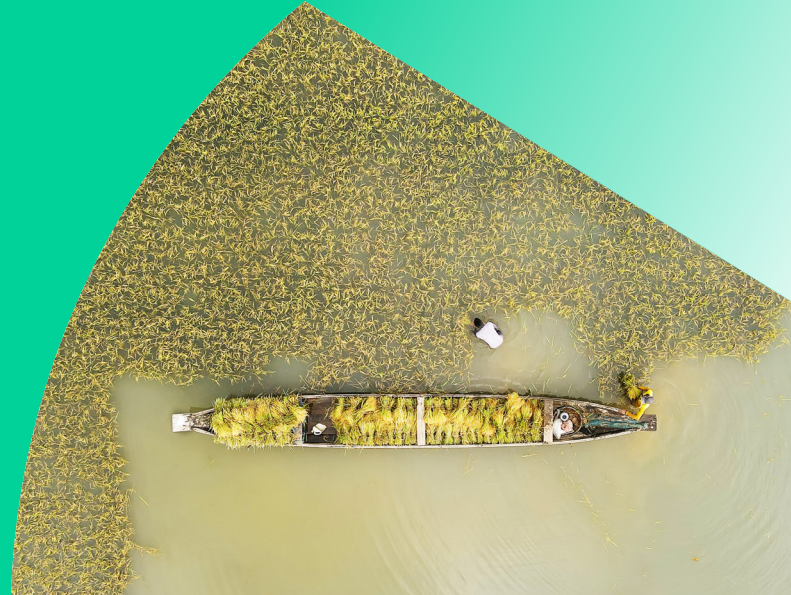


Operationalizing the Loss and Damage Fund

Learning from the perspectives of funders
and potential recipients



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Key messages:

- Recent research on the ways for the new Loss and Damage Fund to best help vulnerable countries respond to and recover from climate impacts underscores that the fund must be set up and operated in ways that are fair and are perceived as being fair by donor and recipient communities.
- Though there is no single, correct way to operationalize the fund, it is vital that the fund is transparent about how it will set priorities, navigate trade-offs, and determine who will participate in making key decisions.
- In addition to supporting both immediate and longer-term recovery, the fund must find ways for finance to reach local levels so that it can be used by communities most affected by loss and damage according to their own needs and priorities.
- Operationalizing the fund will require carefully considering four key trade-offs: whether to establish a wide financial scope for the fund itself or to focus on increased coordination among other funders; whether to emphasize participatory governance or devolved approaches; whether to prioritize decision-making processes that are inclusive or faster; and whether to prioritize greater accessibility or stronger oversight.

Introduction

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. To flesh out the governance, structures, institutional arrangements, and terms of reference of the new fund, a Transitional Committee was created to develop recommendations for consideration at the 28th UN climate conference (COP28).

With losses and damages from climate change already occurring and economic costs in the Global South expected to reach \$290 billion to \$580 billion per year by 2030 (Markandya & González-Eguino, 2019), it is essential that the fund is designed to respond quickly to urgent needs, and that the processes of setting up and governing the fund are fair and inclusive – and that they are perceived as such.

This brief summarizes key points that emerged from recent research specifically intended to inform the fund's design to help it to achieve its aims. The brief presents key recommendations and highlights key trade-offs that warrant careful consideration based on information from two reports: (i) “Operationalising the Loss and Damage Fund: Learning from the Funding Mosaic” (Schultheiß et al., 2023), which brings together information from potential funders and the existing funding landscape; and (ii) a complementary

IMAGE (ABOVE): Flood in Sunamganj,
Bangladesh

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report, “Operationalizing the Loss and Damage Fund: Learning from the Intended Beneficiaries” (Bakhtaoui et al., 2023), which draws on insights from those representing and working with potential fund applicants in governments and organizations throughout the Global South. The reports are based upon a desk-based evaluation of existing funding institutions; interviews held with representatives of existing funding institutions, including multilateral climate funds, multilateral development banks, humanitarian aid institutions, and philanthropies; and regional focus groups conducted with potential recipients in Asia, Africa, Latin America and Small Island Developing States (SIDS), which included national government actors, local government actors, local funders and local NGOs. The research was led by the Stockholm Environment Institute (SEI), Germanwatch and the International Centre for Climate Change and Development (ICCCAD).

