

Operationalizing the Loss and Damage Fund: learning from the perspectives of funders and potential recipients

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Abstract

The 27th UN Climate Conference (COP27) concluded with the groundbreaking agreement to establish a new loss and damage (L&D) fund. This significant development aims to enable vulnerable countries to respond to and recover from climate impacts. 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, 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.

As negotiations on the new fund's operationalization kickstart, questions remain regarding its institutional arrangements, elements of the funding arrangements, sources of finance, and ensuring coordination and complementarity with existing arrangements for L&D. Importantly, two pivotal questions arise: (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?

Anchored within the principles of climate justice, this presentation aims to shed light on these questions by offering insightful recommendations for how to best operationalize the fund to achieve its intended goals, including what governance structures, financial instruments, channels and modalities, and access requirements it should adopt. We draw on three key data sources: 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. By doing so, we gather learnings from what has and has not worked well both from the international financial architecture, and from the recipients it has targeted, to inform what practices can be replicated for the L&D fund and what can be left behind.

Overall, we find that 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. Importantly, 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.

Policy relevance

COP28 will mark a critical moment as it will officially kickstart negotiations on the fund's operationalization, which will likely continue into the near future. More widely, the year 2023 has witnessed the creation and multiplication of initiatives for L&D finance, such as the Bridgetown Initiative to reform the international finance architecture, bilateral L&D finance support, and the G7-V20 Global Shield Against Climate Risks, all of which aimed to shape the L&D finance architecture. This indicates that increasing amounts of L&D finance are likely to be disseminated in the coming years from different sources and through different channels, raising questions regarding how best to do so to ensure that funds are utilised both effectively and equitably.

Our work provides valuable insights on not only the design of the L&D fund, but also how L&D finance more broadly can be aligned with principles of climate justice, including accessibility for the most vulnerable, recipient ownership and agency in decision-making, and accounting for local level power dynamics. We aim to go beyond theoretical discussions on equitable finance to provide practical recommendations for the instruments, procedures and structures needed, which also contributes to broader discussions on reforming the international finance architecture.