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Operationalizing finance for loss and damage: from principles to modalities

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Contents

Executive summary **4**

1. Charting the loss and damage finance gap **6**

1.1 The need for loss and damage finance 6

1.2 Gaps in current structures financing activities to address loss and damage 8

2. Principles for fair, feasible and effective loss and damage finance **11**

2.1 Historical responsibility and "polluter pays" 12

2.2 Equitable and targeted support 13

2.3 Grant-based, programmatic finance 14

2.4 Accessibility 15

2.5 Recipient ownership 16

2.6 Transparency and accountability 17

2.7 Key takeaways 18

3. Envisioning a new loss and damage finance facility **19**

3.1 Learning from past and present experiences 20

3.2 Global level 23

3.3 National Level 25

3.4 Sub-national level 27

3.5 Key takeaways 28

4. Conclusion and key messages **30**

4.1 Next steps 31

References **32**

Annex 1. Literature reviewed associated with loss and damage finance principles 38

Annex 2. Interview questions 38

Executive summary

Vulnerable countries and communities are already facing loss and damage resulting from climate impacts, and urgently need financial support to recover and rebuild livelihoods and infrastructure. Despite increasing demands, however, finance for addressing loss and damage has been largely absent and falls far short of the scale of needs. A number of gaps also exist within the existing climate finance architecture that make it unsuitable for addressing loss and damage.

This report aims to feed into ongoing negotiations and discussions on loss and damage finance by exploring different options for how it can be operationalized.

First, we draw on existing literature on the effectiveness of climate finance, development and humanitarian assistance to set out key principles for loss and damage finance that are grounded in climate justice. We find that the following principles should underpin how loss and damage finance is operationalized: historical responsibility and the "polluter pays" principle; equitable and targeted support (including ensuring gender equality and protecting human rights); grant-based and programmatic finance; accessibility; recipient ownership; and transparency and accountability.

Second, we draw on interviews with key stakeholders to present options for how those principles can be operationalized within a potential global loss and damage finance facility, including what structures and modalities need to be put in place at the global, national and sub-national level. We find that modalities for loss and damage finance should be designed to centre the needs and priorities of vulnerable communities. This includes giving those communities significant autonomy and decision-making power over how finance is utilized in accordance with their needs. Small grants and unconditional cash transfers, as opposed to loans or project-based finance, are also likely to be more accessible for recipients and effective in reaching affected communities.

Overall, both the literature and our interviews suggest that successful examples of just and effective climate finance delivery tend to be small-scale projects offering direct access at the community level. While many such models are still at a piloting stage, and we cannot conclude causality, we suggest that they might be a reasonable and effective way to deliver loss and damage finance, and offer an opportunity to try innovative approaches combined with inclusive learning processes. This could also catalyse the shift of climate finance altogether towards practices better aligned with climate justice.

Key findings and recommendations

- **Climate finance is currently largely inaccessible for recipient countries and communities due to stringent proposal and accreditation requirements and long lag times in delivery. Negotiations on loss and damage finance at COP27 should prioritize simplified and enhanced direct access procedures that deliver funding directly to communities and marginalized groups.**

- **Loan-based and project-based finance often increases the debt burdens of recipient countries, is associated with burdensome reporting requirements, and often doesn't reach the most vulnerable communities in need. Funders both within and outside the UNFCCC should prioritize small grants and unconditional cash transfers, which are likelier to reach disempowered and marginalized groups quickly.**

- **Climate finance is often associated with conditionalities and not distributed and utilized according the needs of recipients. Negotiations on loss and damage finance should ensure that recipients – particularly representatives of the most vulnerable and discriminated communities – are involved at all stages of decision-making and have a say on how finance is allocated and utilized. This could involve sitting on the board of a potential loss and damage finance facility at the global level, or devolving decision-making to the lowest levels.**

- **Transparency and accountability requirements are currently burdensome for recipient countries, and often reflect the priorities of finance providers rather than being accountable to affected communities. Funders and policy-makers should embed independent and participatory approaches to monitoring and evaluation in their structures and create accountability mechanisms that empower recipient communities.**

- **A loss and damage finance facility would take time to implement and has no guarantee of success, but has the advantage of offering a blank slate for modalities tailored to principles grounded in climate justice. A COP27 decision could include a phased approach of establishing a facility in the medium term and mobilizing finance through existing mechanisms in the immediate term. Subsequent sessions of the Glasgow Dialogue could be used to discuss the arrangements of the facility. In the interim, loss and damage finance could be mobilized bilaterally and through small-scale pilot programmes, such as through small grants under the Green Climate Fund.**

1. Charting the loss and damage finance gap

Climate change impacts around the world are quickly escalating, as highlighted in stark terms by the Intergovernmental Panel on Climate Change's Sixth Assessment Report (IPCC 2022). Yet despite the known urgency of the climate crisis, both mitigation and adaptation efforts are advancing far more slowly than is needed, hindered to a great extent by the inadequacy of climate finance (CPI 2021; UNEP 2021).

As a result of these failures, vulnerable countries and communities, many of which have contributed minimally to global greenhouse gas (GHG) emissions, are already experiencing severe losses and damages: from destroyed homes, infrastructure and cropland, to ruined livelihoods, to disappearing cultural heritage. Some places are becoming uninhabitable. By 2050, a recent United Nations report found, losses linked to climate hazards in Africa alone could reach US$50 billion per year (WMO 2021).

Vulnerable countries, particularly Small Island Developing States, have advocated for decades for climate finance that specifically addresses loss and damage (Gewirtzman et al. 2018), demands which heightened at the Glasgow Climate Change Conference (COP26) in 2021. Yet, although a small amount of dedicated finance has been pledged, little progress has been made so far.

A year later, the toll of loss and damage continues to rise, with 33 million people affected by record floods in Pakistan (Goldbaum et al. 2022), for instance, and 22 million at risk of starvation due to drought in the Horn of Africa (Presse 2022). COP27 in Cairo, where the profound vulnerabilities of many African countries will be front and centre, offers an opportunity to break the stalemate. A sub-item on "matters relating to funding arrangements for addressing loss and damage" is already on the provisional agenda.

This report, which builds on an in-depth analysis for COP26 (Shawoo et al. 2021), aims to help negotiators and the broader climate finance community find ways to deliver loss and damage finance where it is needed most, in a fair, feasible and effective manner. Drawing on the climate and development finance literature, including new analyses since COP26, as well as on insights from a diverse group of stakeholders, it demonstrates the finance need and identifies key gaps in existing systems (Section 1); lays out a set of principles to guide loss and damage finance and ways to operationalize them (Section 2); and examines the applicability of those principles to a new loss and damage finance facility (Section 3). It concludes with recommendations for COP27 and beyond.

1.1 The need for loss and damage finance

We use the term "loss and damage" as defined by Roberts and Pelling (2018), to cover the many impacts of climate change that cannot – or have not – been avoided through mitigation or adaptation. (As many terms used in discussions of this topic are politically sensitive, Box 1 explains our language choices in this report.) As the IPCC has noted, losses and damages are already occurring and will increase even if mitigation and adaptation efforts are stepped up significantly (IPCC 2022). Affected communities, who are overwhelmingly poor, need financial support to recover from climate shocks and respond to slow-onset impacts, such as sea-level rise or aridification, that will force them to build new livelihoods and potentially relocate.

Recent estimates suggest loss and damage finance needs are enormous. Markandya and González-Eguino (2019) estimated total residual damages of US$290–580 billion per year by 2030.[1] The Vulnerable Twenty Group[2] found that its member countries would be 20%

1 The estimate excludes the countries listed under Annex I of the United Nations Framework Convention on Climate Change (UNFCCC) – that is, those that were members of the Organisation for Economic Co-operation and Development (OECD) in 1992, plus countries with economies in transition, including the Russian Federation, the Baltic States, and several Central and Eastern European States. See https://unfccc.int/parties-observers.

2 The V20 describes itself as "a dedicated cooperation initiative of economies systemically vulnerable to climate change"; see https://www.v-20.org/about.

Table 1. Key activities to address loss and damage from climate change.

	Sudden-onset events	Slow-onset events
Economic loss and damage	Compensation and other social protection measures	Planned relocation /assisted migration
	Short and long-term recovery and rehabilitation	Reskilling and alternative livelihoods provision
	Rebuilding damaged infrastructure	Compensation and other social protection measures
	Planned relocation / assisted migration	
	Support for rebuilding livelihoods	
	Insurance and risk transfer	
Non-economic loss and damage	Recognition and repair of loss (whether or not accompanied by financial payments)	Recognition and repair of loss (whether or not accompanied by financial payments)
	Enabling access / safe visits to abandoned sites	Enabling access / safe visits to abandoned sites
	Active remembrance (e.g. through museum exhibitions, school curricula)	Active remembrance (e.g. through museum exhibitions, school curricula)
	Counselling	Counselling
	Official apologies	Official apologies

Source: Adapted from Shawoo et al. (2021).

wealthier today had it not been for the impacts of climate change (V20 2022) and stressed that, without substantial international support, loss and damage will increasingly strain their finances. Vulnerable households may bear the greatest costs: One study found rural Bangladesh households spend almost US$2 billion a year on repairing the climate-related damage and on prevention measures – twice as much as the national government spends, and 12 times more than international funders (Shaikh Eskander 2020).

Despite this urgent need, the overwhelming majority of climate finance now goes to mitigation and adaptation (Germanwatch 2021) . Loss and damage needs are mainly addressed through mechanisms for disaster response – humanitarian assistance, reconstruction loans from multilateral development banks, and some grants and bilateral support – at levels far below the actual need (Oxfam 2022). This is why many countries, civil society organisations and climate finance experts have pushed for separate, additional finance flows for addressing loss and damage, though the matter is politically contested (Boyd et al. 2017).

What would be covered by loss and damage finance is itself subject to negotiation, but several types of activities have been suggested in the literature. Table 1 provides a summary.

At COP26, the G77 and China negotiating group formally proposed establishing a new financial facility for loss and damage. Although the specific role and structure of such a facility have yet to be defined, the general idea was that it could serve as a mechanism to gather finance from the Global North and deliver it to affected countries and communities.

This demand from the biggest Global South negotiating group came after years of unsuccessful efforts to mobilize loss and damage finance, even after the creation of the Warsaw International Mechanism for Loss and Damage (WIM) in 2013. After intense debates, however, the Parties chose not to adopt the proposal, but instead established a “Glasgow Dialogue” to discuss financial arrangements for loss and damage “in an open, inclusive and non-prescriptive manner” (UNFCCC 2021).

BOX 1. KEY TERMS USED IN THIS REPORT

The language used in negotiations over climate finance is often ambiguous and politically contested, reflecting unresolved differences (see, e.g., Roberts et al. 2021). In this report, we adopt the following terms and definitions:

Climate finance is funding mobilized to achieve the objectives of the United Nations Framework Convention on Climate Change (UNFCCC), as reflected in Article 9 of the Paris Agreement. We focus specifically on finance from public sources. Climate finance is meant to be "new and additional", and governed by equity and the principle of "common but differentiated responsibilities and respective capabilities". This means it is distinct from development finance and humanitarian aid; it is finance from the countries most responsible for historical GHG emissions to those that have contributed the least, with priority to those most vulnerable to climate impacts.

