires a partnership between MDB and a developing country, and focuses on providing additional funding to mainstream climate resilience into the country's policies and plans – national ownership is therefore at its core. The GCF and the AF follow a middle road by offering indirect access modalities as a transition option towards direct access. Yet there is evidence that national ownership might impede local ownership or local effectiveness for resilience (Omukuti 2020). The situation is obvious in contexts where governments oppress part or all of their population, but even in democratic situations, national priorities might not reflect local needs and priorities. The issue is further discussed in Section 3.6.3.

3.5.3 Choosing recipients capable of reaching the most vulnerable

Most of our interviewees agreed that funding for L&D should reach and impact the local level as much as possible, but they had different views on how to achieve that. Multilateral funders in particular found the AF's and GCF's EDA to be appropriate. However, they also recalled that the nature of L&D is different from adaptation and mitigation, and that devolution in situations of disaster might need to be approached differently.

Small-scale funding is a simple and effective strategy adopted by many funds, both public and private, to reach the local level more directly and enable greater local ownership. This approach is associated with lower levels of risk for funders, which allows simplified due diligence requirements and greater funding flexibility towards local organisations. On the public side, the GEF partners with the UNDP on the GEF/UNDP Small Grants Programme, which funds community-based projects with small amounts of money. The World Bank also launched its Community Driven Development Initiative, as well as a few locally-led adaptation projects.

Much can be learned from philanthropies on how to effectively and safely reach the local level, and they can be considered as potential recipients for the L&D fund, with an objective of funding local and marginalised communities. For example, to reach the local level, many philanthropies work with recognised and well-established networks based in their region or specialised in their sector of interest, distributing cash through a decentralised model.

Another model to consider is that utilised by the Global Fund, which identifies and nominates one or several Principal Recipients (PRs) for each funding round (which can be ministries, public, private, or CSOs) to implement the programme. An Independent Technical Review Panel reviews the applications to ensure that the funding targets most vulnerable groups. A review paper found that this approach was successful at allocating funding equitably based on the Global Fund's principles (Schmidt-Traub 2018), while others (Thomspon and French 2023) have called out the lack of community involvement in how global health initiatives are adopted, designed, implemented, and evaluated.

One recommendation emerging from interviews is to fund NGOs and community-based organisations that already have strong connections to local communities (MDB1). National social protection mechanisms could also be utilised to release funding effectively to the people in need when such channels exist (HA2).

Global North TC members in particular largely supported funding local level actors through the L&D fund (TC_GN4). On the other hand, a Global South negotiator supported relying on national governments for the distribution of funding to the local level for legitimacy, accountability, and sovereignty purposes (TC_GS1).

3.6 Beneficiaries of L&D finance

3.6.1 Determining eligibility of countries to access funds

When it comes to determining the eligibility of countries to access climate funds, the AF states a prioritisation of "particularly vulnerable countries", but does not define what this means. The AF also includes funding caps for each country. By contrast, the GEF follows a formula-based approach, whereby each country is given a score based on its capacity to successfully implement programmes, based on past performance, its potential to generate global benefits, and its economic capacity as indicated by its GDP. The PPCR assesses whether the country has an adaptation strategy in place, as well as capacity to absorb the funding; co-funding is a requirement.

Several recommendations emerged from different funders on how to determine eligibility to access L&D funds at the country level. An MCF representative, for example, highlighted that the L&D fund should give priority to small and vulnerable countries that might not have the capacity to attract funding from other sources, such as bilateral funding, or might not meet the criteria for accessing other climate funds, such as middle-income SIDS (MCF2).

One idea proposed was for the fund to follow the AF's approach and include caps or flexible ceilings or allocation systems to ensure that all countries have access to a reasonable amount of funding. Importantly, an MDB representative argued that certain countries should not be left out if they don't have the capacity to write strong proposals or meet stringent access requirements, and that training and targeted support should be provided to these countries (MDB1).

Ultimately, the question of which countries count as "particularly vulnerable", as stipulated in the COP27 decision text of the L&D fund, still remains unresolved. An MCF representative suggested that there should be agreement on a baseline or methodology for quantifying the vulnerability of different countries (MCF3). However, discussions from the first TC meeting, as well as insights from our interviews with TC members, suggest that the technical question of determining countries' vulnerability has been highly politicised, which might limit the political feasibility of some of the aforementioned ideas.

For example, many Global South TC members have stated that all developing countries, as classified under the UNFCCC, should be deemed "particularly vulnerable". A Global South TC member, for instance, argued that it should not be assumed that middle income countries are able to cover all damages faced, and that they should still have access to the fund (TC_GS2). Another member suggested that a trigger-based system of distributing finance, whereby funds are automatically released when a certain percentage of GDP is lost following an L&D event, would make the question of determining which countries are particularly vulnerable irrelevant (TC_GS1). Another suggestion raised was that a board of the new L&D fund could be tasked with determining eligibility for accessing funds (TC_GS5).

