

Designing Loss and Damage Fund: Insights from vulnerable countries

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Good initiative, not free from concerns

Science has unequivocally demonstrated that climate-induced losses and damages are unavoidable and will escalate under current climate mitigation efforts (IPCC, 2022). Even in more optimistic scenarios, it is well established that the most vulnerable communities, disproportionately affected by the impact of climate change, will bear the brunt of those losses and damages. Therefore, it is encouraging to see that the UNFCCC is actively considering Loss and Damage (L&D) as a third pillar to address the climate crisis (Mohieldin and Mubarak, 2023).

Since the decision to establish a dedicated L&D Fund was made at the 27th Conference of the Parties (COP) to UNFCCC, more than six months have passed. Discussions following this landmark decision have focused on providing new and additional funding for vulnerable countries. Initially, the emphasis was on principles of compensation and reparation, but the consensus shifted towards broader consideration of financing through solidarity. To operationalise the funding arrangements and the Fund itself, a Transitional Committee (TC) was formed during the 27th COP. With 24 representatives, including 14 members from developing countries and 10 from developed countries, the TC is deliberating on the funding modalities with the intention of presenting it at the 28th COP later this year (2023). The discourse surrounding Loss and Damage financing has garnered significant attention both within and outside the UNFCCC processes, around scope, financing, accessibility, scale, and governance of the Fund.

Despite these significant developments, there are concerns that the Fund may not be delivered in a timely and effective manner, and for its intended purpose. There is a genuine risk that the Fund may be designed without carefully considering the voices of the most vulnerable communities, especially women, the poor, indigenous peoples, and other marginalised populations in the Global South. A Fund designed without local voices will not benefit those most at risk to the escalating climate-induced losses and damages. In such a scenario, it becomes imperative to heed evidence-based insights and listen to the voices of those on the front lines of the climate crisis. Their experiences serve as a poignant reminder to all stakeholders engaged in the design discussion of the Fund about its fundamental purpose and the urgency to efficiently deliver it to those who need it the most.

This policy blog aims to provide key messages derived from the Strengthening Loss and Damage Response Capacity in the Global South (STRENGTH) project, focusing on four vulnerable countries: Vanuatu, Nepal, Bangladesh, and Senegal. Drawing on our preliminary

analysis, we present some insights from the four countries, with the aim to contribute to the ongoing discussions on designing an effective and equitable L&D Fund.

Bringing local voices from four of the most vulnerable countries

STRENGTH project selected the four countries to highlight how climate impacts are unevenly distributed globally, hitting vulnerable countries the hardest. These countries in diverse regions of the Global South - the South Pacific, South Asia and Western Africa, have varying levels of vulnerability due to unique geographic locations and socio-political contexts, presenting diverse climate-induced loss and damage situations. However, despite these differences, all four countries share similar entrenched social structures that perpetuate gender and other inequalities and share similar governance and financing challenges when it comes to tackling climate risks. Given that climate vulnerability and losses and damages are mediated by national and local level socio-cultural and political dynamics of exclusion, it is crucial to explore how UNFCCC Loss and Damage (L&D) responses can become socially just and equitable.

Of the four case study countries, Vanuatu, a Small Island Developing States (SIDS), stands out as highly vulnerable to cyclones and storm surges, and slow onset impacts such as sea level rise and ocean acidification. These factors have led to significant economic and non-economic losses and damages. Economic losses can be valued in monetary terms and include property damage, while non-economic losses and damages (NELD) cannot be given a monetary value and often go unnoticed, such as loss of culture, biodiversity, ecosystem services, and knowledge. Vanuatu's climate loss and damage is linked to the occurrences of cyclones, which have become more frequent with an average of 20-30 cyclones occurring per decade (VMGD, n.d.). Losses and damage to this island state are huge and the country as a whole is struggling to manage the risk and save people and ecosystems from an existential threat caused by other nations. For instance, in 2015, tropical Cyclone Pam resulted in economic losses amounting to US\$449.4 million, which accounted over 64 percent of the country's GDP (Australian Aid, 2021).

Alongside GDP numbers, narratives of loss and damage can be also found all around, in research, the media and the policy conversations. Here is a brief story of a local resident in Efate Island, one of many islands that constitute Vanuatu:

“Climate Change is causing sea level rise and high temperature that damages and destroys our beloved coral reef. I have a great passion for fishing. Every day I catch fish for my children and my family. Like most women in my village, I also love to collect seashells to eat but also for making handicrafts like necklaces and bracelets to sell and earn a small income for our household. Sea level rise is degrading the reef flats where I collect shells. The sea is moving inland, making it harder to get to the places we collect shells. The worst is when flooding from the land brings mud onto the reef, completely killing some species of seashells.” Wanita from Pango Village, Efate Island (Waiwai et al., 2023).