Loss and damage finance is climate finance for activities to avert, minimize and/or address loss and damage. Because the first two categories are largely covered by mitigation and adaptation finance, respectively, we focus here on the largest gap: addressing losses and damages that have already occurred or are unlikely to be avoided. The term *residual damages* is sometimes used in this context, but we avoid it, as it fails to account for the immediacy of loss and damage – it is already happening – or the full extent of the barriers and limits to adaptation on the ground.

We use the terms **Global North** and **Global South**, rather than "developed" and "developing" countries, to reflect the fact that, although many countries have significantly increased their income over the past several decades, there are clear historical differences between those expected to provide climate finance under the UNFCCC, and those entitled to receive it, especially in terms of cumulative GHG emissions, but also with regard to persistent vulnerabilities, colonial history and other factors.

The Dialogue is to take place each year during the United Nations Framework Convention on Climate Change (UNFCCC) intersessional climate negotiations, until 2024. The first meeting, in June 2022, focused on mapping existing arrangements inside and outside the UNFCCC space for funding loss and damage activities and identifying barriers and challenges in accessing this funding (UNFCCC 2021). Participants generally agreed that there are gaps in the current climate finance architecture, but while Parties from the Global North favoured filling them by retrofitting existing structures both within and outside the UNFCCC, Parties from the Global South would prefer a new financing structure within the UNFCCC.

1.2 Gaps in current structures financing activities to address loss and damage

A key reason why many Parties are calling for a new loss and damage facility is that they see large gaps in existing structures that would make it difficult or impossible to deliver loss and damage finance fairly and efficiently. We reviewed the proceedings of the first session of the Glasgow Dialogue and identified the largest gaps mentioned. Below we outline the four main categories of gaps described by the Parties, supplemented with evidence from the research and policy literature.

Gap 1: Existing resources fall far short of loss and damage finance needs

Within the UNFCCC, no specific percentage of international climate finance is assigned to loss and damage. In the negotiation process, loss and damage has historically and intentionally been separated from finance discussions (Pandit Chhetri et al. 2021). While in general, the need to support the efforts of countries in the Global South to address loss and damage is accepted, there is limited progress on how to provide adequate funding and what levels of support are needed.

Although the support architecture under the UNFCCC has seen major developments in the past decade, so far there is no mandate under the UNFCCC for responding to loss and damage related to climate change. Global North countries committed to mobilize jointly US$100 billion per year by 2020 and through to 2025 to address the needs of Global South countries. However, not only is loss and damage finance not part of it, but the pledge was not met (OECD 2022).

Outside the UNFCCC, finance labelled as loss and damage has been committed bilaterally by the governments of Denmark, Scotland and the Belgian province of Wallonia (Lo 2022), as well as by philanthropies (CIFF 2021), but the amounts fall far short of the scale of needs. As of September 2022, they amounted to just $16 million in public funds and $3 million in private funds (Bhandari et al. 2022; Carbon Brief 2022). While humanitarian assistance currently plays a crucial role in the immediate response to extreme climate events, those financial flows are also just a fraction of what is needed (ICVA 2022). A recent report by Oxfam found that "funding requirements for UN humanitarian appeals linked to extreme weather are eight times higher than they were 20 years ago, and over the past five years nearly half of appeal requirements have gone unmet" (Oxfam 2022, p.2).

Gap 2: Existing institutional arrangements are inadequate for addressing loss and damage

Within the UNFCCC, at COP25 in Madrid, loss and damage was loosely anchored within the UNFCCC financial architecture (Pandit Chhetri et al. 2021). Resulting decisions included language inviting the Green Climate Fund (GCF) to continue its activities funding loss and damage and to clarify how countries in the Global South may access such funding (UNFCCC 2019; UNFCCC 2019). However, the decisions do not answer the fundamental question of whether and how the GCF and other UNFCCC funds can provide finance for specific loss and damage measures based on their mandates, results frameworks, financial tools and funding windows.

An analysis by Shaefer et al. (2021) examined that question and concluded that these funds are not suitable for funding all loss and damage activities, especially measures to address loss and damage that has already occurred through an extreme weather event, or that occurs gradually through slow-onset processes. Beyond the institutional limitation imposed by mandates, the instruments (such as loans under the GCF) and modalities of access (project-based finance with long application and pre-project phases) of existing funds are not suitable for the reality of loss and damage in the Global South (Schaefer, Jorks, Kunzel, et al. 2021).

Outside the UNFCCC, the institutional arrangements within humanitarian aid and development finance are limited in their ability to provide finance for addressing loss and damage. Humanitarian aid focuses mainly on meeting the immediate needs of communities affected by a disaster, not on longer-term support for rebuilding homes and infrastructure following an immediate emergency situation (CAN International et al. 2022). It does not support relocation or the development of alternative livelihoods. Studies have also found that humanitarian practices tend to exacerbate vulnerability by reinforcing inequitable power dynamics, as aid recipients fully depend on their benefactors and have little choice in how they are assisted (Arifeen and Nyborg 2021; Sözer 2020).

Development finance has a broader scope and less stringent eligibility requirements and conditionalities, all of which can make it more easily accessible. However, a large share of this finance is provided as loans – with more favourable terms than in the market, but still imposing heavy debt burdens over time. The annual debt service of Least Developed Countries (LDCs), for instance, more than tripled from 2011 to 2019, to US$33 billion, and is estimated to have reached US$50 billion in 2021 due to the COVID-19 pandemic (UNCTAD 2022).

Another limitation is that many countries for which climate change is an existential threat, such as some Small Island Developing States (SIDS), do not qualify for the most favourable terms due to their income levels. Moreover, development finance often lacks adequate structures for ensuring country ownership in how finance is utilized (Dornan 2017). Finance utilisation therefore often reflects the interests of the countries or institutions providing the funds, rather than local priorities (Buffardi 2013).

Gap 3: Lack of financing and instruments for addressing slow-onset climate change impacts

Within the UNFCCC: The lack of financing and financial instruments for slow-onset processes is well known at the international level. Already in 2016, the Forum of the Standing Committee on Finance concluded that “a major gap exists in addressing slow-onset events, because current approaches are more suited to extreme weather events and other rapid-onset events” (UNFCCC 2016). A key challenge the Forum highlighted in this regard, and echoed in literature, is that “existing financial instruments have limitations in addressing slow-onset events” (p. 40).

The same problem is noted in the Executive Committee's compilation of best practices, challenges and lessons learned from existing financing instruments for addressing loss and damage. While a variety of financial tools to address rapid-onset events could be listed, "information was also rather limited regarding those financial instruments and tools that could be effective for the context of slow onset events, and that of non-economic losses" (ExCom 2016, p. 3).

Outside the UNFCCC: Also at the country level, there are often neither financial tools and instruments nor sufficient financing sources available to address slow-onset processes that countries are facing. A survey by Künzel and Schäfer (2021) on financial mechanisms and instruments to address climate impacts in Climate Vulnerable Forum countries revealed that, compared with extreme weather events, slow-onset processes are covered by a highly limited number of countries. Moreover, humanitarian aid is primarily geared towards immediate recovery from sudden-onset events, and these actors are often working in fragile contexts and regions of conflict where there is often a vacuum of other actors providing support for longer-term recovery.

Gap 4: Lack of financing for non-economic loss and damage

Inside UNFCCC: As the Parties have recognized for years, not all losses and damages due to climate change can be quantified or compensated in economic terms. This includes the loss of culture and identity that might result from losing one's homeland or a traditional livelihood, for instance. However, there are some approaches to address non-economic loss and damage, such as active remembrance and counselling, and affected communities need financing for them (Shawoo et al. 2021).

However, financing options for dealing with non-economic loss and damage are very limited under the current UNFCCC financial architecture (Schaefer, Jorks, Kunzel, et al. 2021). The Adaptation Fund's Innovation Facility includes "enhancement of cultural heritage". The GCF's investment criteria "sustainable development potential" and "needs of the recipient" (GCF 2015) could also open up a space for financing non-economic loss and damage, as they include social co-benefits such as cultural preservation and social inclusion. While both of these are promising, they are very narrow windows within already limited and highly competitive funding mechanisms.

Outside the UNFCCC, finance, initiatives and measures to deal with non-economic loss and damage are almost non-existent, though there are a few, such as the KulturGutRetter project, based in Germany, which works to protect culturally important objects and buildings threatened by crises.[3]

Humanitarian interventions in areas affected by disasters, conflicts and fragility sometimes provide valuable support for addressing the psychological and social impacts of climate shocks, but that support only lasts for as long as the humanitarian mission is underway. In addition, support is needed for enhanced research on non-economic loss and damage, particularly to build capacities to include it in climate impact assessments, as well as to set up registries and to share good practices (Hirsch et al. 2017; Serdeczny et al. 2016).

3 See https://www.kulturgutretter.org/en/project/.

2. Principles for fair, feasible and effective loss and damage finance

Laying out principles to guide the commitment and disbursement of finance is nothing new. Development aid has its own set,[4] as does climate finance, based on the "concept of common but differentiated responsibilities and respective capabilities". Significant thinking has already gone into developing climate finance principles specifically for loss and damage, including by authors of this report (Schalatek and Bird 2022; Shawoo et al. 2021).

Ongoing discussions about loss and damage are informed by experience with broader climate finance that have shown the current climate finance architecture is fraught with barriers and challenges that hinder its positive impacts (Nakhooda and Norman 2014; Pauw et al. 2022; Roberts et al. 2021) or even make it counterproductive (Eriksen et al. 2021). As the Glasgow Dialogue progresses, the stakes are high for funders to avoid repeating these mistakes, especially since unaddressed climate impacts result in immediate deaths and long-lasting effects on affected populations.