Global North TC members, on the other hand, expressed a strong desire to imminently define what "particularly vulnerable" refers to. One member argued for a flexible approach, whereby a scope of countries is defined, which could remain open for broadening eligibility if large-scale impacts occur, akin to those observed in Pakistan last year (TC_GN2). Another suggested that a certain level of prioritisation in terms of vulnerability is required, particularly since a fund targeting all developing countries and covering all aspects of L&D might not be able to attract the significant levels of funding required (TC_GN3).

3.6.2 Prioritising vulnerable and marginalised groups as beneficiaries

It is already well established that most climate funds have struggled to reach the most vulnerable communities and groups, despite having gender and indigenous people's policies in place, and having these groups as observers. The second evaluation of the AF found that gender mainstreaming had not been systematically achieved across its portfolio, and nationally-driven approaches to fund allocation have limited the ability of the AF to reach the most vulnerable groups (Horstmann 2011; Remling and Persson 2015), since subnational allocation is decided through implementing entities that may not represent the interests of the most vulnerable. Moreover, even devolved and decentralised decision-making has not guaranteed community-focused allocation, due to limited integration capacity of civil society or capture by local elites (Manuamorn et al. 2020).

Similarly, assessments of the GCF have also found that it "lacks a unified framework for defining the local level, which means that local level actors and processes are subjectively identified by Accredited Entities" (Omukuti et al. 2022). This has led to challenges in finance reaching the local level, amplified by the limited capacity of accredited entities to enable local delivery. The latest independent evaluation of the GCF also found that it has largely failed to target women and indigenous peoples as beneficiaries in its projects (GCF Independent Evaluation Unit 2023). Evaluations of the GCF EDA are still pending, but it does have a process for identifying community-based organisations to target through the lens of gender equality, which is also part of the selection criteria for sub-projects. Each selected local actor also has to undertake gender assessments and action plans in the delivery of sub-projects.

Lessons could be learned from other climate funds and mechanisms on the prioritisation of vulnerable groups. For example, the CDM mandates projects to undergo a stakeholder consultation process to ensure that local community perspectives are accounted for. The SCCF also requires that all policies adhere to the GEF's gender equality policy. Data remains lacking, however, on the extent to which these policies have actually been successful in reaching target beneficiaries. Despite this, recommendations from our interviewees for the L&D fund included the importance of integrating a gender perspective and disability rights perspective, and potentially having multiple different mechanisms for funding going directly to communities, local governments, or regional advocacy networks (PHI2).

Other non-climate funds, such as grants-based philanthropic funds, have by contrast been more successful in reaching particularly vulnerable and marginalised communities. For example, the Global Greengrants Fund and the CJRF both prioritise women, indigenous peoples, youth, and people with disabilities, and deliver grants directly to community groups and frontline organisations based on their own ideas and priorities. The Dema Fund and the IPAF both have dedicated funding streams that ensure that the rights of women, indigenous peoples and marginalised groups are prioritised, with funds specifically allocated to enable their empowerment. The IPAF also prioritises communities that would find it difficult to access other forms of development assistance. The L&D fund can learn from such models.

Overall, interviewees recommended that the L&D fund enables community ownership and leadership to ensure accessibility of vulnerable communities to funds, as well as decentralised and devolved governance mechanisms to enable grassroots and community organisations to develop their own plans for utilising funds. Another suggestion was utilising locally led needs assessments, combined with indices of climate vulnerability, to ensure that those who are particularly vulnerable and marginalised are the key beneficiaries (MBD1).

3.6.3 Reaching fragile and conflict-prone areas

Several interviewees highlighted that structures of finance dissemination should ensure that fragile and conflict-prone areas are not ignored as these are home to the most climate vulnerable communities (e.g., MCF4, HA3). Humanitarian actors explained that, in many fragile countries, development and climate finance could hardly be deployed, and that humanitarian support was one of the only access options (HA2, HA4). However, they raised the point that there were strong silos between humanitarian and resilience (development and climate) finance, and that it was complicated for them to access funding for more long-term resilience approaches. They recommended exploring if the new L&D fund can enable continuity between these approaches.

In addition, humanitarian actors interviewed highlighted the need for flexibility of funding to reach vulnerable groups in emergency situations or conflict-ridden areas. For example, one representative shared their approach to investing in programmes targeting climate-vulnerable refugees, such as reforestation or clean cooking programmes, thereby empowering them to access the global carbon market (HA4). A philanthropy representative suggested potentially channelling funds through local funds or grassroots groups in corrupt or undemocratic contexts (PHI2).