This brief is organized according to concepts raised in key questions in the Transitional Committee’s Scenario Note (Transitional Committee, 2023). The appendix contains short summaries of the recommendations and a list of best practices used by other funders.

What should the purpose and scope of the fund be?

Effective responses to L&D are diverse, complex and context dependent. No list can anticipate or capture the complexity and context specificity of the large panel of responses to L&D. This is especially true for responses to non-economic losses and damages (NELD), which are closely tied to economic impacts. For example, loss of physical assets such as homes is also likely to have associated mental health effects.

Experiences from existing climate funds show that establishing strict requirements for what activities, themes or sectors are eligible for L&D may not be the best approach. Strict requirements may in fact fail to meet the needs and realities on the ground.

Critical funding gaps that need additional support to address climate impacts include immediate relief and recovery, livelihoods protection, mental health services, ecosystem restoration, and long-term reconstruction and rehabilitation (e.g., infrastructure and asset recovery, social cohesion building) for both in slow- and rapid-onset events. Thus, our research argues that the L&D Fund should start by defining its objectives and purposes in alignment with these critical funding gaps.

Rather than strictly defining or limiting its scope, the L&D Fund could then utilize (recipient-led) needs assessments by following a value-based approach to losses and damages (Tschakert et al., 2017; ICCCAD, 2023) to determine the activities to be funded. This would ensure that L&D support is grounded in the self-identified needs and priorities of affected populations.

Importantly, our research emphasizes the need for a comprehensive and full-spectrum approach in the context of broader funding arrangements when determining the role, purpose and objectives of the L&D Fund. For example, the fund could incorporate a coordination function for different types of support. Activities of the fund require complementarity on the ground with different funding streams that have different targets, such as adaptation, economic development, humanitarian causes, and climate change-related losses and damages. Rather than building arbitrary siloes between these sectors, projects and programmes of the fund could incorporate a combination of activities across these different sectors. This would enable greater longer-term adaptation and resilience through L&D recovery activities. Such an approach would prioritize anticipatory planning and action for vulnerable countries; integrate their national climate, adaptation and development plans; and ease access to follow-up support from big funds and UN agencies.

How should the fund be governed?

Our findings strongly indicate the need for the governance structures of the L&D Fund to be participatory and representative of civil society organizations (CSOs) and most vulnerable community groups. The structures should also enable urgent decision-making at the global and national levels so that finance reaches affected communities quickly. Approaches to achieve these goals could include giving CSO and community representatives seats on the fund's board, using a voting system that grants them power over decisions on finance allocations and recipients, and adopting more decentralized and devolved processes that give affected communities decision-making power over how funds are utilized. Importantly, our research also indicates the need for independence of actors involved in operations of the L&D Fund, with a clear separation of power, and robust checks and balances systems.

A middle-ground option could be to adopt the approach followed by the Global Greengrants Fund, which includes both a global governance structure and regional and thematic boards consisting of CSOs and community representatives responsible for decisions at the subnational and local levels. Such a multi-tiered governance approach would both ensure broader oversight and accountability and give more decision-making power to affected groups over the actual activities that are funded; it also might be better suited to ensuring that finance reaches the most vulnerable and marginalized communities on the ground. The decentralized and programmatic structure of the Global Fund to fight AIDS, Tuberculosis and Malaria could also be an inspiration for the L&D Fund.

What finance windows should the fund create?

The context-specific and continually evolving nature of losses and damages on the ground suggests that flexibility is needed to determine what activities are funded and to base decisions on locally led assessments. Therefore, our research suggests that, rather than having predetermined themes for finance, the L&D Fund could include windows targeting the full spectrum of relevant actors and situations they are likely to face. This would allow for greater flexibility.