Aftermath of the Category 4 Tropical Cyclone Kevin that hit Vanuatu on March 2023 (Image: Mike Waiwai)

While SIDS experience devastating impacts of cyclones, Senegal, a West African country with dryland geography, grapples with escalating challenges of varying climate risks such as severe droughts, desertification, and coastal erosion. These challenges have detrimental effects on agriculture and food security. Notably, erratic rainfall and droughts alone contribute to around 50 percent of crop yield reductions in the country (World Bank, 2015). A farmer's narrative illustrates the challenges faced:

“For some time, we have been facing climatic risks such as the scarcity of rains that persist more and more, high heat and a decline in productivity leading to food insecurity,” Coumba Diallo, from Gourel Baydi village in the Tambacounda region (Mutui, 2022)

Similarly, in the geographically diverse South Asia region, Bangladesh, a low-lying coastal country faces the persistent challenges of frequent cyclones and flooding, resulting in significant economic losses, particularly impacting rural households. To illustrate, rural households in Bangladesh spend nearly US\$2 billion on disaster preparedness and response alone (Eskander and Steele, 2019). Additionally, between 2000 and 2019, the country experienced climate change-related economic losses amounting to US\$3.72 billion (Climate Reality Project, 2021). The loss and damage is well illustrated by the narrative of a South-West Bangladesh rural resident:

“I can barely support my family of five on the small piece of land I managed to squeeze out since [Super Cyclone Amphan]. It is impossible to repay the loan against a piece of land that does not even exist anymore,” Wasim Ali, Protapnagar, Southwestern Bangladesh (Aziz, 2020).



*Collapsed houses as Cyclonic storm Fani struck Bidyar Bahon village of Mongla on May, 2019
(Image: Syed Zakir Hossain)*

Additionally, in the same region, Nepal, a mountainous country, grapples with its own unique challenges of melting glaciers, landslides, and floods, posing significant risks to lives and livelihoods. As an example, the floods in 2017 alone caused economic damages amounting to US\$462 million (Rai et al., 2020).

To get a feel of how people experience, let's look at this view of a farmer in Southern Nepal: *"My land was destroyed by floods. Our main source of income was farming. I used to earn 150,000 Nepalese rupees (€1,103) a year. After our land was destroyed, me and my family members were forced to take on daily-paid labour work to make ends meet. We barely had any means to buy food or educate our children after the floods destroyed everything. Later on, we leased some land and started cultivating mangoes and vegetables."* Chanahari Chaudhary from Chandrapur Municipality (Wickramaratne and Silva, 2023).



Aftermath of the flood and debris flow in Melamchi in June 2021, (Image: Yutshu Shrestha)

Seven key messages for an effective and equitable design of the L&D Fund:

While the impacts of climate change vary among the four countries, there are shared insights and lessons that can contribute to the ongoing discussions on designing the L&D Fund. These insights highlight common experiences and provide valuable guidance for shaping the Fund's design. We have identified seven of these key takeaways, which are outlined below:

1. A dedicated L&D Fund is urgently needed to address loss and damage

As highlighted above, vulnerable countries at the front lines of the climate crisis, face a significant financial burden, which is exacerbated by their existing unsustainable debt levels. This burden hinders their ability to achieve their Sustainable Development Goals (SDGs) and climate targets outlined in their Nationally Determined Contributions (NDC) (UNCTAD, 2022). The rising costs emphasise the urgent need for a dedicated fund that specifically addresses these escalating economic and non-economic losses and damages. The current funding systems, such as adaptation, disaster risk reduction, and humanitarian assistance, have proven inadequate in tackling these challenges effectively. To bridge the significant funding gaps, the establishment of a grant-based L&D Fund is crucial. Moreover, it is essential to structure the Fund in a manner that does not contribute to the national debt burden of the countries in need.

2. Key guiding principles should be set to which the L&D Fund can adhere to

The design of the L&D Fund and its funding arrangements should prioritise adequacy, effectiveness, equitability, predictability, and sustainability. These principles should be informed by local knowledge, practices, and existing national systems to ensure relevance and responsiveness. It is crucial for the funding arrangements to provide new and additional

financial resources that go beyond the allocations already designated for mitigation and adaptation efforts. This approach will help address the unique challenges posed by the climate loss and damage and ensure that the funding is targeted towards its specific objectives.

3. Non-Economic Loss and Damage (NELD) must be accounted for in the L&D Fund

Climate change-induced loss and damage extend beyond economic impacts, encompassing non-economic aspects such as the loss of culture, indigenous knowledge, biodiversity, and ecosystems. So, it is important to include Non-Economic Loss and Damage (NELD) in the design of the L&D Fund. By adopting a value-based approach, the Fund can conduct needs assessments and effectively address these non-economic losses and damages (Schie et al., 2023). Such an approach allows for prioritising interventions based on the self-identified needs and priorities of the affected population including women, the elderly, people with disability, indigenous groups, youth and others, delivering a holistic response to multifactorial sources of vulnerability, and enhancing the legitimacy of interventions.

4. Diverse needs and contextual differences of the vulnerable communities must be considered in the L&D Fund

The impacts of climate change and resulting losses and damages are becoming increasingly severe and intensifying across various countries and communities. To ensure that the communities most affected receive the essential support, it is crucial to consider the contextual differences. Therefore, the Loss and Damage (L&D) Fund must provide customised assistance that specifically addresses the unique needs of each country and community. In addition to providing direct cash transfers, it is crucial to incorporate support for longer-term recovery of livelihoods systems and locally led Nature-based solutions (NbS). By doing so, the L&D Fund can effectively cater to the long-term impacts of climate change and contribute to sustainable solutions tailored to the needs of most vulnerable people and ecosystems.