This tension between reaching the most vulnerable groups and the challenges of doing so in countries where governments may not represent local interests was evident in several interviews, including with TC members. A Global North TC member stated the challenge of a party-driven process under the UNFCCC, when some governments may not be the right interlocuter when trying to reach the most vulnerable people, such as in conflict affected states (TC_GN3). On the other hand, a Global South TC member argued that the international community should not be undermining the sovereignty of Global South countries by channelling funds through NGOs or applying judgement to the state of their democracies, as this would lead to conditionalities that prevent any finance from flowing to the most vulnerable areas (TC_GS1).

3.7 Reporting and accountability requirements

3.7.1 Enabling non-burdensome reporting and auditing requirements

Approaches to reporting and auditing differ per type of fund. Humanitarian support organisations who rely on their own national or regional office for implementation do these tasks internally. A second approach is to delegate the reporting and monitoring activities to the direct recipient structure or implementing partner, with the staff of the fund controlling the feedback provided. This approach is followed by MCFs and by most development funds and philanthropies. Accreditation is a common way used by UNFCCC climate funds to control the pool of recipients and their capacity to meet due diligence standards and the risk appetite of their funders.

As a philanthropy representative noted, reporting and auditing requirements can be heavy on recipients, especially for smaller ones, or for national entities with limited capacity and resources in poorer or smaller countries (PHI3). Many funds, including the UNFCCC climate funds, provide additional support for capacity building. The CIF provides technical support for the financial reporting and monitoring of the grants. The L&D fund could thus follow a similar approach, with an integrated component or window for funding knowledge and capacity building for managing and reporting on funds.

The Global Fund to fight AIDS, Tuberculosis and Malaria follows a third approach. With no offices in recipient countries, and a structure that delegates the allocation of funding to national and civil society representatives, the fund relies on independently recruited “local fund agents” with a local presence in the recipient countries to be the “ears and eyes” of the Global Fund, and to audit and review performances and expenses. In practice, this is generally done by international financial audit companies’ offices in recipient countries.

However, it is noted that, in its first 10 years of existence, the Global Fund has had to deal with corruption and fraud within its own structure and in its recipient countries. At the time, one of the key reasons was the lack of ACTA structures, and an accumulation of roles and functions by some actors that raised conflict of interest issues. Since then, such structures have been created and have iteratively improved the management of the fund (Chang et al. 2021). Yet, cases of fraud and corruption still occasionally occur, even leading Germany to temporarily freeze its funding in 2016.

On the topic of fraud and corruption, an MDB representative also noted that having the World Bank as a trustee offered a strong convening power, as any recipient who misappropriates or misspends funding takes the risk of being blacklisted by the World Bank and no longer being able to collaborate with it (MDB2).

3.7.2 Monitoring and evaluation to make the fund accountable to its recipients

Accountability is a two-way street. A fund is accountable to its funders, who require knowledge of how and where money has been spent. But it is also accountable to its recipients, who deserve to fully benefit from the funding promised in terms of both quantity and quality over the implementation phase. Reporting and accountability mechanisms should also empower stakeholders who may be negatively impacted by the fund’s activity, and provide some form of transparency to the wider world.

While financial reporting requirements were omnipresent in the funding institutions reviewed, monitoring and evaluation (M&E) practices to assess the outcomes and impact of the fund and its actions on the ground were a lot less common. Within the UNFCCC funds, most recipients are required to combine their financial reporting with activity reporting that measure the implementation process and progress against a series of indicators aligned with the investment's objective and the fund's priorities. Most projects are also submitted to a final independent evaluation. However, evidence shows that the quality and accessibility of the reporting rarely allows for a reliable assessment of progress and impact on the ground (Canales et al. 2023).

Similar to financial reporting, monitoring and evaluation often falls on the shoulders of the recipients, who may lack the resources and capacity to follow through. These limitations heavily constrain the funds' ability to receive feedback on their activities and to iteratively improve. Over the years, the UNFCCC funds have therefore built independent evaluation units capable of providing such feedback. These units generally assess the overall performance of the fund or follow thematic approaches.

More recently, the GCF's Independent Evaluation Unit has launched an impact assessment programme Learning-Oriented Real-Time Impact Assessment (LORTA) to normalise robust impact evaluations for the fund's project portfolio. This effort to measure results is shared by the Children's Investment Fund Foundation (CIFF), which sustains a data- and evidence-driven approach to philanthropic investments with continuous monitoring and evaluation cycles.

The opposite approach was taken by the Global Greengrants Fund, which rejected the use of indicators and quantitative measures to focus instead on their grantees' experience and feedback. The Global Greengrants Fund's accountability to its recipients is enabled by its multiple thematic and regional advisory boards composed of volunteer experts who often have a close bond to the recipient communities. The fund also reaches out to applicants whose proposals were not successful.