For example, the fund could include a window of flexible, non-project-based funding specifically for more programmatic approaches to L&D finance that could be accessed by government actors and utilized according to their existing L&D response plans and policies. One approach to learn from here could be the country-based, pooled funds of the UN Office for the Coordination of Humanitarian Affairs (UN-OCHA). These funds are earmarked for long-term, persistent and predictable situations in countries, to which donors can contribute specifically. The L&D Fund could create a window for such country-specific funds in contexts where longer-term, slow-onset events are anticipated or occurring. For sudden-onset events, the fund could include a trigger-based window that disburses funds for immediate relief and recovery and rebuilding infrastructure once a disaster occurs.

In addition, the L&D Fund could include a small-grants window aimed specifically at local NGOs and community groups, with lower access and due-diligence requirements (see the next section on eligibility), potentially learning from the Global Environment Facility Small Grants Programme. This would ensure that finance reaches the most marginalized and vulnerable communities, and that these communities have more autonomy and decision-making power over how funds are used. The L&D Fund could also learn from the Climate Investment Funds by adopting a window specifically for building knowledge and capacity to manage and report on funds. The L&D Fund could also more directly target the local level so that affected communities themselves can utilize funds according to their own needs.

How should those in need access and receive funds?

Access to finance has been a critical challenge within existing climate funds. Our research indicates that countries that do not have the capacity to meet accessibility and due-diligence requirements should not be left out when it comes to fund disbursement, as they tend to host the most climate vulnerable communities.

The L&D Fund could therefore prioritize countries that might struggle with accessing other funds. It could include specialized windows with simplified access requirements for smaller countries with low capacity, or for conflict-prone areas, especially for small amounts of funding. Lower due-diligence requirements could also be applied when channelling smaller amounts of funding, or when funds are going through already accredited entities.

The L&D Fund could also enable capacity-building for its recipients to access funds, potentially replicating the readiness support programmes of the Green Climate Fund (GCF) and Adaptation Fund (AF). Special attention is needed for the approval period of readiness projects. In other funds, this cycle can range from three months to three years, causing recipients to redo the baseline due to context changes, which is particularly challenging for recipients with limited capacity.

Importantly, our research indicates that local-level access to finance is a key gap. In addition to programmatic approaches targeting governments, the L&D Fund could have dedicated windows for local NGOs and communities to access, such as a small-grants window. In this regard, the fund could learn from the Enhanced Direct Access pilots of the Green Climate Fund and the Adaptation Fund. The L&D Fund could enable more direct access for smaller organizations with limited capacity through a “learning by doing” approach. For example, the it could endorse flexible due-diligence requirements that vary with the risks associated with its projects. Most vulnerable countries and local organizations could first access funding through small pilot projects, which could serve as a guarantee for more ambitious investments later.

Other ideas include requiring governments to have community engagement processes as part of the proposal-development and project-implementation processes, or requiring a certain percentage of funding to reach the local level as an access criterion for the fund. Philanthropic funders could play a role in channelling L&D finance to local NGOs with which they have existing connections; these funders may be able to absorb the bureaucratic burdens of access, and they may already have established processes of engaging communities and equitably disbursing funds in recipient countries. For example, the Climate Justice Resilience Fund (CJRF) provides grants to local NGOs in areas affected by L&D; these NGOs then can use their existing networks to provide subgrants to local communities, including marginalized groups, which can in turn decide how to use the funds according to their own needs. The L&D Fund could follow such an approach, while also ensuring broader oversight to help avoid elite capture of the processes at the local level.

Importantly, the L&D Fund must also address the fact that past and existing local-level finance programmes require the approval of the national government of the country in which the project is based. This can restrict access for some particularly marginalized individuals and communities. Ensuring that such groups are targeted for aid could also be a formal access and evaluation criterion for the L&D Fund.

What instruments should the fund deploy to provide support?

