

Operationalising the Loss and Damage Fund: Learning from Funder and Recipient Perspectives

TC3 Submission

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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 institutional arrangements, modalities, structure, governance and terms of reference of the new fund, a Transitional Committee (TC) was created, tasked with developing recommendations for consideration at the 28th UN climate conference (COP28) for operationalising the new fund.

This brief draws on research led by the Stockholm Environment Institute (SEI), Germanwatch and the International Centre for Climate Change and Development (ICCCAD). It provides recommendations to the TC on how best the new L&D fund can be operationalised. We therefore structure this brief along some of the key questions raised in the [TC's Scenario Note](#), which highlights critical points on which decisions about the fund's structure and modalities need to be made.

To answer these questions, we draw on two recently published reports: (i) "[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.

As such, this brief is based 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 regional focus groups 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.

Overall, we provide insights from both the funder and recipient perspectives on how the new L&D fund can learn from existing funding institutions in its design, and best serve the needs and priorities of communities in need.

What is the purpose and scope of the new funding arrangements for responding to loss and damage and the fund?

Several areas emerge as particularly critical funding gaps in need of additional support, such as immediate relief and recovery, livelihoods protection, mental health support, ecosystem restoration and support for long-term reconstruction and rehabilitation from climate impacts (e.g., infrastructure and asset recovery, social cohesion building) both in cases of slow and rapid onset events. These elements should not cast a shadow on the funding needs to guarantee immediate survival and recovery.

Past experience from existing climate funds shows that conditioning funding eligibility to a strict scope (i.e., list of eligible activities, themes and sectors) may not be the best approach, and may fail to meet the needs and realities on the ground. 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 the economic dimensions of L&D. For example, loss of physical assets such as homes is also likely to have associated mental health impacts.

Instead, we suggest that the L&D fund starts by defining its objectives and purposes in alignment with the elements provided above. Rather than defining or limiting the scope of the L&D fund according to a strict taxonomy, the fund could utilise (recipient-led) needs assessments, following a value-based approach to losses and damages, to determine the activities to be funded in alignment with these objectives and purposes. This would ensure that L&D support is grounded in the self-identified needs and priorities of affected populations.

Importantly, when determining the role, purpose and objectives of the L&D fund, our research emphasises the need for a comprehensive and full-spectrum approach in the context of the broader funding arrangements. Activities of the fund require complementarity on the ground with different funding streams of adaptation, development, humanitarian aid and loss and damage support. Rather than building arbitrary siloes between these disciplines, projects and programs of the fund could incorporate a combination of activities within these different fields. 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.

What are the arrangements for the fund's governance in terms of composition, tenure, chairpersonship, decision-making, roles, and functions?

Our findings strongly emphasized the need for the L&D fund's governance structures to be participatory and representative of civil society organisations (CSOs) and most vulnerable community groups, while also enabling urgent decision-making. One approach to this could be through having CSO and community representatives sit on the board of the fund, with a voting system that grants them power over decisions on where finance is allocated and by whom it is utilized. Another approach is through more decentralized and devolved approaches, with decisions over how funds are utilized made directly by affected communities. Importantly, our research also indicated 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 the approach followed by the Global Greengrants Fund, which includes both a global governance structure as well as 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 while also giving more decision-making power to affected groups over the actual activities that are funded, and might be better suited to ensuring that finance reaches the most vulnerable and marginalized communities on the ground. The decentralised and programmatic structure of the Global Fund to fight AIDS, Tuberculosis and Malaria could also be an inspiration for the L&D fund.

What are the thematic windows of the fund?

As mentioned above, an approach which predetermines thematic areas for L&D may not be the most effective due to the context-specific and continually evolving nature of L&D on the ground, highlighting the need for flexibility in determining what activities are funded based on locally-led needs assessments. Rather than having thematic windows, therefore, our research suggests that the L&D fund could instead include windows targeting the full spectrum of relevant actors and situations they are likely to face, which would also 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, to 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 United Nations Office for the Coordination of Humanitarian Affairs (UN-OCHA)'s country-based pooled funds, which are ear-marked funds for long-term, persistent and predictable situations in countries, to which donors can contribute specifically. The L&D fund could therefore have a window for such country-specific funds in contexts where longer-term slow-onset events are occurring and anticipated. For more sudden onset events, on the other hand, the fund could include a trigger-based window, which disburses funds for immediate relief and recovery 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 below), potentially learning from the Global Environment Facility (GEF)/United Nations Development Programme (UNDP) small grants programme. This would ensure that finance reaches the most marginalized and vulnerable communities, and give them more autonomy and decision-making power over how funds are used. Learning from the Climate Investment Funds, a window could also be included specifically for funding knowledge and capacity building for managing and reporting on funds; these funds could also be targeted more directly to the local level, so that affected communities themselves could have the capacity to utilize funds according to their own needs.