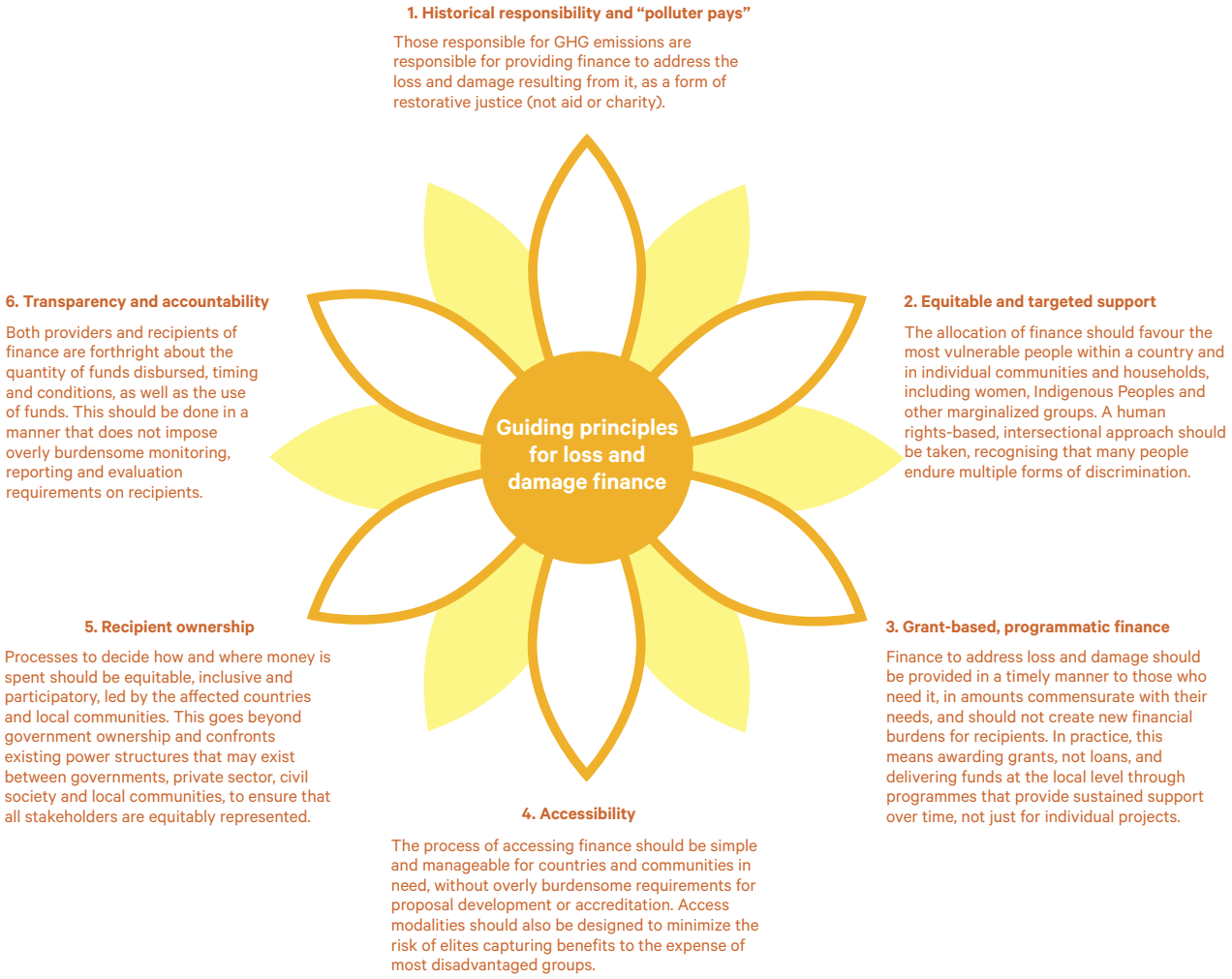
Our analysis is grounded in the notion of climate justice – the recognition that climate change is not just a technical, political or financial challenge, but an ethical matter, closely linked to human rights, fairness and equity (Robinson and Shine 2018). From this perspective, failing to act on climate change, directly and through finance, is fundamentally unjust, as it needlessly condemns vulnerable people to suffer, today and in the future. A climate justice approach also recognizes that those most affected by climate change often have the least decision-making power or access to resources, and that the processes, tools and activities developed to fight climate change should aim to correct this imbalance. That recognition has long underpinned discussions on climate action, and the preamble of the Paris Agreement explicitly mentions the concept of climate justice (UNFCCC 2015).

Three main practical implications of climate justice are identified in the literature: (i) the meaningful inclusion and participation of those most affected by climate change at all levels of decision-making – *procedural* justice; (ii) the distribution of finance and resources so that it targets and reaches those most marginalized and vulnerable – *distributive* justice; and (iii) the restoration of dignity, agency and capabilities to those who have lost it – *restorative* justice (Holland 2017; Schinko et al. 2019; Coggins et al. 2021; Robinson and Carlson 2021; Juhola et al. 2022; Islam 2022).

Table 2 lays out six key loss and damage finance principles and makes explicit their link with climate justice. These principles are based on an in-depth analysis of existing literature (55 papers in total) on the effectiveness of climate finance, development finance and humanitarian assistance to understand how guiding principles have been implemented (or failed to be implemented) in these disciplines (see Annex 1 for references associated with each principle).

4 See the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008): https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm.

Figure 1: Guiding principles to support climate justice in loss and damage finance



2.1 Historical responsibility and "polluter pays"

One of the major points of contention in debates over loss and damage is whether the finance provided would be compensation – which implies admitting liability – or a voluntary contribution (Adelman 2016; Burkett 2015; Richards and Schalatek 2017). Parties from the Global North have strongly resisted anything that suggests liability, and most observers recognize that it is politically infeasible within the UNFCCC.

Indeed, although Article 9 of the Paris Agreement explicitly says that "developed country Parties shall provide financial resources" to developing countries, in practice, contributions to climate finance are voluntary, not commensurate with historical responsibility. Ambiguity about what constitutes climate finance has enabled Parties in the Global North to avoid meeting their own commitments (Barrett 2014; Islam 2022; Roberts et al. 2021; Roberts and Weikmans 2017).

Efforts to reduce dependence on voluntary contributions to finance climate action have fallen short (Baatz 2018). For example, the Adaptation Fund was partly capitalized by a 2% levy on the Certified Emission Reductions (CERs) generated by projects under the Clean Development Mechanism (CDM). However, only US$213 million of the US$1.27 billion raised by the fund as of October 2022 came from CER sales proceeds; the rest came from voluntary contributions.[5]

5 See https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/fund-detail/adapt. Most of the funds come from a handful of countries, led by Germany, which has contributed US$514 million, and Sweden, at US$168 million (data as of October 12, 2022).

Dixon (2022) have identified other international and national options for financing actions to address loss and damage, all reflecting the polluter-pays principle:

- A tax on international shipping emissions;
- A climate damages tax on the extraction of coal, oil and gas;
- An international airline passenger levy;
- A financial transactions tax;
- Debt relief, suspensions or cancellations;
- Reallocation of Special Drawing Rights (SDRs) from developed to developing countries;
- An annual reduction in fossil fuel subsidies by G20 countries, with the funds being used to support efforts to address loss and damage; and/or
- A wealth, high income or land property tax.

Following Baatz (2018), we suggest assessing those options in terms of fairness (polluter pays principle and beneficiary pays principle), feasibility (institutional and political will), and effectiveness (in terms of amount and unintended consequences). Options that convey fairness or generate enough funding may not currently be politically or technically feasible.

Some have argued that providing financial support on the basis of accountability and ethical responsibility, rather than legal liability, is also aligned with the polluter-pays principle (Linnerooth-Bayer et al. 2019). Such an approach may be key for mobilizing voluntary support on the scale contemplated by loss and damage discussions – essentially, as a matter of solidarity (Shawoo et al. 2021). Civil society actors should have sufficient input in reviewing voluntary contributions and assessing them against agreed criteria, such as common but differentiated responsibilities, to determine countries' fair share of contributions (Vanderheiden 2015).

2.2 Equitable and targeted support

Various portfolio reviews of organisations providing or channelling finance for adaptation have shown that vulnerability is rarely the main driver in finance allocation at the country level. Instead, donor interest and recipients' capacity to receive finance tend to predict where the money will go (Barrett 2015; Doshi and Garschagen 2020; Eriksen et al. 2021; Kalaidjian and Robinson 2022; Scandurra et al. 2020). Moreover, climate finance has so far been risk-averse, leaving aside conflict-ridden countries and their population, many of which are the most exposed to climate change – for instance, in the Sahel region (UNDP 2021). This goes against the notion of distributive justice.

Loss and damage finance should favour those who are most vulnerable to climate change impacts – not just in terms of exposure to hazards, but especially due to social vulnerability, marginalisation and other factors.[6] As such, particular attention needs to be paid to finance reaching Indigenous groups, women and other gender minorities, as well as racial and ethnic minorities in different contexts. A lack of consideration of local power dynamics may result in harming these groups within local communities (Omukuti 2020a). Finance also needs to be

6 This broader understanding of vulnerability is well established in the climate literature. The IPCC's latest assessment (IPCC 2022 p. 14), for instance, notes among its key findings: "Vulnerability of ecosystems and people to climate change differs substantially among and within regions (very high confidence), driven by patterns of intersecting socioeconomic development, unsustainable ocean and land use, inequity, marginalization, historical and ongoing patterns of inequity such as colonialism, and governance (high confidence)." Similarly, the widely used Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index considers a wide range of social, economic, infrastructure and political factors. See https://gain.nd.edu/our-work/country-index/.

distributed in a manner that protects and contributes to rather than undermines the human rights of these different groups.

Getting finance to intended recipients requires establishing and following clearly defined, transparent selection criteria and guidelines. In doing so, however, it is important to recognize that there is no universally accepted way of defining and measuring vulnerability, and risks are high that any criteria used could pit prospective recipients against one another, competing to be seen as the most deserving (Doshi and Garschagen 2020; Khan et al. 2020; Klein 2009).

Reviews have also found that funds do not reach the most vulnerable at the local level, although it is currently difficult to quantify (Colenbrander et al. 2018; Price 2021; Schalatek 2012; Soanes et al. 2017; Trujillo and Nakhooda 2013). Tracking structures do not follow the money beyond the national level (Coger et al. 2021). One report estimated that less than 10% of climate finance is directed towards the local level (Soanes et al. 2017). Studies have also shown that support is often directed towards infrastructure, goods and benefits that target non-poor households, rather than the poorest and most vulnerable (Hill 2020). In addition, women and women's groups often face challenges in accessing climate financing, due to inequities with regard to such eligibility requirements as asset ownership, business skills, access to information and membership in cooperatives (Price 2021). Equitable and targeted support can be enabled by:

- Involving representatives of intended beneficiaries in the design stage of a project, to help improve targeting and ensure that policies and criteria for accessing funds are inclusive and locally relevant.
- Utilizing data, where available, from nationally representative household surveys, geocoded hazard data and social registries to help determine those areas most affected by climate change and the households that are most at need.
- Ensuring that criteria and policies for finance distribution reflect the specific and intersectional vulnerabilities and needs of women, Indigenous groups and racial and ethnic minorities.
- Communicating policies, guidelines and criteria in local languages through channels easily accessible to the actors being targeted.

One example of enabling equitable and targeted support is the County Climate Change Funds (CCCFs) in Kenya, which devolve decision-making over how climate finance is allocated to country governments and involves communities in decision-making. Local-level committees decide on adaptation investment needs. However, early insights suggest that marginalized groups such as women often played a more peripheral role in such committees.

2.3 Grant-based, programmatic finance

The type of financial instrument also matters. Loans still constitute the majority of climate finance, despite their impact on debt accumulation in recipient countries (Perry 2021). The resulting reduction in fiscal space for recipient countries further undermines their ability to invest in critical development goals, which only exacerbates their vulnerability to climate impacts. Climate justice requires providing finance in a manner improves recipients' financial situation instead of ultimately worsening it. This makes grants more suitable than loans.

Multilateral climate funds do provide grants, but seldom make small grants available that are suitable for reaching local communities and generating local results. This is due to the higher administrative cost and thus cost of engagement at the implementation level.

However, there is growing evidence that small grants rather than large-scale projects are more likely to reach disempowered and marginalized groups (Price 2021; Soanes et al. 2017). Small

grants tend to be more flexible, less burdensome in terms of due diligence and operational requirements and appropriate for non-revenue generating interventions. Grants are also needed to strengthen the capacity of local actors, including local governments, community-based organisations and local NGOs, to design, implement and monitor projects.

At the same time, in order to scale up, programmatic approaches are required (Soanes et al. 2017). This means providing more flexible and sustained funding (over several years), not just project-to-project finance, so recipients can continue to improve and expand their work. This is particularly appropriate for supporting comprehensive recovery and reconstruction efforts in the years after a climate disaster. Such approaches retain community participation through locally led projects and deliver the large-scale results that multilateral funders are looking for. These partnerships also enable long-term impact assessments and learning.