Our research highlights the need for L&D finance to be largely provided as grants, not loans. Grants can be particularly suitable for L&D finance due to their cost-effectiveness, and they do not compound the debt burdens of nations 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). Small grants to local NGOs can be paired with direct cash transfers to affected individuals and households to provide flexible and accessible funding for vulnerable communities and hard-to-reach areas.

Philanthropic approaches, such as those employed by the Indigenous Peoples Assistance Facility, could provide lessons about how to approach the use of such small grants. The L&D Fund could also adopt a recipient-led instrument selection approach, with the instrument depending on the activity targeted and the funding needs. For example, unconditional cash transfers may be essential in the immediate aftermath of a sudden-onset event, whereas reconstruction loans could be appropriate for longer-term rebuilding of infrastructure.

Rather than using a conventional project-based approach to climate financing, the L&D Fund could instead adopt a more flexible, programmatic approach. Programmatic strategies enable the provision of financial resources over an extended period and enable recipient countries to utilize funding according to their own national plans and policies, with greater flexibility in the use of funds as L&D needs shift over time (Bakhtaoui et al., 2022). The Pilot Program for Climate Resilience, which adopts programmatic approaches of mainstreaming climate change into national plans and policies, could provide important lessons.

Who should provide the finance needed for the L&D Fund?

Both funder and recipient perspectives suggest the need to integrate multiple funding sources beyond public finance, particularly due to the prevailing perception that public finance is likely to be insufficient to meet the scale of the needs. The L&D Fund could therefore diversify funding sources as much as possible, incorporating contributions from philanthropic organizations, foundations, the private sector, and alternative funding sources. Regarding the question of which countries should pay into the fund, both funders and recipients largely advocate for broadening the contributor pool to include some countries that are currently classified as developing.

Other ideas include blended finance, bilateral finance, and direct litigation efforts by those affected. The L&D Fund could also tap into innovative sources of finance, such as the use of taxes and levies across a range of sectors, including aviation, consumption, fossil fuels, financial transactions, or cross-border carbon adjustments. One example to learn from could be the Clean Development Mechanism, which administered a 2% levy on Certified Emissions Reduction to replenish the Adaptation Fund.

What approaches should the fund use to involve stakeholders in decision-making?

Both funders and recipients emphasized the need for multi-stakeholder and participatory processes across the spectrum of governance and decision-making (as discussed above), utilization of funds and monitoring and learning processes. For example, cooperation between different governmental and non-governmental actors could help determine whether affected people have effectively received the support required. Reporting and accountability mechanisms could also empower stakeholders who might be negatively impacted by the fund's activities.

When it comes to finance dissemination, the L&D Fund could prioritize local NGOs and community-based organizations that already have established connections to local communities. National social protection mechanisms can also direct funding to those in need.

How should the L&D Fund ensure that it complements and coordinates with other funding sources?

As highlighted above, a more comprehensive and full-spectrum approach to funding L&D on the ground, with greater complementary with neighbouring sectors, is likely to be more beneficial for building longer-term resilience and adaptive capacity. Institutions within the existing funding landscape could play a role through potentially accessing the L&D Fund, hosting it, or acting as its implementing agencies. 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. The L&D Fund could build on this existing landscape.

If it establishes its own coordination function, the L&D Fund could learn from several existing models. For example, a network of philanthropies has created a pooled fund for L&D, enabling all participating philanthropies to channel their resources into a shared pool and collectively coordinate their efforts. It ensures complementarity and effectively averts any duplication of efforts. Similarly, the Global Fund to Fight AIDS, Tuberculosis and Malaria distributes funding 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, and multilateral and bilateral agencies). In addition, UN-OCHA plays a coordination role in humanitarian responses, and distributes funds to other specialized UN agencies using national and regional offices for rapid dissemination and coordination.

Conclusions: Managing key trade-offs

There were many points of agreement among participants among the potential funders and recipients who participated in our interviews and focus groups; nevertheless, our research indicates 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, and there are different ways to achieve aims. At the same time, it is important that the fund is operationalized in ways that are fair, and that are perceived by its intended beneficiaries as being fair. This requires being transparent about how the fund will set priorities, navigate trade-offs, and determine who will participate in making key decisions.