The narrative and qualitative approach to monitoring and evaluation is less burdensome to the recipients, but may lead to a lack of transparency. A 2020 review of the work of the CJRF found, for instance, that its simplified reporting requirements were perceived as too loose by some grantees, and that the M&E requirements needed to be strengthened.

The international community benefits from having access to resources about the fund and its activities, for instance, to play the role of a whistleblower, or to conduct research. Yet, transparency varies for the funds reviewed. For multilateral funds, our assessment indicates that transparency standards vary from very high for the AF, to quite poor for the PPCR. Information on loans, co-funded projects, and projects involving the private sector seem to be less accessible. The Global Fund lacks transparency on its performance, its results, and its monitoring and evaluation of projects according to Friebel et al. (2019). Private philanthropies' transparency is variable, but in general quite low.

Very little was shared in interviews with funders and TC members about what transparency and accountability requirements the L&D fund could include. A humanitarian representative advocated a continued system of recalibration (HA4). It is important to monitor the feedback at the lowest levels of implementation and disbursement to ensure that activities of the fund are aligned with the recipients' needs at all stages of the project. A philanthropy representative recommended that the approach should be intentional about the questions asked of recipients, for transparency and accountability (PHI2). Their objective is to avoid unnecessary burden, and to build strong feedback loops to integrate findings into the fund's structure.

3.8 Mosaic of solutions

3.8.1 Navigating synergies and collaboration

A critical question regarding the L&D fund is how it will relate to existing funds and institutions providing L&D-adjacent support, including those that are part of our evaluation and interview process. According to a philanthropy representative, the L&D fund can draw valuable lessons from the mosaic of solutions implemented by philanthropic organisations (PHI1). They highlighted the example of a network of philanthropies that have created a pooled fund for L&D, enabling all participating philanthropies to channel their resources into a shared pool and collectively coordinate their efforts. This ensures complementarity and effectively averts any duplication of efforts. Additionally, a humanitarian representative emphasised that coordination mechanisms already exist for disaster risk management (HA5); for example, several countries have established national platforms for disaster risk reduction that already engage CSOs and government ministries together to develop a whole of society response. This could be an existing landscape that the L&D fund could build on.

In terms of possible cooperation, existing funds envisaged varying types of relationships with the proposed L&D fund, ranging from informal coexistence and mutual reinforcement (MBD1) to an aspiration to access the L&D fund (MDB2). An MDB representative even considered potential scenarios where they could host the L&D fund (MDB3). Philanthropies put forth the option of being implementing agencies for the fund.

Overall, most funder representatives perceived the role of the L&D fund as a connector, providing a complementary function to existing institutions. This appears to be politically feasible as well. Members of the TC stressed the importance of the fund in addressing specific shortcomings, particularly in the humanitarian and development sectors. They advocated the enhancement of existing mechanisms, drawing upon existing knowledge (TC_GN1). The avoidance of duplication (TC_GN4) and contradictions in the fund's actions (TC_GN6) are central to these discussions. Further, members from the Global North are contemplating the adaptation of existing structures. They argue that the introduction of a new funding mechanism doesn't inherently demand the establishment of a new institution; modifications to existing systems might be a more appropriate course of action.

3.8.2 Enabling a comprehensive and full-spectrum approach

Several interviewees highlighted the fragmentation and lack of complementarity in the L&D domain, characterised by isolated or "siloed" work (e.g., MCF2, HA2). There is a significant issue of ambiguity around which activities are included in L&D (HA5, MDB3, and MCF2). This ambiguity subsequently leads to uncertainty over what activities qualify for funding under the L&D fund. An MCF representative asserted the necessity of technical guidance to clearly define L&D activities, including whether they are multisectoral (MCF2). A humanitarian representative also stressed the importance of these resources not being diverted from other critical sectors, such as humanitarian aid (HA5). Other interviewees emphasised the need for a clear boundary between L&D and neighbouring fields, as the establishment of the L&D fund should complement, not replace, existing funding streams (MDB3, HA4, and MCF3). In that context, an MCF representative stressed the importance of identifying areas where the L&D fund could provide better coverage than the current funds (MCF3). A philanthropy representative further suggested that funds could support one another through cross-funding strategies (PH1).

On the other hand, the boundaries between adaptation, DRR, humanitarian support, and L&D are blurred on the ground, making it difficult to impose a strict delineation. Instead, the L&D fund could enable a comprehensive and full-spectrum approach, fostering coordinated responses and connections to related fields (PH1, HA2, HA4). For example, L&D support for longer term recovery and rehabilitation could also ensure adaptation and resilience building for future climate impacts.