An example that has been praised for its flexible yet large-scale approach is the World Bank's Community-Driven Development (CDD) initiatives (Soanes et al. 2017). CDD gives local communities and decision-makers direct control of their financial resources, which are mostly provided as block grants to villages and municipalities. CDD interventions are not predetermined, and offer flexible approaches to project identification and development.

2.4 Accessibility

As noted in Section 1.2, recipient countries and communities currently face several barriers to accessing climate finance, related to stringent and burdensome accreditation and project proposal requirements. Climate justice requires finance for loss and damage to be easily accessible for affected countries and communities, including through rapid finance dissemination.

There are generally three types of access modalities to finance from international funds: direct access, which normally requires accreditation by national or regional developing country entities by proving the entity meets specified requirements; international access, whereby finance is channelled through accredited international entities (such as multilateral development banks, UN agencies and developed country development banks and agencies); or enhanced direct access, whereby all eligible organisations can submit funding requests directly to the fund.

Given the limited scale of multilateral climate finance channelled through direct access to date and its early implementation stages, the jury is still out on whether such models are promoting local project delivery and ownership, with many national and subnational entities lacking the capacity to meet the stringent accreditation standards (Colenbrander et al. 2018; Soanes et al. 2017).

Consequently, international financial intermediaries are still being favoured. Where accreditation is required, it is thus important to provide simplified access reflecting local actors' capacities, and promote the accreditation of intermediaries capable of working at the local level (Gutiérrez and Gutiérrez 2019; Price 2021; Soanes et al. 2017). Potential measures to consider include:

- Simplifying procedures for small scale funding below a certain threshold to make it easier and less costly for small actors to apply for funding (Gutiérrez and Gutiérrez 2019; Price 2021);
- Creating dialogue space to help beneficiaries through the accreditation and application processes;
- Aggregating civil society organisations (CSOs) or community groups into one entity to get accredited (Colenbrander et al. 2018);
- Simplifying procedures for accessing finance post-impact, including use of automated triggers to release funding;

- International financial intermediaries acting only as temporary intermediaries, with a requirement to build the capacity of national and sub-national entities in the interim (Soanes et al. 2017); or

- Moving away from accreditation requirements when the costs outweigh the benefits.

In addition, enhanced direct access pilots are currently underway within the Adaptation Fund (AF) and Green Climate Fund (GCF) and could offer valuable lessons that could be replicated within the context of loss and damage. In these cases, rather than sub-projects being approved by the fund boards, the screening, assessment and selection of individual climate change projects under a broader programme are devolved to the regional, national or sub-national level (Sharma et al. 2017). In addition, enhanced direct access offers the opportunity for nominated national entities to undertake a programmatic approach to climate finance with devolved decision-making at the national level, while also enhancing the voices of local actors.

2.5 Recipient ownership

As a matter of procedural justice, those intended to receive and benefit from finance should have sufficient autonomy and decision-making power over how that finance is utilized in accordance with their needs and priorities. Mainstream climate finance rarely accounts for local power dynamics and local context, and it tends to either dismiss recipients' capacity for agency, or reinforce power inequalities (Browne 2022; Eriksen et al. 2021; Gutiérrez and Gutiérrez 2019; Omukuti 2020a). Where development partners have sought to promote recipient ownership, they have typically taken it to mean supporting a country in developing and implementing its own national strategy and priorities (for example, poverty reduction strategy papers, national adaptation programmes of action, and nationally appropriate mitigation actions).

While full consensus within a country is unlikely, it is increasingly recognized that ownership should not be limited to a small group of elites in the Ministry of Finance or President's Office (Dornan 2017). In-country systems that promote participation of multiple stakeholders from the local level to the sub-national and national levels are needed to generate and sustain sufficient support for the strategy or intervention in the overall recipient population. As previously mentioned, it can also ensure activities deliver the priorities of the vulnerable while reflecting national strategies.

The challenge is to make participation inclusive and transformative, to empower actors to influence and change policies and outcomes rather than just giving an illusion of participation (Omukuti 2020a). Participatory processes should be tailored to the country's political culture and circumstances, seeking to ensure that vulnerable and marginalized groups are fully included in these process. To ensure that local actors act as agents of change rather than passive recipients, our review identified the following conditions (Hussain and Ahmad 2020; Omukuti 2020b; Price 2021; Schalatek 2012; Soanes et al. 2021):

- In project-based models, local actors should be involved from the project design stage; for instance, community liaison officers can lead project development and delivery.

- Local actors should be guaranteed places in decision-making structures such as steering committees or governing boards. For example, the Forest Investment Programme's (FIP) Dedicated Grants Mechanism, the Global Fund and UN Capital Development Fund programmes, or the GEF/UNDP Small Grants Programme are governed by multi-stakeholder committees at the national level that include local community representatives.

- Local actors should have the capacity, tools and information needed to meaningfully engage. In particular, national focal points leading the oversight of devolved financing mechanisms must have the capacity and support to oversee the principles of subsidiarity, ensuring that local actors have real influence in how climate finance is spent.

- Local actors should be aware of the potential long-term benefits of participating, with benefits provided in the short term whenever possible to incentivize their participation.

Working with local actors is crucial, but not sufficient to address local level vulnerabilities; in some cases, it may even redistribute power in disfavour of poor and vulnerable local populations (Omukuti 2020a). For example, Bangladesh's Local Disaster Risk Reduction Fund (LDRRF) adopts a decentralized approach to adaptation finance by using a community risk assessment methodology to develop local risk reduction action plans and projects that are then implemented in collaboration between government bodies and NGOs. However, political and economic elite capture of projects has occurred in some cases due to lack of local capacity and reliance on government bodies for technical support.

External actors seeking to engender ownership at the local level must carefully consider power relations and contestations between domestic actors at different levels to avoid creating structures that reinforce the marginalisation and exclusion of local level communities (ODI 2021). Local actors must also have the power to say "no" to models and approaches that do not meet their needs. External actors need to be open to working in new or different ways that involves them stepping back, and not encroaching on the agency of local actors.

2.6 Transparency and accountability

Most donor-funded interventions tend to have mechanisms in place to track how the money has been used and what results it produced. However, these are often associated with burdensome reporting requirements for recipients. Climate justice requires that transparency and accountability also flow downwards to recipient communities, and serve the purpose of ensuring finance is utilized in accordance to their needs, rather than just meeting funder requirements. This is likely to require that the international community and funders do the following:

- Establish clear rules for what counts as loss and damage finance at the global level. The lack of clear definitions and boundaries between humanitarian, development, adaptation, and loss and damage finance therein currently hinders the programming and tracking, much less accountability to any goals and commitments (Pandit Chhetri et al. 2021). Clear labelling and accounting at the global level would help ensure the additionality of finance for addressing loss and damage. However, does not mean that such strict compartments are needed at the local/implementation level, since loss and damage action overlaps with humanitarian, adaptation and even mitigation action. Less scrutiny would therefore be applied on labelling the different activities for which the finance is spent and utilized once disseminated.

- Establish and monitor a baseline and target for getting finance directly to local actors (Soanes et al. 2017). Specific indicators (e.g., Coger et al. 2021) should be developed and integrated into financial reporting that capture the amount of finance that is delivered through local actors, that involve participatory decision making with communities, and that reach local level beneficiaries.

- Provide publicly available, accurate, complete and timely information on the following: a mechanism's funding structure; its financial data; the structure of its board and contact information for its board members; its decision-making processes and the actual funding decisions. The information should be accessible in ways that take account of different people's needs, capabilities and resources in accessing and using information (Schalatek and Bird 2022).

- Involve recipient communities in designing locally appropriate indicators, including results at the household and community levels. Currently the metrics of success used by providers of finance are skewed in favour of large-scale results that deprioritize outcomes at the local level. When interventions are responding to the needs of the poorest and most vulnerable, they should have a say in what success looks like (Walsh-Dilley and Wolford 2015). This could

also involve deprioritizing indicator-based monitoring, evaluation and learning (MEL) and instead prioritizing participatory approaches that work for households and communities. Recipients could also provide direct feedback to the funder and implementing entities (Do Thi and Dombroski 2022).

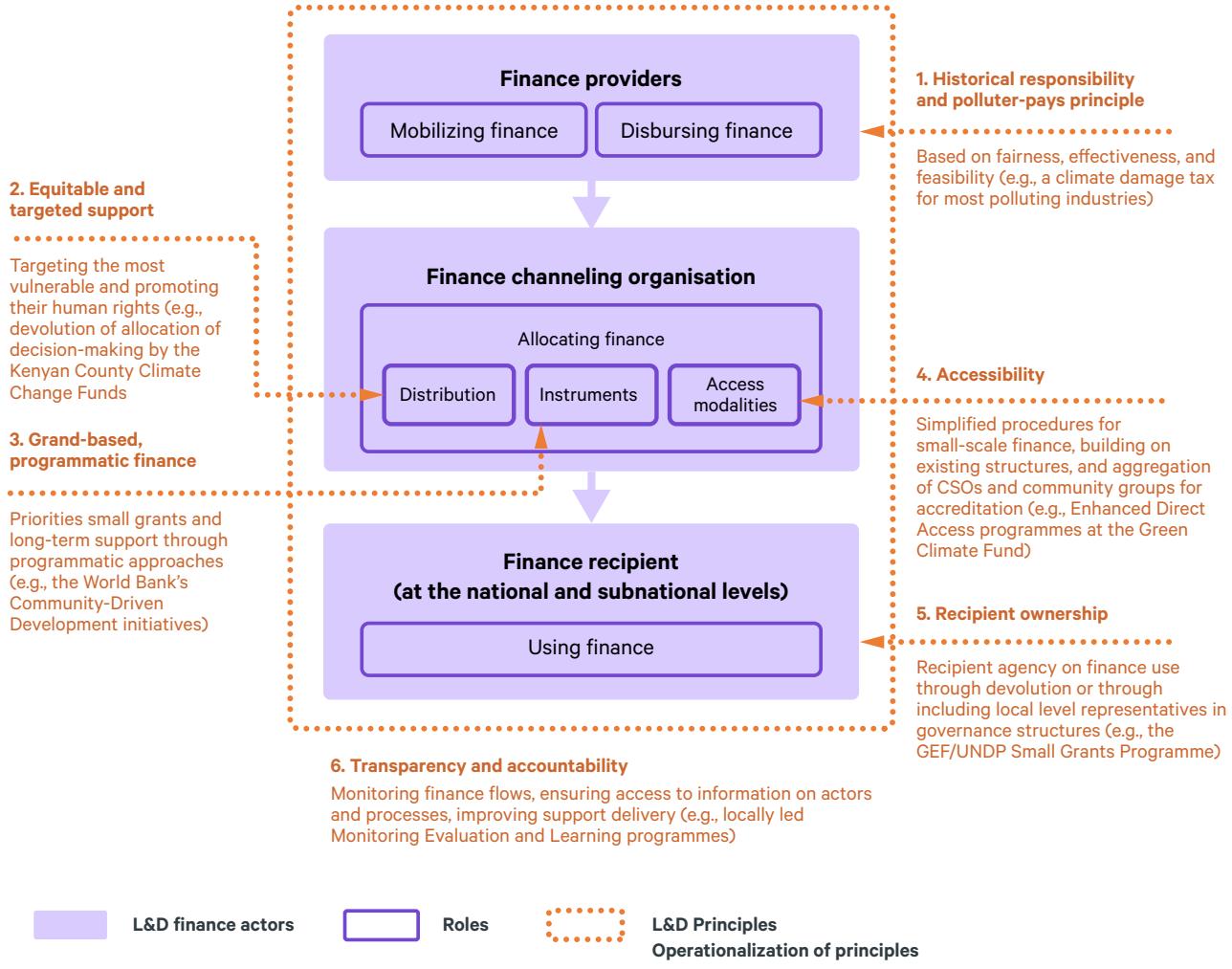
- Strengthen grievance mechanisms to give recipient communities real power in voicing concerns and vetoing certain decisions that do not align with their priorities (Abimbola et al. 2021). These mechanisms need to be accessible and independent, and should give communities the power to halt projects based on their concerns. Affected communities also need to be actively informed about these mechanisms and how to access them.