We highlight four key trade-offs that warrant careful consideration:

1. **Broader scope versus increased coordination** – Should the L&D Fund address the full spectrum of losses and damages? This would require less coordination but take longer to set up and require several different types of instruments. Or should the fund invest more in coordination with other funding streams? This would make better use of the existing finance architecture but might risk leaving some aspects of L&D unfunded.
2. **Participatory versus devolved governance** – Should the fund opt for more centralized decision-making with mechanisms for participation and consultation? This would enable greater accountability and oversight but risk tokenism and lead to decisions that aren't fully representative of local priorities. Or should it adopt more devolved governance processes that give decision-making power to affected communities? This would give affected groups more agency over utilizing funds according to their own needs but would require greater investments in local capacity-building and strong safeguard systems.

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- 3. Inclusive versus rapid decision-making** – Should the fund prioritize more inclusive decision-making? This would lead to more representative decisions but might cause delays in finance disbursement. Or should the fund instead opt for trigger-based systems? This would lead to much faster disbursement of funds but might risk leaving affected groups out of how decisions are made.
- 4. Greater accessibility versus stronger oversight** – Should the fund adopt less stringent and more flexible accreditation, access and reporting requirements? This would help reduce burdens on applicants and recipients but might risk a misuse of funds. Or should it instead prioritize strong monitoring, reporting and oversight systems? This would ensure greater accountability but increase burdens on recipients to access funds.

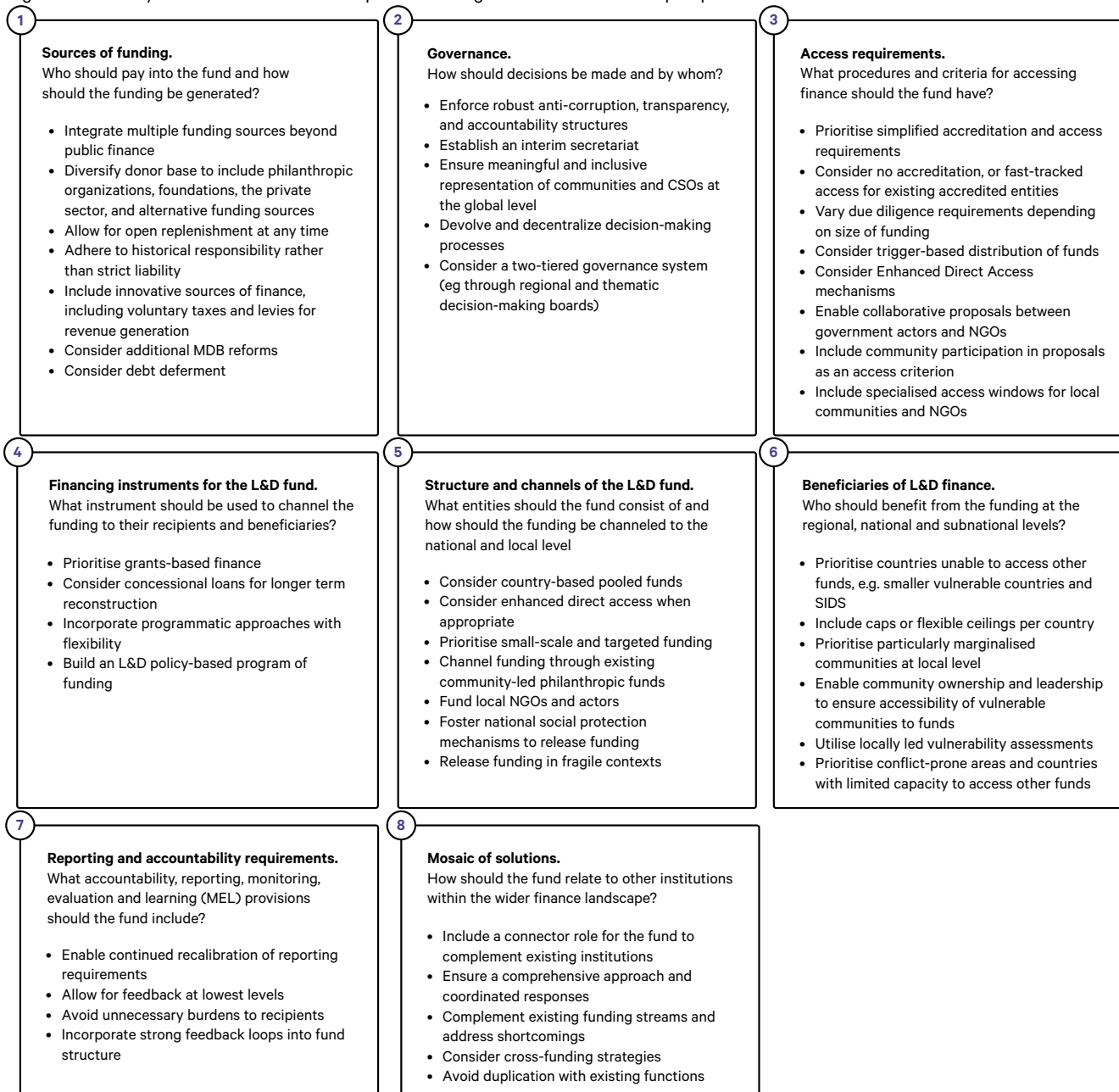
It is also critical to recognize that the exact structures and modalities of the L&D Fund will crucially depend on its scope. Many of the recommendations depend on the exact function of the fund and the gap that it will be mandated to fill. Given that different actors have different answers for how to 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 Transitional Committee should ensure that it adopts equitable and inclusive procedures that enable learning from diverse voices and perspectives – particularly of those most affected by losses and damages. Such voices must be at the heart of any process to design and operationalize the fund.