Who is eligible to access the fund and what are the access and delivery modalities?

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, such as small countries and conflict-prone areas, 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 prioritise countries which might struggle with accessing other funds, and implement lower access requirements for countries with low capacity. For example, the L&D fund 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 smaller amounts of funding are being channelled, or when funds are going through already accredited entities, rather than imposing a new system of accreditation.

The L&D fund could also enable capacity building for its recipients to access funds, potentially replicating the readiness support programs 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 3 months to 3 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, therefore, 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 GCF and AF's Enhanced Direct Access pilots. Direct access to the L&D fund for smaller organisations with limited capacity could be enabled through a learning by doing approach. For example, the L&D fund could endorse flexible due diligence requirements that vary with the risks associated with its projects. Most vulnerable countries and local organisations could first access funding through small pilot projects, which serve as a guarantee for more ambitious investments later on if successful.

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 access criteria for the fund. Philanthropic funders could also serve as recipients of the L&D fund, as they may be able to absorb the bureaucratic burdens of access and may already have established processes of engaging communities and equitably disbursing funds in recipient countries. The L&D fund must also address the fact that past and existing local-level finance programs require the approval of the national government of the country in which the project is based, which can restrict access for some particularly marginalized individuals and communities.

[What instruments will the fund deploy to support the projects/programmes?](#)

Our research highlights the need for L&D finance to be largely grants based. Grants can be particularly suitable for L&D finance due to their cost-effectiveness, and they do not compound the debt burdens of nations and communities vulnerable to climate change. With their inherent flexibility, grants are less demanding regarding due diligence and operational requirements, thus enhancing the capabilities of local entities. Small grants or direct cash transfers through cash handouts and direct transactions can provide flexible and accessible funding for vulnerable communities and hard to reach areas.

Philanthropic approaches of providing small grants, such as those employed by the Climate Justice Resilience Fund or the Indigenous Peoples Assistance Facility, could be learned from. The L&D fund could also adopt a recipient-led instrument selection approach, with the instrument dependent on what activity is being targeted and what the funding needs are.

Rather than the 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. The Pilot Program for Climate Resilience, which adopts programmatic approaches of mainstreaming climate change into national plans and policies, could be learned from in this regard.

What are the sources of the fund?

Both funder and recipient perspectives suggested the need to integrate multiple funding sources beyond just public finance, particularly due to the perceptions of public finance likely being insufficient to meet the scale of the needs. The L&D fund could therefore adopt an approach of diversifying 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 advocated for broadening the contributor pool to include some countries that are currently classified as developing.

Other ideas raised included blended finance, bilateral finance and litigation approaches. 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 are the mechanisms for multi-stakeholder engagement in the fund?

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 prioritise local NGOs and community-based organisations that already have established connections to local communities. Additionally, utilizing national social protection mechanisms can effectively direct funding to those in need whenever feasible.

What does ensuring coordination and complementarity with existing funding arrangements mean in practice? How should this be operationalized? For which existing funding arrangements is this particularly critical?

As highlighted above, a more comprehensive and full-spectrum approach to funding L&D on the ground, with greater complementarity between neighbouring fields, 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. This could be an existing landscape that the L&D fund could build on.

If the L&D fund has its own coordination function, there are several existing models it could learn from. 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 sub-national 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, etc). In addition, UN-OCHA plays a coordination role in humanitarian response and combines the distribution of its un-earmarked Centralized Emergency Response Fund (CERF) to other specialized UN agencies with a system of integrated national and regional offices for rapid dissemination and coordination.

Conclusions: managing the trade-offs

This brief aimed to provide recommendations to the L&D fund's TC on how best the fund can be operationalised. Overall, our research suggests 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.

Four particular tradeoffs might need to be considered by the TC:

1. **Effectiveness:** should the L&D fund address the full spectrum of losses and damages, which would require less coordination but take longer to set up, or invest more in coordination with other funding streams, which might risk some aspects of L&D remaining unfunded?
2. **Equitable governance:** should the fund opt for more centralised decision-making with participatory and representative governance systems, or more devolved decision-making processes?
3. **Speed:** should the fund prioritise inclusive decision-making, which could lead to delays in finance disbursement, or instead opt for trigger-based systems?
4. **Avoiding recipient burdens:** should the fund adopt less stringent and more flexible accreditation, access, and reporting requirements, or prioritise strong monitoring, reporting and oversight systems?

It is also 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.

Annex 1: Summary from recommendations from funder and recipient perspectives



Figure 1: 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.

Recommendations - making the L&D fund work for its recipients and beneficiaries



Figure 2: Summary of recommendations for operationalising the L&D fund. These are based on regional focus groups in Asia, Africa, Latin America and SIDs which included national government actors, local government actors, local funders and local NGOs.

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 sub-national 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 streams 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.