2.7 Key takeaways

Delivering loss and damage finance fairly and effectively requires going beyond helping vulnerable people to ask potentially uncomfortable questions, such as "Who has the duty and responsibility of paying?" and "Who has the legitimacy to decide how the money is used and by whom?"

Our review of the literature suggests that loss and damage finance should take an intersectional approach that empowers vulnerable groups and puts them at the centre of decision-making. Figure 2 summarizes how the six principles identified through our literature review apply to different actors, and includes examples of how the principles can be operationalized.

Figure 2. Ways of operationalizing L&D principles tied to the L&D finance structure



Climate finance is undermined by operational modalities and funding approaches that go against its own principles. While a few examples illustrate how this can be turned around, these are rare, and often limited to small amounts of funding provided by actors free from the burdens of multilateral processes (e.g. philanthropic funders). To overcome these, the implementers of loss and damage finance should pay close attention to the flaws in existing structures and seek innovative ways to overcome these, building on their strengths. They will have to find the right balance between fairness, effectiveness and feasibility – as loss and damage requires urgent action. In particular, they should ensure the fair representation of recipients and vulnerable communities in the design and implementation of loss and damage finance.

Given the political tension over loss and damage (see Shawoo et al. 2021), the feeling of exhaustion/disappointment after the launching of the GCF, and the growing mistrust and frustration over unmet climate finance commitments, this is a daunting task. Still, aiming to support constructive discussions that can yield tangible results, the next section examines how the principles identified above could be applied to a potential future Loss and Damage Facility, based on the G77+ China proposal (Farand 2021).

3. Envisioning a new loss and damage finance facility

Recognizing the gap in loss and damage finance, the conversation has evolved in the last year from whether loss and damage should become a third pillar of climate finance under the UNFCCC, to how it can best be mobilized. Following on from the proposal by G77 and China to establish a new financial facility for loss and damage, we examine what such a mechanism could look like, and what key components it needs in order to ensure alignment with critical climate justice principles presented in Section 2. Moreover, as noted in Section 1, matters relating to finance for addressing loss and damage have been included as a sub-agenda item on the provisional agenda for COP27; research on the best pathways forward for financing could feed into this negotiations process as an evidence base.

This section examines different structures and modalities that could be put in place for financing loss and damage at the global, national and sub-national levels. We draw primarily on anonymized semi-structured interviews with 18 actors, which included four negotiators from the Global South negotiators and one from the Global North; two international philanthropic funders; two local Global South funders; two representatives of humanitarian organisations; three civil society representatives; three researchers/experts; and one representative from the Climate Vulnerable Forum.

The interview questions focused on a) links with and lessons from existing finance structures relevant to loss and damage b) ways to mobilize and disburse finance to a loss and damage finance facility that align with polluter-pays and historical responsibility principles c) ways to operationalize a loss and damage finance facility at the global level, taking into account climate justice principles; and d) ways to deliver this funding at the national and sub-national level in ways that respect those principles. The interview data were coded and analysed using an extraction table, where data from each interview were categorized in relation to each question. The interview questions are available in Annex 2.

The interviews were a result of a broad stakeholder mapping, but gaps remain in our data due to a lack of responses from some stakeholders, as well as time limitations for conducting the interviews. Importantly, our interviews only include one Global North negotiator perspective and lack direct insights from UNFCCC Secretariat representatives, climate fund representatives, representatives of national and regional level public finance structures relevant to loss and damage work, and local recipients/end-users of loss and damage finance. We therefore complement our interview data here with insights from the first Glasgow Dialogue session on the positions of different Parties, and incorporate relevant published literature on options for loss and damage financing. Our planned work for next year includes additional interviews to fill the gaps identified.

3.1 Learning from past and present experiences

Lessons from and links to the existing global finance architecture

Only one interviewee (a negotiator from the Global North) argued that a loss and damage finance facility is not needed, and that instead the efficiency and effectiveness of the full spectrum of funds and mechanisms under the existing global finance architecture could be improved to deliver loss and damage financing. This suggestion may reflect Global North countries' resistance to pressure to provide even more climate finance more than substantive disagreement over the gaps discussed in Section 2.

This is not to negate the ability of a multitude of actors and channels to contribute to loss and damage financing, as several interviewees and the literature have highlighted (Hirsch 2019; Pandit Chhetri et al. 2021; Roberts et al. 2017). Among the climate funds under the Convention, primarily the AF and the GCF already take on and could further scale up loss and damage financing through their existing activities. For instance, they could include it in adaptation funding and in readiness and planning support activities, even in the absence of an explicit operational mandate (CAN International et al. 2022; Kempa et al. 2021; Schaefer, Jorks and Seck 2021).

Outside the UNFCCC, existing regional risk transfer facilities, such as the African Risk Capacity Group (ARC) or Caribbean Catastrophe Risk Insurance Facility (CCRIF), play an important, if limited role and should be maintained as part of the broader loss and damage finance architecture.[7] Another important potential source of loss and damage finance is the multilateral development banks (MDBs), which have experience with multi-donor trust funds and with risk transfer instruments, as well as an established regional presence. They can provide targeted financing solutions such as catastrophe bonds or contingent financing. However, the MDBs' criteria for providing finance on the most favourable terms do not align with eligibility criteria under the UNFCCC – excluding many SIDS, for instance.[8]

These examples illustrate the crucial need for synergy and coordination, with a loss and damage finance facility under the UNFCCC as a catalyst. The facility could also provide oversight, transparency and accountability, including on the quantity and quality of finance and the ease of access, to ensure equity and fairness in supporting all developing countries eligible for climate finance under the Convention (CAN International et al. 2022).

In setting up and operationalizing a new loss and damage finance facility, lessons learned from existing climate-relevant finance provision structures and channels need to be applied. Developing-country negotiators and academics have argued for establishing a link between finance mobilisation and provision on one side, and articulated loss and damage needs on the other, to avoid underfunding (Gewirtzman et al. 2018; Pandit Chhetri et al. 2021; Weikmans and Roberts 2019).

Many interviewees across different stakeholder groups reaffirmed the principle of grant-based and programmatic finance and articulated the need to leave behind the current primacy of project-based finance, with its slow proposal development and approval processes. Instead, they said, it is important to move to faster, more direct budget support and financial release, at least for sudden-onset climate emergencies – for example, through parametric triggers.

Such funding could be channelled to national-level bodies for rapid disbursement to directly affected communities – for example, as cash transfers, whose effectiveness and efficiency has been well established (Bastagli et al. 2019). Interviewees said access to financial support, with

7 See https://www.arc.int and https://www.ccrif.org.

8 For example, the World Bank distinguishes between the poorest countries, which receive interest-free loans and grants under the International Development Association (IDA), and middle-income countries and credit-worthy low-income countries, which qualify for loans from the International Bank for Reconstruction and Development (IBRD). Although some SIDS qualify for IDA finance despite being above the income threshold, not all do. See https://ida.worldbank.org/en/about/borrowing-countries.

bureaucratic hurdles reduced and without conditionalities imposed, should not depend on prior accreditation of national entities, as required under a lengthy and often cumbersome process for most climate funds. However, accredited entities under existing UNFCCC funds, both direct access entities and international implementers, could play a role if a recipient country desires (CAN International et al. 2022).

Philanthropies interviewed argued for simplified and enhanced direct access procedures, as discussed in Section 2 (Soanes et al. 2021). They suggested the facility must devolve funding directly to communities and marginalized population groups for locally led responses, such as through small grants after extreme events. This is in line with humanitarian actors' rapid response approaches from the global to the local level, working with local organisations. It is important to note, however, that the feasibility of devolution will vary from country to country, and it may be less applicable in hyper-centralized or non-democratic contexts.

Some interviewees pointed to the GCF's efforts to determine the climate rationale for adaptation measures in project proposals as a way to distinguish them from development actions and suggested that it would be counterproductive to do the same with loss and damage, which overlaps with adaptation, development and humanitarian action. They also pointed to the need to strengthen social protection and support systems as an equitable and sustained response to loss and damage (Oxfam 2022).

Role of new initiatives and bilateral finance

Interviewees had mixed perspectives on recent new initiatives by the G7 German presidency for a Global Shield (BMZ 2022a) and a new loss and damage focused programme under the CVF & Joint Multi-Donor Trust Fund (V20 2022), both drawing on existing initiatives and structures. Some were cautiously supportive, while others expressed concerns, including about their ability to be scaled up and sustained. They also wondered whether the initiatives could be integrated into a more comprehensive, coordinated approach accountable under the UNFCCC and the Paris Agreement.

Several interviewees acknowledged the demonstration value of such initiatives, but worried that they would weaken the political momentum to advance loss and damage finance within the UNFCCC. They argued that such efforts should be as additional to, but cannot substitute for a multilateral loss and damage finance facility under the UNFCCC open to all countries in the Global South, noting that, for example, the V20 as a grouping excludes many LDCs and SIDS.

At the same time, the focus of the new V20 fund on demand-driven, locally accessible, devolved small grants provision, building on the Global Environment Facility (GEF) Small Grant Programme, was welcomed by most interviewees. It appears to be well aligned with the outlined climate justice principles, particularly since the initiative is developing country-led and governed.