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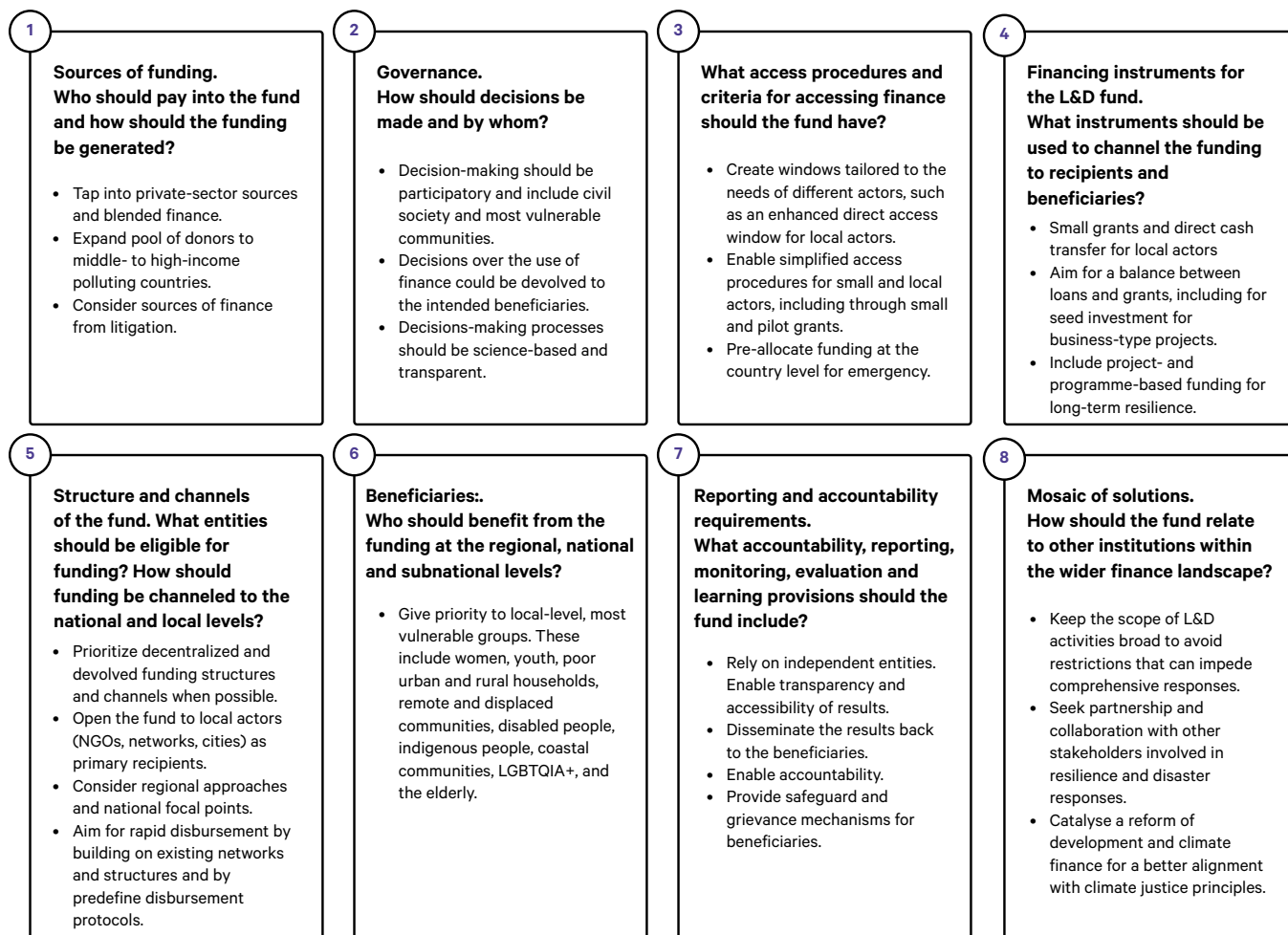
Appendix: short summaries of the recommendations and a list of best practices used by other funders