The funders' recommendations align well with the views of TC members, who called for the deconstruction of silos (TC_GN6), encouraging coherence (TC_GN3) and pushing for the integration of the humanitarian and development nexus (TC_G11). TC_GS4 proposed that the L&D fund could draw inspiration from the Warsaw International Mechanism (WIM), serving as a central point for streamlining efforts. Yet, the feasibility of such an approach is debatable, considering the diverse array of L&D funding mechanisms that exist both within and outside the UNFCCC (TC_GN5). In addition, any comprehensive solution must respect the diversity of national systems in resource allocation and aim to bring together various efforts under a single fund (TS_GS1). However, it also needs to be kept in mind that mandates might evolve and that organisations that may not incorporate L&D aspect now may do in the future, particularly entities that are regulated by countries (TC_GN3).

Box 1: Examples of best practices from existing funds relevant for the L&D fund

- **Global Greengrants Fund:** recipient selection, allocation, and learning activities are handled by 24 regional or thematic advisory boards made up of about 200 volunteer experts (environmental leaders, activists, lawyers, and community organisers). This delegates decision formulation to civil society and affected communities.
- **Global Fund to Fight AIDS, Tuberculosis and Malaria:** funding is distributed to subnational levels through country coordinating mechanisms, which are national committees including representatives of all relevant sectors and groups (including the government, academic institutions, civil society, affected communities, the private sector, multilateral and bilateral agencies).
- **Pilot Program for Climate Resilience:** adopts programmatic approaches of mainstreaming climate change into national plans and policies. Technical Committee in charge of approving funding allocation is constituted of not only representatives of donor and recipient countries with decision-making power, but also civil society members representing most vulnerable groups.
- **Climate Justice Resilience Fund:** governed by a practitioner-led board that includes representatives such as women, youth, and Indigenous Peoples.
- **UN Office for Coordination of Humanitarian Affairs:** provides country-based pooled funds for long-term, persistent, and predictable situations in individual countries, to which donors can contribute to specifically.
- **GEF/UNDP small grants programme:** enables registered civil society organisations to access grants for community-based projects.
- **Indigenous Peoples Assistance Facility:** has dedicated funding steams that ensure that the rights of women, indigenous peoples, and marginalized groups are prioritised, with funds specifically allocated to enable their empowerment.
- **Clean Development Mechanism:** a 2% levy on Certified Emissions Reduction was administered and used to replenish the Adaptation Fund.

4 Key recommendations for the L&D fund: navigating the tradeoffs

1

Sources of funding:
who should pay into the fund and how should the funding be generated?

- Integrate multiple funding sources beyond public finance
- Diversify donor base to include philanthropic organizations, foundations, the private sector, and alternative funding sources
- Allow for open replenishment at any time
- Adhere to historical responsibility rather than strict liability
- Include innovative sources of finance, including voluntary taxes and levies for revenue generation
- Consider additional MDB reforms
- Consider debt deferment

2

Governance:
how should decisions be made and by whom?

- Enforce robust anti-corruption, transparency, and accountability structures
- Establish an interim secretariat
- Ensure meaningful and inclusive representation of communities and CSOs at the global level
- Devolve and decentralize decision-making processes
- Consider a two-tiered governance system (eg through regional and thematic decision-making boards)

3

Access requirements:
what procedures and criteria for accessing finance should the fund have?

- Prioritise simplified accreditation and access requirements
- Consider no accreditation, or fast-tracked access for existing accredited entities
- Vary due diligence requirements depending on size of funding
- Consider trigger-based distribution of funds
- Consider Enhanced Direct Access mechanisms
- Enable collaborative proposals between government actors and NGOs
- Include community participation in proposals as an access criterion
- Include specialised access windows for local communities and NGOs

4

Financing instruments for the L&D fund:
what instrument should be used to channel the funding to their recipients and beneficiaries?

- Prioritise grants-based finance
- Consider concessional loans for longer term reconstruction
- Incorporate programmatic approaches with flexibility
- Build an L&D policy-based program of funding

5

Structure and channels of the L&D fund:
what entities should the fund consist of and how should the funding be channeled to the national and local level

- Consider country-based pooled funds
- Consider enhanced direct access when appropriate
- Prioritise small-scale and targeted funding
- Channel funding through existing community-led philanthropic funds
- Fund local NGOs and actors
- Foster national social protection mechanisms to release funding
- Release funding in fragile contexts

6

Beneficiaries of L&D finance:
who should benefit from the funding at the regional, national and subnational levels?

- Prioritise countries unable to access other funds, e.g. smaller vulnerable countries and SIDS
- Include caps or flexible ceilings per country
- Prioritise particularly marginalised communities at local level
- Enable community ownership and leadership to ensure accessibility of vulnerable communities to funds
- Utilise locally led vulnerability assessments
- Prioritise conflict-prone areas and countries with limited capacity to access other funds

7

Reporting and accountability requirements:
what accountability, reporting, monitoring, evaluation and learning (MEL) provisions should the fund include?