In contrast, the Global Protection Shield, which expands on the existing InsuResilience Global Partnership with subsidized insurance premium support, is perceived as being donor-driven, including by basing its eligibility criteria on those for development assistance, not the UNFCCC. The Global Protection Shield's scale is seen as too small, and its central focus on market-based insurance for loss and damage related climate risk management is far from the solidarity or compensation funding approaches to address loss and damage that many argue are required to be in line with climate justice principles and human rights (Adelman 2016; Burkett 2015). The situation may evolve rapidly, as the V20 and the G7 recently announced a collaboration on the Global Shield to be launched at COP27 (BMZ 2022b)

The drawbacks and limits of insurance as just one tool, not a panacea, for financing to address loss and damage have been well documented (Gewirtzman et al. 2018; Richards and Schalatek 2017). Nevertheless, several interviewees saw a role for the Global Protection Shield

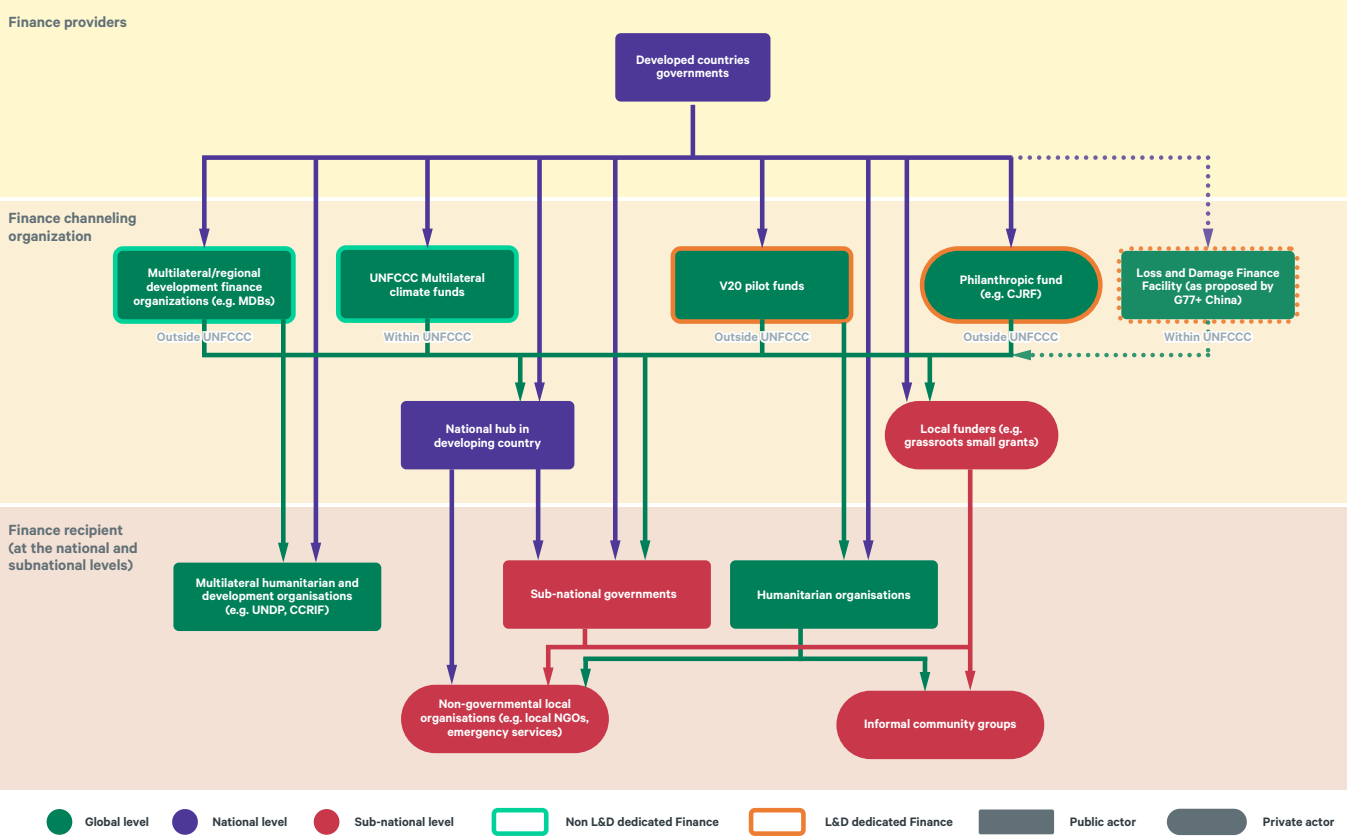
going forward by contributing to global coordination and evidence-building efforts towards a global monitoring system for early warning threshold triggers.

Bilateral finance from the Global North, which supports new initiatives through voluntary contributions, but is not subject to UNFCCC climate finance criteria, will have a continued role to play in the ramp-up of loss and damage financing, including of dedicated multilateral structures. Bilateral funders, such as development banks or agencies, could set up their own special loss and damage trust funds or use their greater flexibility and concessionality to better integrate finance to address loss and damage in existing mechanisms (Hirsch 2019; Pandit Chhetri et al. 2021).

However, with bilateral finance there is a risk of uncoordinated approaches, and donors' funding priorities often override needs, including in terms of geopolitical reach and climate focus (Abimbola et al. 2021; Browne 2022). Observed climate justice and coordination deficits would have to be addressed in transparently providing, reporting and accounting for bilateral finance for addressing loss and damage in line with the principles of the UNFCCC. This can be complicated in cases where a bilateral funder of new initiatives (such as Scotland or Wallonia) is not a party to the Convention.

Figure 3 summarizes how loss and damage financing could be structured in a manner that links across the different finance levels (global, national and sub-national), with the arrows representing financial flows. This mapping was first built based on the findings of the literature review conducted as part of Section 2. It was then updated with interview content in an iterative process. In the figure, we locate a loss and damage finance facility as part of the UNFCCC following the G77+ China proposal, but our interview protocol does include a question on where such a facility should be located, and who should run it (see discussion in Section 3.2).

Figure 3: Flow of loss and damage finance (note that the loss and damage finance facility is currently hypothetical and not a functioning part of the loss and damage architecture)



3.2 Global level

Determining who will contribute to loss and damage finance

While the literature often discusses financing for loss and damage as compensation (Adelman 2016; Burkett 2015; Richards and Schalatek 2017), a number of interviewees across different stakeholder groups rejected that label. Instead, they recommended thinking of a potential loss and damage finance facility as an international cooperation or solidarity fund (see also Shawoo et al. 2021). Still, interviewees largely agreed that contributions for the fund should be guided by the principle of common but differentiated responsibilities and respective capacities. This means contributions would be based on a combination of historical responsibility and capacity to pay.

Thinking in terms of fairness, effectiveness and feasibility, interviewees were largely sceptical that any finance obligations could be enforced, and suggested that, for the foreseeable future, only voluntary contributions are politically feasible. At the same time, as evidenced by the large gaps in mitigation and adaptation finance, voluntary contributions offer little prospect of providing enough finance (Baatz 2018).

Asked who should provide finance, the Global South negotiators interviewed pointed to Global North countries as the primary contributors, as an extension of their existing climate finance commitments under the UNFCCC. They suggested seeing loss and damage as a third pillar of climate finance, and linked this issue to the discussion about a new, post-2025 climate finance goal and the global stocktake required under the Paris Agreement.[9]

Innovative financing mechanisms such as finance taxes and transportation levies, as identified in Section 2 (Richards and Schalatek 2017; Stamp Out Poverty et al. 2021), were only brought up by the Global North country negotiator. Another negotiator voiced doubts about those options, given historical failures to agree on a passenger levy to support the AF. In contrast, some voices from other stakeholder groups saw an opportunity for the private sector, especially fossil fuel companies, through sponsorship approaches, and non-party governments to provide finance for a loss and damage finance facility. Philanthropies have also been identified as playing a role in channelling private and subnational funding to a loss and damage facility.

Hosting a new loss and damage finance facility

Asked where to situate and how to govern a potential loss and damage finance facility, the majority of interviewees said it should be placed under the UNFCCC. Only the Global North country negotiator questioned the need for such a facility and suggested instead improving upon existing financing mechanisms – for example, by increasing climate risk integration in development cooperation and providing more anticipatory humanitarian actions. This echoes the positions of Parties from the Global North during the first session of the Glasgow Dialogue. However, under the recipient ownership principle (Section 2.5), the preferences of representatives of recipient countries and their civil society (CAN International et al. 2022; Farand 2021) would prevail.

Two major options for placing the facility the UNFCCC were cited by interviewees, also echoed in some of the literature (CAN International et al. 2022; Richards and Schalatek 2017). Option 1 is to establish it under an existing fund, such as the GCF, AF or GEF. This could be a new GCF window or under the GEF-administered Special Climate Change Fund. Several civil society representatives favoured this approach as way to deliver finance as urgently as it is needed, assuming that it is easier to renegotiate the mandate of an existing fund than to create a new one. However, others expressed doubts, echoed by the literature (Hirsch 2019; Pandit Chhetri et al. 2021; Schaefer, Jorks and Seck 2021), about whether any of the existing UNFCCC funds are suitable. As discussed in Section 1.2, many gaps have been identified in existing mechanisms in terms of scale, accessibility, complexity of approval procedures, or timeliness of response.

9 See https://unfccc.int/topics/global-stocktake.

Option 2, endorsed most strongly by negotiators from the Global South and experts among the interviewees, is to set up of a new facility, joining the GCF and GEF as an operating entity of the financial mechanisms of the UNFCCC, including as a way to address existing funds' shortcomings and apply lessons learned. This is the option currently reflected in Figure 3.

A third option, discussed in the literature (Hirsch 2019; Shawoo et al. 2021), is to place a new entity outside the UNFCCC – for example, in the form of a Global Solidarity Fund modelled after the Global Fund. This could diversification of potential voluntary contributions to include non-state actors and philanthropy, and could help overcome the political challenge of reaching consensus in the UNFCCC for setting up a facility (Pandit Chhetri et al. 2021). A more recent proposal by a UN Special Rapporteur suggested the establishment of a principle-based loss and damage finance facility under the United Nations General Assembly (UNGA 2022).

These options reflect the inherent tensions and trade-offs, expressed by a number of interviewees and recognized in the literature (Richards and Schalatek 2017), between a principle-based approach under the UNFCCC, and a pragmatic approach that is faster and overcomes political opposition, mainly from Global North countries, to a new UNFCCC operating entity. Taking political feasibility into account, and to build a track record and evidence base for a future UNFCCC-hosted, dedicated structure, several respondents supported a phased approach: In the near term, better integrate loss and damage into existing finance channels inside and outside the UNFCCC (Hirsch 2019), and in the medium term, work to create and operationalize a new loss and damage finance facility.

Interviewees also acknowledged the need for a multitude of actors and financing channels for loss and damage; no one facility will be able to do it all neither financially, nor in scope and comprehensiveness of approaches to cover the range of funding support from rapid response to extreme weather events to addressing slow-onset impacts, including planning, migration or support for non-economic loss and damage. However, several interviewees across stakeholder groups highlighted that an entity under the UNFCCC would play a central catalytic and leadership role in oversight, coordination and mobilisation of funds, receiving guidance from and being accountable to its parties (CAN International et al. 2022; Oxfam 2022; Stabinsky and Hoffmaister 2015).

Governance options for a loss and damage finance facility

The question of how a loss and damage finance facility should be governed is intrinsically linked to its placement. The majority of interviewees advocating for its placement as a new entity under the UNFCCC suggested that a facility should have its own governance body and be guided by the principles of the Convention. Some have advocated for placing a loss and damage finance facility under the WIM (CSO Equity Review 2019; Lyster 2015), which is the constituted body under the COP tasked with addressing loss and damage. However, several interviewees deemed the Executive Committee of the WIM (its governing arm) unsuitable to provide oversight over the loss and damage finance facility, primarily due to capacity concerns. They instead call for a strong established link to the WIM. For example, the facility could serve as its financial arm, but with its own governance arrangements (CAN International et al. 2022), as a way to capacitate and strengthen the WIM on financing approaches to address loss an damage.

For a separate entity under the UNFCCC, several interviewees and advocacy groups proposed governance by a board with equitable and gender-balanced representation (Oxfam 2022). A majority of Global South country representatives would be joined by representatives from civil society and affected communities with voice and vote, building on good practice experience of the AF and the Global Fund (CAN International et al. 2022). To the extent that a loss and damage finance facility is placed under existing funds or finance mechanisms, it would be governed by their respective boards or trust fund committees, the majority of which have at best equal representation between countries from the Global North and the Global South – or in the case of MDBs, donor-dominated representation.