Figure 1. Summary of recommendations for operationalizing the L&D Fund: funder perspectives



Note: Recommendations are based on a desk-based review of existing funds and financing institutions, and interviews with both funding institution representatives and members of the L&D Fund Transitional Committee. Adapted from: "Operationalising the Loss and Damage Fund: Learning from the Funding Mosaic" (Schultheiß et al., 2023).

Figure 2. Summary of recommendations for operationalizing the L&D Fund: recipient perspectives



Note: Recommendations are based on discussions with regional focus groups in Asia, Africa, Latin America and SIDs. The focus groups included national government actors, local government actors, local funders and local NGOs. Adapted from: "Operationalizing the Loss and Damage Fund: Learning from the Intended Beneficiaries" (Bakhtaoui et al., 2023).

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BOX 1: EXAMPLES OF RELEVANT BEST PRACTICES FROM EXISTING FUNDS

- **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 organizers). This set-up delegates decision-making 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, and multilateral and bilateral agencies).
 - **Pilot Program for Climate Resilience** – Programmatic approaches are used to mainstream climate change into national plans and policies. The technical committee in charge of approving funding allocation includes representatives of donor and recipient countries, and civil society members representing most vulnerable groups.
 - **Climate Justice Resilience Fund** – Governance is provided by a practitioner-led board that includes representatives for women, youth, and Indigenous Peoples.
 - **UN Office for the Coordination of Humanitarian Affairs** – Country-based pooled funds are provided for long-term, persistent, and predictable situations in individual countries. Donors can choose to contribute to specific countries.
 - **Global Environment Facility Small Grants Programme** – Registered civil society organizations may access grants for community-based projects.
 - **Indigenous Peoples Assistance Facility** – Dedicated funding streams ensure that the rights of women, Indigenous Peoples, and marginalized groups are prioritized. Funds are specifically allocated to enable the empowerment of these groups.
 - **Clean Development Mechanism** – A 2% levy on certified emissions reductions was administered and used to replenish the Adaptation Fund.
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