- Enable continued recalibration of reporting requirements
- Allow for feedback at lowest levels
- Avoid unnecessary burdens to recipients
- Incorporate strong feedback loops into fund structure

8

Mosaic of solutions:
how should the fund relate to other institutions within the wider finance landscape?

- Include a connector role for the fund to complement existing institutions
- Ensure a comprehensive approach and coordinated responses
- Complement existing funding streams and address shortcomings
- Consider cross-funding strategies
- Avoid duplication with existing functions

Fig. 2: Summary of recommendations for operationalising the L&D fund. These are based on a desk-based review of existing funds and financing institutions, and interviews with both funding institution representatives and TC members.

This report demonstrates that the experiences and insights of those operating existing funding institutions that address climate and development aims, philanthropic causes, and humanitarian interventions can all help inform how best to create and operationalise the L&D fund. Multilateral climate and development funds and humanitarian and philanthropic support offer ideas that can help the L&D fund to make use of strategies that have proved to be effective, avoid processes that have not worked in ways that were envisioned, and come up with alternative and, hopefully, more effective forms of governance and disbursement (see Box 1). Figure 2 summarises the key recommendations for the L&D fund based on our analysis.

Overall, it is evident that decisions about the L&D fund are inherently political. There is no one correct answer for the structure, aims, scope, governance arrangements, modalities, or instruments that the fund should include. Different actors have different opinions and priorities. Nevertheless, given the history of the fund's emergence – rooted in climate justice and a call from the Global South – it is important that the fund's operationalisation is fair and that it is perceived as fair by its intended beneficiaries. This requires transparency about how tradeoffs are navigated, and about the priorities used to make decisions. Here, we lay out tradeoffs that the TC will probably have to consider as it goes forward. These are based on four priorities the L&D fund might have: operating effectively, establishing equitable governance mechanisms, working at the speed to meet the urgency of the issues involved, and avoiding creating unnecessary burdens for applicants.

Effectiveness: How can the L&D fund best fulfil its intended purpose?

There are different approaches to ensuring effectiveness in addressing the full spectrum of losses and damages on the ground, including both slow- and sudden-onset events, and both economic and non-economic impacts. One approach could be to adopt the model followed by existing MCFs and have different windows within the L&D fund that are suited to different priorities and activities. Specific windows could also be created for access by different types of actors (e.g., EDA windows for local NGOs). Such an approach would have the advantage of having everything under one umbrella, which would require less coordination and bring oversight into the same governance structure. However, such a fund would take longer to set up (as was the case for the GCF) and might risk duplication or lack of coordination with other funding support, such as humanitarian aid.

An alternative approach could therefore be for the L&D fund to take a more tailored approach to address a specific activity or fill a key gap; the L&D fund could leave other priorities to existing funds and structures, or it could channel certain funds through them. While this would have the advantage of speed, it would require more investment in a coordination function so that the fund would have sufficient oversight across the full spectrum of L&D activities to ensure that they are building on one another to address gaps. This approach would also face associated challenges because the fund would not have governance or oversight power over activities outside of its mandate; such a situation might run the risk of other L&D support failing to meet the fund's key principles or priorities.

Equitable governance: How can the fund ensure participatory processes of decision-making?

One approach to equitable governance could be to learn from existing philanthropies and devolve decision-making on the use of funds to local NGOs and affected communities. This would lead to more ownership among beneficiaries, but it would also require the L&D fund to significantly invest in capacity building on the ground so that local NGOs and community groups are able to access, manage, and use funds effectively and according to their own needs and priorities.

Alternatively, the fund could opt for less devolved systems but more participatory processes at the global and national levels. This could be undertaken by bringing CSOs onto the board of the fund, and mandating that national governments carry out consultations with communities. Such an approach could have the benefit of national governments adopting more programmatic approaches to funding L&D, and utilising funds according to national L&D plans and policies; this, in turn, could entail fewer capacity-building requirements and could lead to a more coordinated vision for long-term recovery. However, tradeoffs might arise with potentially less funding reaching the most marginalised and vulnerable groups, and less autonomy for these groups to address their needs. There is also a risk of tokenism, and challenges in ensuring that all voices are adequately and meaningfully represented.

Speed: How can the fund reach intended beneficiaries with the urgency required?

If speed is considered a priority of the L&D, it could learn from humanitarian aid models, and potentially consider trigger-based systems of finance disbursement. This would ensure that finance reaches the ground quickly. Such an approach might lead to less inclusive governance and decision-making processes, however, with less oversight in ensuring that funds are reaching the most vulnerable and marginalised. Such models may also be less suited to addressing SOEs and enabling longer-term, planned recovery. They would therefore need to be paired with more investment in anticipatory planning with local actors.