3.3 National Level

How to channel funding to recipients?

In order to adhere with principles of accessibility and country ownership, national-level structures would need to have sufficient agency and autonomy over how loss and damage finance is utilized at the country level. Negotiators highlighted that this could be achieved through government-designated bodies, including focal points, designated authorities or WIM loss and damage contact points.

Expert interviewees also noted that government systems are already in place and stressed the need to build on existing systems at the national level, rather than establishing something new, which might require significant capacity-building to access funds. Interviewees from CSOs suggested that countries' national disaster authorities or disaster management funds would be particularly well suited, and could allow linkage to countries' existing contingency funds for post-disaster recovery. For example, Seychelles and Rwanda have created dedicated climate change funds with their own monitoring and oversight processes; these could be adapted as an instrument for channelling loss and damage finance. Humanitarian actors suggested that ministries of finance, planning, disaster risk management or climate change could be appropriate options for some countries. They also emphasized the need for a multi-actor partnership approach, with different distributing channels within the country, depending on the responsibilities of different sectoral ministries.

Several interviewees expressed concerns, however, about funds flowing only through government bodies. They said this could keep funds from reaching particularly vulnerable or marginalized communities, especially in corrupt or undemocratic contexts. Many interviewees therefore emphasized the need for civil society actors and community representatives to either be involved in the governance and decision-making through the national hub, or for finance to flow more directly to coalitions of CSOs or community representatives. Another prominent suggestion was for CSOs to sit on the board of a potential fund at the international level to enable representation at all levels of decision-making.

Ensuring equitable and targeted support

When it comes to how national structures would determine finance distribution to sub-national levels, negotiators suggested that the criteria need to be flexible, not prescriptive, and tailored to the country context. Humanitarian and civil society actors stressed that the allocation of funds within countries could be determined through prioritisation based on vulnerability, exposure and impact indices, based on local needs assessment and case studies. Countries would agree on a methodology for measuring impacts and set a threshold of loss and damage (such as proportion of GDP lost), which would trigger rapid disbursement of finance once crossed. The global facility itself should not dictate how national governments set up the flow of funds to the local level agencies, but instead set a policy or principle in place that encourages national governments to prioritize assistance requests to go directly to local communities (Sharma et al. 2017). Moreover, finance distribution would need to account for the full spectrum of loss and damage, including both sudden- and slow-onset events, and both economic and non-economic loss and damage.

As noted in Section 2.2, it is important to remember that the notion of vulnerability is itself politically contested, with different interpretations of which countries would be eligible for loss and damage finance with respect to their vulnerability. Small island nations have used this as a basis to argue for a loss and damage finance facility to be hosted under the UNFCCC, as this would ensure that finance distribution accounts for vulnerability to climate change, and is not only distributed on the basis of countries' levels of economic development. We suggest that historical responsibility in contributing to climate change could not only guide responsibility for providing loss and damage finance, but also eligibility for receiving it (along with vulnerability).

Ensuring recipient ownership at the national level

Negotiators agree that direct access modalities are key to ensuring recipient ownership. However, a number of experts noted that existing direct access structures, such as under the GCF and the AF, are falling short of expectations – so similar problems might arise with loss and damage. Instead, accessibility would need to be prioritized, with potentially less stringent requirements for accreditation or obtaining direct access. For example, many CSOs would not be able to fulfil fiduciary requirements, but would still need to access finance. One negotiator suggested a self-accreditation process for governments, rather than formal accreditation requirements. Human rights due diligence processes set up within the UN humanitarian system could also play a role (UNSDG 2015).

One expert suggested a potential bank of information at the international level, which could be collected through processes similar to National Adaptation Plans (NAPs), to serve as a repository of country profiles. These could be accessed by funders so that countries do not have to provide the same information repeatedly each time they make a funding request, thereby reducing the burden of project applications. One suggestion to ensure this was the development of country operational plans specific to loss and damage, spelling out how certain financing would be utilized in the context of slow or sudden-onset events. Such could serve as the basis of financing and be built through locally led needs assessments, rather than the conventional model of developing detailed project proposals to access finance.

Some countries have already taken steps in incorporating loss and damage into national plans. For example, Tuvalu has mainstreamed loss and damage governance into its national policies since 2012 and explicitly separates it from adaptation (Calliari and Vanhala 2022). In October 2021, the Ministry of Forest and Environment of Nepal proposed a national framework for loss and damage governance based on the global and national discourse, which considered the limitations and constraints to adaptation and DRR measures during climate-induced disasters (Ministry of Forest and Environment, 2021). The framework highlighted both avoidable and unavoidable loss and damage. In addition, Bangladesh recently developed the Mujib Climate Prosperity Plan (MCPP), which identifies and quantifies potential climate induced loss and damage in the country (Government of the People's Republic of Bangladesh 2021).

Ensuring accountability and transparency at the national level

Humanitarian actors highlighted that ensuring accountability and transparency is often challenging in countries with comparatively poor governance, and often results in lengthy accreditation processes with long lag times. However, Global South country negotiators stressed that this does not negate the responsibility of countries in the Global North to provide finance. Accountability and reporting requirements could be built into the structure of a potential national hub, which would also be responsible for tracking loss and damage finance and ringfencing it as additional to finance for mitigation and adaptation, even if there is overlap in the actual activities on the ground.

Humanitarian actors and local funders interviewed said countries could develop their own plans within their requests for finance that detail what monitoring mechanisms would be used and how monitoring and evaluation would take place. This would give agency to recipient countries to demonstrate how finance is being utilized, rather than having to adhere to the often burdensome reporting requirements of funders, which may not align with tracking systems on the ground. Such structures would require a huge amount of trust by funders in the Global North to move away from their existing development and humanitarian aid approach, according to CSOs. Thus, a shift in mindset is required to see loss and damage finance as distinct from conventional development aid and more as a responsibility on the part of countries in the Global North, which also gives them less agency in how the funding is actually utilized. Baatz (2018) observed that there tends to be a trade-off between agency of finance providers and levels of funding.

We recognize that this would be a challenge when it comes to recipients with undemocratic or corrupt contexts, particularly due to the risk-averse nature of climate finance. However, these concerns are often used as justification by Global North countries to simply not provide finance for some of the people who most urgently need it – precisely because of the interplay of climate change impacts and fragility. While this is an important moral and political dilemma to address, it is beyond the scope of this report and requires further research. However, this point does highlight the need for multiple streams of finance for loss and damage, and the consideration of local context in funding choices.

3.4 Sub-national level

Beyond government ownership of climate finance

A critical component of aligning finance utilisation with climate justice principles is ensuring that communities most in need of finance not only have access to and receive finance, but also have a say in how it is used. As mentioned above, one suggestion for this made by a Global South country negotiator was to have CSOs and community representatives as part of the decision-making board of a potential loss and damage finance facility at the international level. This would need to include not only large organisations, but also youth and representatives of Indigenous Peoples. For example, the ADB set up the community resilience partnership fund to build resilience at local level, with grassroots organisations involved in decision-making processes; such models could be replicated.

Humanitarian actors also highlighted how many countries have a process of feeding local plans into national processes. Engaging local-level voices in these processes is critical in ensuring that the use of loss and damage finance is not top-down and disconnected from local needs. One expert suggested coordination through NDCs and NAPs, with participatory approaches that involve community actors in planning. This can be enabled by working with vulnerable communities to create a narrative of what loss and damage means to them and making sure they own that narrative. Local funders said it is important to build the capacities of local communities to ensure they themselves can access funds. Monitoring and reporting requirements can also incorporate participatory approaches, such as focus groups or surveys targeting recipient communities, to investigate the extent to which they had a say in how finance was utilized and whether it met their needs (Dombroski and Do 2018)

As noted above, several interviewees highlighted that many countries in the Global South have non-democratic and/or corrupt governance, increasing the risk that finance will not reaching marginalized and vulnerable communities. One way to help overcome this could be to demonstrate the value of guaranteeing that finance reaches those communities. Lessons could be drawn from gender mainstreaming processes, which took years of communication and education to be operationalized. For example, experts could develop guidelines for how to better integrate communities in decision-making and highlight the benefits of doing so.

Ensuring accessibility by involving local structures

Interviewees from the humanitarian sector said some existing structures could be used to provide local access to loss and damage funds. For instance, many local governments have community disaster committees, which can make claims to access finance from the national level. Access to finance could also be enabled through more small-scale financing. For example, one expert suggested inviting grassroots structures to directly transfer finance unconditionally to local people, such as through agricultural cooperatives or women in communities that are in charge of savings and microloans. Other examples include cash for work programmes that support communities to rebuild local infrastructure, and empower them to make decisions and enable access to information.

Local grassroots organisations and funders can play a role in direct capacity development for basic project and financial management skills to local communities, and help them establish basic financial management systems. Hence, technical assistance, which is the primary mandate of the Santiago Network, should be given to those actors to build their capacities, so that they can enable the broader local communities to manage funds and comply with any reporting requirements. At the same time, existing organisations and structures can help assess local level needs. For instance, the United Nations Educational, Scientific and Cultural Organization (UNESCO) does critical work on protecting cultural heritage, particularly for island communities. Those models can be adapted into frameworks or methodologies for assessing needs.

The humanitarian aid sector also offers lessons for reaching communities with the urgency required, particularly following sudden-onset events. At the same time, CSOs have argued that loss and damage does not really have to move at humanitarian response pace, but instead follow a more participatory approach that enables planned recovery and rehabilitation following immediate humanitarian aid for sudden-onset events. Local funders suggest that longer-term economic resilience and community resilience packages following loss and damage events are needed, to build resilience to future loss and damage in the longer term. They also suggested that tracking and labelling finance for loss and damage at the local level was not relevant, and that loss and damage, adaptation, development and humanitarian support should be considered as a pool of resources to build local resilience.

3.5 Key takeaways

This chapter has demonstrated that there are concrete options for operationalizing a loss and damage finance facility in a manner that is aligned with the climate justice principles outlined in Section 2. Table 2 synthesizes the structures and modalities that could be put in place within a potential loss and damage finance facility to ensure that its operationalisation is aligned with climate justice principles at the global, national and sub-national levels.

At the global level, our findings indicate that a phased approach would be needed that utilizes existing structures to disseminate finance in the short term and works towards establishing a new, dedicated facility for loss and damage in the medium term. If such a facility is incorporated within existing financial mechanisms, such as climate funds under the UNFCCC, there is a risk that it could replicate challenges within the existing climate finance architecture, such as long lag times in delivery, lack of accessibility, and lack of involvement of CSOs and community representatives at all stages of decision-making and disbursement. Designing a new facility that is separate from existing climate funds presents an opportunity to put in place structures and modalities that would be more aligned with principles of climate justice, and address the core barriers and challenges within the global finance architecture.

At the national and sub-national levels, our findings suggest that a balance is needed between i) utilizing existing structures to the extent possible, so as not to increase burdens on recipient countries; and ii) moving away from structures that are less aligned with climate justice principles and exclude particularly vulnerable and marginalized communities. Importantly, specific modalities of financing need to be designed that are particularly geared towards reaching communities, such as through small grants and unconditional cash transfers, at a speed and scale that can enable recovery from both slow and sudden onset events. Civil society actors and community representatives need to be involved in the governance and decision-making of finance at all levels.