5. The L&D Fund should ensure procedural accessibility for vulnerable groups and countries

Vulnerable communities in developing countries face challenges in accessing climate finance due to limited capacity, information, and guidance. However, it is crucial to ensure that procedural complexities do not hinder their access to the L&D Fund. Therefore, the Fund must prioritise procedural simplicity and accessibility. This approach will not only facilitate support to vulnerable communities but also enable prompt responses to their urgent needs.

Additionally, the Fund should promote capacity building for its recipients, particularly to support the most vulnerable countries and populations. This can be achieved through two approaches: (1) implementing a learning-by-doing approach through pilot projects; and (2) providing training support and ensuring flexible due diligence requirements. These measures will empower communities and local practitioners to access climate finance and develop projects that align with their needs and priorities. It is important to note that the support needs and priorities of women, the poor and other marginalised populations may differ, necessitating the design and implementation of responsive mechanisms and strategies.

6. Existing national systems and institutions should be leveraged by the L&D fund to effectively tackle climate-induced loss and damage.

To achieve effectiveness and equitable outcomes, it is essential for the L&D Fund to utilise and enhance existing national systems. Collaborating with national government institutions and leveraging their expertise will significantly improve the Fund's capacity to address climate-induced loss and damage effectively. It is also important to leverage with national and local systems of financing and action on climate and disaster risk. Across all four partner countries, namely Vanuatu, Senegal, Bangladesh, and Nepal, there are already established national systems, government institutions, resources, and valuable lessons learned in climate adaptation and disaster management. In certain cases, efforts have even been made to address Loss and Damage (such as in Bangladesh). The L&D Fund can complement and strengthen these existing national systems, ensuring a more comprehensive and robust response to loss and damage challenges. Many developing countries have strong local actions by communities and local governments, so the Fund must find a way to support such locally led actions.

7. The recipient ownership approach is to be adopted by the L&D Fund for effective fund utilisation

Vulnerable communities at the local level in developing countries, who bear the brunt of the climate crisis, are not only on the frontlines of climate action but also possess the most relevant perspectives to understand and comprehend their needs. They are well-positioned to ensure that the funds are effectively utilised in alignment with their priorities. Therefore, it is imperative for the L&D Fund to adopt a recipient ownership approach, empowering these communities to exercise control and make decisions regarding the allocation of the Fund. Facilitating local-level access to finance will enhance the agency of affected communities including those of women, the poor and other marginalised populations. Establishing a dedicated window within the Fund will ensure their ownership, and this decentralisation of power over the use of the Fund is crucial in effectively reaching the communities most impacted by climate change.

8. Gender transformative change should be a priority of the L&D Fund

Climate change impacts are not gender neutral. Due to existing gender norms and widespread gender discriminations, women and girls are disproportionately affected by climate change impacts. Despite women' active engagement in climate action, they continue to face exclusion from decision-making processes and sectors targeted by climate investments, such as climate adaptation. To rectify this, it is crucial for the Fund to adopt a gender-transformative approach which existing climate finance mechanisms often overlook this critical aspect. This approach will address intersectional challenges, effectively tackle loss and damage, optimise fund utilisation, and promote sustainable and equitable outcomes. By addressing intersectional inequity and structural inequalities, we can ensure a more inclusive and just response to the impacts of climate change. It is crucial to recognise the specific vulnerabilities and needs of diverse gender and social groups and integrate their perspectives and experiences into the design and implementation of financing strategies for loss and damage.

Our hope

The agreement reached at COP27 to provide loss and damage funding for vulnerable countries is not just a historic breakthrough, but it also serves as an important reminder of the irreversible

impacts of climate change that is being suffered by vulnerable countries, despite their limited contribution to the climate crisis. This agreement presents an opportunity for the global community to scale up climate actions in support of the most vulnerable groups and ecosystems, based on principles of global solidarity and common but differentiated responsibilities (CBDR). We have high hopes that the Transitional Committee for Loss and Damage will effectively incorporate the insights derived from the most vulnerable countries into the proposed structure of the Loss and Damage Fund.

About STRENGTH Project

The Strengthening Loss and Damage response capacity in the Global South (STRENGTH) project is an initiative between International Centre for Climate Change and Development (ICCCAD) and Institute for Study and Development Worldwide (IFSD), with support from IDRC Canada. The project aims to address the knowledge and capacity gaps of the most vulnerable countries in the Global South regarding climate Loss and Damage (L&D). By doing so, these countries will be better equipped to develop country-level L&D policies and implementation mechanisms, considering both national and international financing opportunities. The project focuses on four Tier 1 (T1) countries: Vanuatu, Nepal, Bangladesh, and Senegal. The primary objective is to enhance the understanding and response capacity of these countries to effectively address L&D challenges where primary research will be conducted contributing to the project's overall capacity development and research outputs.



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