Alternatively, the L&D fund could adopt an approach of emphasising longer-term planning to have a more comprehensive, full spectrum approach that links L&D to adaptation and resilience building in recovery and rehabilitation measures, and also complements humanitarian support. Such an approach could be more strategic in avoiding duplication with existing funds and could be better suited to ensuring key gaps are being addressed. At the same time, however, such an approach may translate into more stringent access requirements and more bureaucratic hurdles, which would hinder speed.

Avoiding recipient burdens: How can the L&D fund ensure that access and reporting requirements are not burdensome?

To ensure that the L&D fund is not burdensome to its intended recipients, it could learn from philanthropies and some MDBs and adopt less stringent and more flexible accreditation, access, and reporting requirements. However, this might lead to tradeoffs. That is, greater flexibility may lead to insufficient safeguards and a lack of oversight needed to ensure that finance is reaching its intended beneficiaries on the ground.

If an approach for greater stringency were adopted, then tradeoffs could be managed through more capacity building for national governments and local actors to develop their own safeguarding and oversight functions, and to develop proposals and fulfil reporting requirements. In this regard, the architects of the L&D fund could learn from the successes and failures of existing climate funds' readiness support.

Moving forward: key recommendations

Reflecting on these different tradeoffs, five cross-cutting recommendations emerge for how best the fund can be operationalised to adequately fulfil the key priorities raised:

1. **Adopt alternative eligibility requirements.** Countries and entities that do not have the capacity to meet accessibility and due diligence requirements should not be left out of the eligibility criteria of the L&D fund. There are many ways to address these issues. The L&D fund could prioritise those countries that might struggle to access other funds. It could include specialised windows with lower access requirements for small countries, those with low capacity, and those in conflict-prone areas. Lower due diligence requirements could be put in place for requests for smaller amounts of funding or for entities that are already accredited, rather than imposing additional systems of accreditation. Eligibility could also be ensured for local NGOs,

such as through a specialised window. Traditional accessibility and due diligence requirements may not be appropriate at all in cases of L&D in fragile or conflict-affected areas. In such cases, alternative approaches can be explored, drawing on learnings from the humanitarian sector. For instance, peer-to-peer networks, local cooperatives, or community-based organisations can also be involved in implementing and monitoring projects.

2. **Adopt approaches that have proved to work for philanthropic and humanitarian support to reach the local level.** A lot can be learned from philanthropic and humanitarian support about how to ensure that finance reaches the most vulnerable and marginalised communities on the ground, including in countries where governments might not represent (or may be in conflict with) local interests. Ideas from the philanthropic and humanitarian sectors include, for example, channelling finance directly through local NGOs, and providing knowledge- and capacity-building support for them to access and manage funds and serve as implementing agencies. Other ideas include requiring governments to have community engagement processes integrated into proposal development and project implementation processes, and requiring as a basic access criterion that a certain percentage of funding be dedicated to reaching the local level. Some philanthropic funders could also serve as recipients of the L&D fund, given that they may have already undertaken related bureaucratic burdens related to access and that they may already have established processes of engaging communities and equitably disbursing funds in recipient countries. Given the country-driven nature of the UN climate negotiations, such approaches to direct access for the local level would still need to be paired with support for national and local governments.

3. **Adopt participatory and representative decision-making approaches.** Views differ on the extent to which governance and decision-making for the L&D fund should be decentralised, but there is general agreement for governance structures to be participatory and representative of CSOs and community groups. One approach could be multi-tiered governance: establishing a board at the global level similar to those of existing climate funds for the purposes of oversight and with broad representation of civil society, but then also establishing regional or thematic boards responsible for distributing funds at subnational and local levels. Such boards could more directly involve local communities, by, for example, providing better oversight of the extent to which programmes and projects represent community interests, and working directly with communities to build their capacity in managing and utilising funds. Trigger-based systems of disbursement could also apply at the more subnational level, where funds could be held by local governments, entities, or boards and disbursed as and when needed.

4. **Adopt a flexible, grants-based approach.** There appears to be broad support for offering L&D finance largely through grants and programmatic finance, disbursed through flexible approaches that allow countries to use funds according to their own national L&D plans and priorities, rather than for strictly defined projects or proposals. Ultimately, the fund may find it useful to adopt a backtracking approach – that is, one in which the structure, instruments, and channels are guided by activities, recipients, and beneficiaries the fund wishes to target, and by the principles and priorities it wishes to adopt.