Table 2: Applying climate justice principles to a loss and damage finance facility

Possible structures and modalities for a loss and damage finance facility				
		Global level	**National level**	**Sub-national level**
Principles for fair, feasible and effective loss and damage finance	**Historical responsibility and polluter-pays principle**	Global North countries as primary contributors	N/A	N/A
	Equitable and targeted support	Devolving funding directly to communities and marginalized population groups Demand-driven and emergency-based allocation for extreme events	Finance distribution based on vulnerability, exposure and impact indices (guided by locally led needs assessments) Finance requests from communities to national funding structures	Involving local-level voices in national planning processes (e.g. NAPs)
	Grant-based, programmatic finance	Finance mobilized on the basis of articulated needs by countries in the Global South Programmes that provide sustained support over time, not just for individual projects	Grant-based finance that does not add to countries' debt burdens	Small grants and unconditional cash transfers directly targeting most vulnerable households
	Accessibility	Simplified direct access procedures (as opposed to GCF accreditation process) Limited conditionality and accreditation requirements	Move beyond project-by-project finance model Funding based on recipient plans and priorities Prioritize existing structures	Enhanced direct and unconditional access for grassroots structures (e.g. cooperatives, community representatives)
	Recipient ownership	Governance by a board with equitable representation of states, CSOs and community representatives	Finance channelled through a national hub or directly through CSOs and community groups; build on existing systems (e.g. govt bodies)	Devolved decision-making structures Enhanced direct and unconditional access for grassroots structures
	Transparency and accountability	Hosted under the UNFCCC to ensure accountability to the Parties, but less stringent reporting requirements	Prioritizing existing structures Straightforward reporting systems that are not excessively cumbersome	Participatory approaches to monitoring and reporting Transparent decision-making and knowledge-sharing with communities

4. Conclusion and key messages

Loss and damage finance is likely to be the most critical issue at COP27, with many CSOs and Global South country negotiators expecting to judge the success of the COP on whether an agreement is reached to establish a loss and damage finance facility (Millan Lombrana and Ainger 2022). Through this report, we have aimed to provide insights on what such a facility could look like, and what core principles should underpin different financing options for loss and damage. Overall, we have gone beyond existing work and political debates on loss and damage finance to start from the gap and the need, and present concrete pathways forward for structures and modalities of financing that would fill the gap and be aligned with the need. Five key findings emerge:

1. Loss and damage financing must take a people-based approach that centres the needs of vulnerable and marginalized communities. These communities have contributed the least to climate change, but are already facing the brunt of its impacts. This differentiates loss and damage finance from other types of finance, as it particularly calls for restorative justice. It also makes the need to involve local communities at all levels of financing even more crucial. Local recipients of finance must be part of decision-making at all levels, and have a critical say in where finance flows and how it is utilized. **Options include devolution in decision-making structures, or the integration of representatives of such communities on decision boards at all levels.**

2. There is a need to utilize and learn from existing structures, rather than starting from scratch, particularly at the national level. There is no time to reinvent the wheel, and existing modes of financing offer a lot of valuable lessons; for example, the humanitarian sector has experience linking the global with the local level to deliver finance with urgency. Implementers of financing should be willing to take a leap of faith, and accept that systems will not be fully efficient from the get-go. **A "learning by doing" approach should be applied, starting small and then ramping up what works, as attempted by the recently established loss and damage programme under the CVF & V20 Joint Multi-Donor Fund.**

3. Financing that is grants-based and programmatic, not project-by-project, and that targets the local level is likely to be most effective and equitable for reaching those most in need, especially in situations of emergency. While the scale of needs is unimaginably large, and finance to match that need should be mobilized at the global level, funds should be distributed in a targeted manner, with smaller-scale dissemination to grassroots communities and organisations. This would also enable those communities to have greater decision-making power. **This approach is more common in philanthropic funding than in multilateral funds, but has been attempted through the GEF's Small Grants Programme, for instance.**

4. While the separation between finance for mitigation, adaptation, humanitarian aid, development and loss and damage makes sense at the global level, it is likely that these activities will have overlaps at national and local levels. Labelling and ringfencing should be put in place at the global level to ensure additionality and sound accounting of finance contributions for loss and damage. However, there should not be the same level of fixation on separating these tracks at the recipient level, and greater agency should be given to recipients in how that finance is utilized.

5. Although this report primarily focuses on the key gap of *addressing* loss and damage, our findings are also relevant for financing structures for *averting* and *minimizing* loss and damage. Our analysis revealed that the climate finance architecture is largely not adhering to the principles that it sets out, and consists of a number of challenges and barriers. While we focus here on designing structures for addressing loss and damage that do not replicate these challenges, **it is also important to tackle these challenges within the existing architecture to improve climate finance overall**.

4.1 Next steps

The research that underpins this report will continue after COP27. We recognize that due to time constraints, we did not sufficiently capture the voices of national coordinators and local communities, for instance. We have also not sufficiently explored how loss and damage finance can protect human rights and reach vulnerable communities in conflict-ridden or undemocratic contexts. Finally, we recognize the implications for procedural justice of having this project be led by researchers at SEI, an institution in the Global North. We have tried to address this by i) partnering with research institutions based in the Global South; and ii) forming an advisory board of experts from both the Global North and Global South to provide feedback on our research approach and outputs. A strong commitment to procedural justice will continue to drive our work.

Our next steps will be to fill the gaps in our data through further research and data collection, and to release more detailed outputs in 2023, delving deeper into each component. For example, we plan to do focus groups with a wider range of actors next year to further explore some of the financing options discussed in Section 2. We also plan to work with local partners to conduct two country case studies of locally led needs assessments for loss and damage finance.

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Annex 1. Literature reviewed associated with loss and damage finance principles

Principle	Supporting literature
Historical responsibility and polluter-pays principle	Hirsch and Hampel (2020); Richards and Schalatek (2017); Abimbola et al. (2021); Sealey-Huggins (2017); Sultana (2021); Sultana (2022); Schalatek (2012); Browne (2022); Perry (2021); Baatz (2018); Duus-otterstrom (2016); Khan et al. (2020)
Equitable and targeted support	Barrett (2014); Barrett (2015); Doshi and Garschagen, (2020); Eriksen et al. (2021); Hill (2020); InsuResilience Global Partnership (2019); Omukuti, (2020a); Omukuti, (2020b); Abimbola et al. (2021); Fernandes-Jesus et al. (2020); Sultana (2021); Hussain and Ahmad (2020); Price (2021); Scandurra et al (2020); Schalatek (2012); Soanes et al. (2021); Colenbrander et al. (2018); Khan et al, (2020); Persson and Remling (2014); Saunders (2019); Sharma et al. (2017)
Grant-based, programmatic finance	Gutierrez and Gutierrez (2019); Nakhooda (2013); Price (2021); Roberts et al. (2021); Schalatek (2012); Soanes et al. (2021); Trujillo and Nakhooda (2013); Bracking and Leffel (2021); Baatz (2018); Khan et al. (2020)
Accessibility	Hill (2020); InsuResilience Global Partnership (2019); Masullo et al. (2015); Abimbola et al. (2021); Nakhooda and Norman (2014); Bhandary et al. (2021); Schalatek (2012); Trujillo and Nakhooda (2013); Browne (2022); Colenbrander et al. (2018); Kalaidjian and Robinson (2022); Omukuti et al. (2022)
Recipient ownership	O'Sullivan-Winks (2020); Hirsch and Hampel (2020); InsuResilience Global Partnership (2019); Richards and Schalatek (2017); Dornan (2017); Omukuti, (2020a); Omukuti, (2020b); Zamarioli et al. (2020); Abimbola et al. (2021); Fernandes-Jesus et al. (2020); Sealey-Huggins (2017); Sultana (2021); Sultana (2022); Nakhooda and Norman (2014); Gutierrez and Gutierrez (2019); Hussain and Ahmad (2020); Nakhooda (2013); Price (2021); Roberts et al. (2021); Scandurra et al (2020); Schalatek (2012); Soanes et al. (2021); Trujillo and Nakhooda (2013); Browne (2022); Colenbrander et al. (2018); Islam (2022); Perry (2021); Barrett (2013); Duus-otterstrom (2016); Omukuti et al. (2022)
Transparency and accountability	InsuResilience Global Partnership (2019); Gutierrez and Gutierrez (2019); Price (2021); Roberts et al. (2021); Schalatek (2012); Islam (2022); Omukuti et al. (2022)

Annex 2. Interview questions

Global level

1. Where could a potential loss and damage finance facility within the UNFCCC sit? Who would be responsible for governing it?

    a. Third arm of the WIM? Under the ExCom? Within existing funds, e.g. the GCF? Or a separate body entirely?

2. What lessons can we learn from existing climate finance (particularly the GCF, AF) and from development finance and humanitarian aid when designing the structures and modalities of a potential L&D finance facility?

    a. What structures should we replicate and what should we leave behind?

3. How would contributions for loss and damage finance (or to a potential facility) be determined? How can principles of historical responsibility and capacity to pay be enforced in the absence of strict attribution?

    a. Is there a risk of the facility being grossly underfunded even if it is established?

4. How would bilateral finance for loss and damage fit in with the existing architecture at the global level?

5. What role do existing new initiatives at the global level (e.g. the V20 pilot fund, the global shield) have to play in addressing loss and damage? Can they be built on to operationalize L&D finance at scale?

6. What role can the Santiago Network play in catalysing L&D finance at the global level? How should its structures and modalities be designed to enable this?

National level

1. Could a potential 'national hub' at the country level play the role of receiving finance from the global level and being responsible for disseminating it?

    a. What bodies at the national level could fulfil this role (e.g. national disaster funds, accredited entities to the GCF, SNLD country focal point)?

2. What structures need to be put in place to ringfence L&D finance at the national level as addition to existing adaptation finance, development finance or humanitarian aid?

3. How does governance of L&D finance at the national level need to be designed to ensure that finance reaches vulnerable and marginalized communities in need?

    a. What structures are needed to connect the national to the local level?

4. How can dissemination of finance be determined both to and from the national level?

    a. On what basis is L&D finance distributed to countries? What would make them eligible?

    b. How would countries then decide how to distribute finance to local levels?

5. What structures are needed to ensure that L&D finance does not have long lag times in delivery when compared to existing climate finance?

6. To what extent would an accreditation, readiness or proposal development and approval process similar to what exists under the GCF be needed for L&D finance? How can the capacity burden on developing countries be minimized?

7. How can transparency and accountability be ensured, particularly in countries with undemocratic or potentially corrupt governance systems? How can this be balanced with country ownership and self-determination, and what structures need to be put in place to enable this?

8. How can structures be designed at the national level to ensure suitability for both slow and sudden onset events, and for both economic and non-economic losses and damages?

Sub-national level

1. How can local groups and affected communities connect to the national level to be able to access L&D finance?

2. Could the OBNEs that will be part of the Santiago network play a role in making those connections?

3. How can structures be designed to ensure community ownership and self-determination in how finance is utilized?

4. What lessons are there to learn from humanitarian aid or development finance for reaching affected communities quickly to enable short and long-term recovery and rehabilitation? How can we ensure that communities aren't abandoned following the immediate recovery stage?

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