5. **Adopt comprehensive, full-spectrum approaches to L&D finance.** Some interviewees called for clearer boundaries between L&D finance and neighbouring fields. As part of this, it may also be beneficial to have greater clarity on the definition of L&D, including the specific activities that it intends to address, to better understand how this new fund can complement and build on existing adaptation, humanitarian, development, and DRR efforts. However, our research suggests that, rather than strictly delineating new categories, the fund should find

ways to embrace overlaps between different fields. That is, the L&D fund could adopt a full-spectrum approach whereby it fills existing gaps and at the same time enables greater longer-term adaptation and resilience by supporting programmes and projects that are deliberately designed to incorporate a combination of activities within different fields. This complementarity should be ensured not only in the activities of different funding streams, but also in the broader principles of equity and inclusion as embodied in different governance structures, access requirements, and disbursement models.

Overall, it is critical to recognise that the exact structures and modalities of the L&D fund will crucially depend on its scope. Many of the recommendations are conditional on the exact function of the fund and the gap that it will be mandated to fill. Given that different actors have different answers for how to best design the fund, the process for determining which recommendations are adopted will matter as much as the decisions themselves. In the run-up to COP28, the TC should ensure that it adopts equitable and inclusive procedures that enable learning from diverse voices and perspectives – particularly of those most affected by L&D. Such voices must be at the heart of any process to design and operationalise the fund.

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Annex 1 – List of funds included in desk-based evaluation

Prominent multilateral climate funds within and outside the UNFCCC:

1. **Green Climate Fund:** operating entity of the UNFCCC financial mechanism, mandated to assist developing countries in adaptation and mitigation practices.
2. **Adaptation Fund:** established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol.
3. **Global Environment Facility:** operating entity of the UNFCCC financial mechanism, mandated to support developing countries' work to address the world's most pressing environmental issues.
4. **Special Climate Change Fund:** GEF-managed fund supporting adaptation projects with a focus on reducing vulnerability and increasing resilience
5. **Least Developed Country Fund:** GEF-managed fund focusing on providing funding to least developed countries to help prepare and implement National Adaptation Programs of Action.
6. **World Bank Climate Investment Funds:** multilateral fund established to finance and scale climate pilot projects in developing countries.
7. **Pilot Program for Climate Resilience:** World Bank fund designed to demonstrate ways to integrate climate resilience into core development planning and implementation.

Examples of attempted application of principle of historical responsibility and "polluter pays":

8. **Clean Development Mechanism:** project-based carbon offset market mechanism under UNFCCC, focusing on implementation of climate mitigation projects in developing countries through mobilising investments.
9. **Clean Technology Fund:** fund seeking to promote scaled-up financing for demonstration, deployment and transfer of low-carbon technologies.

Examples of attempted application of principle of equitable and targeted support:

10. **CIF's Dedicated Grant Mechanism for Indigenous Peoples and Local Communities:**
11. The International Fund for Agricultural Development (IFAD)
12. **Indigenous Peoples' Assistance Facility:** grant-based fund fostering self-driven development and strengthening Indigenous People's communities.
13. **World Bank trust fund's Umbrella Facility for Gender Equality:** multi-donor trust fund financing research, impact evaluations and data to help policy makers and practitioners close gender gaps in countries and sectors.
14. **Children's Investment Fund Foundation:** independent philanthropic organisation focuses on transforming the lives of poor and vulnerable children living in developing countries.

Examples of attempted application of principle of grant-based, programmatic finance:

15. **GEF/UNDP small grants programme:** grant funding to community-based organisations and NGOs to help them protect the environment, adapt to climate change and generate sustainable livelihoods for vulnerable communities.
16. **CIF's Forest Investment Programme:** targeted programme supporting developing countries' efforts to reduce deforestation and forest degradation and promote sustainable forest management.

17. **Global Greengrants Fund:** philanthropy providing small grants to grassroots environmental causes to support community-based groups.

Examples of attempted application of principle of accessibility:

18. **GCF enhanced direct access pilot programmes:** pilot to enhance country ownership of projects and programmes through a dedicated access window for GCF's Direct Access Entities.
19. **Adaptation Fund enhanced direct access pilot programmes:** dedicated access window for subnational institutions and civil society organisations.

Examples of attempted application of principle of recipient ownership:

20. **The Global Fund to Fight AIDS, Tuberculosis and Malaria:** international financing and partnership organisation for epidemics.
21. **Dema Fund:** fund supporting community action to protect the Brazilian Amazon.
22. **Climate Justice Resilience Fund:** philanthropy supporting women, youth, and Indigenous Peoples to create and share their own solutions for climate resilience.

Examples of attempted application of principle of transparency and accountability:

23. **World Bank Community Driven Development Initiatives:** Community and Local Development programmes that operate on the principles of transparency, participation, local empowerment, demand-responsiveness, greater downward accountability, and enhanced local capacity.

Notes:

Germanwatch

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

Germanwatch is funded by membership fees, donations, programme funding from Stiftung Zukunftsfaehigkeit (Foundation for Sustainability), and grants from public and private donors.

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