What can the Loss and Damage Facility learn from the Green Climate Fund?

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Summary: This analysis draws from research on the decision-making and approval process in the GCF to explore how institutional arrangements and funding guidance shape the funding process and outcomes for the L&D facility. Insights are based on an analysis of GCF board meeting deliberations between 2016 and 2021 during which the board discussed 181 proposals, survey responses from 27 Accredited Entities and National Designated Authorities, and data on the GCF portfolio and pipeline. Based on principles of climate justice, we make the following recommendations: 1) funding should be timely, 2) finance should be widely accessible and target the most vulnerable, 3) guidance on funding criteria needs to be clear, 4) financial instruments need to be appropriate, 5) power dynamics and politics require careful management.

An effective, fit-for-purpose loss and damage finance facility (L&D facility) is critical for climate justice. After three decades of negotiation, parties agreed to establish an L&D facility at COP27 in Egypt.[1,2] A transitional committee has been formed to advise on the institutional arrangements and multiple proposals for how such a facility should be structured and function have been put forth.[3,4,5,6,7,8,9,10,11,12,13]

The experience of existing climate funds can inform the design of the L&D facility, providing models, lessons learned, and cautionary tales. The Green Climate Fund (GCF), now the largest source of dedicated climate finance for developing countries with $12.8 billion USD in approved projects, can offer valuable guidance for designing the new facility to achieve effective and just finance delivery for L&D.

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1. UNFCCC. COP27 Reaches Breakthrough Agreement on New "Loss and Damage" Fund for Vulnerable Countries. (2022).
2. UNFCCC. Sharma el-Shaikh Implementation Plan. (2022).
3. Serdeczny & Lissner. Research agenda for the loss and damage fund. Nat. Clim. Chang. 13, 412 (2023).
4. Warner & Weisberg. A funding mosaic for loss and damage. Science. 379, 219-219. (2023).
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This perspective draws from research on the decision-making and approval process in the GCF to explore how institutional arrangements and funding guidance shape funding and outcomes. We pay particular attention to the GCF's funding of adaptation since adaptation shares several elements with L&D, including the need for international financial support, especially public sector finance, and the prioritization of vulnerable populations. Additionally, addressing both adaptation and L&D is critical to climate justice.

Our recommendations are grounded in principles of climate justice, including distributional, procedural, recognitional, and restorative justice.

The insights presented here are based on an analysis of GCF board meeting deliberations between 2016 and 2021 during which the board discussed 181 proposals, survey responses from 27 Accredited Entities (AEs) and National Designated Authorities (NDAs), and data on the GCF portfolio and pipeline. All data on the deliberations, portfolio, and pipeline is publicly available on the GCF website.

Our recommendations are grounded in principles of climate justice, including distributional, procedural, recognitional, and restorative justice.[14] Based on these principles, we argue that two key considerations should guide the design of the L&D facility: 1) the facility should prioritize providing support for the most vulnerable and 2) funding should be accessible and the process should not be overly burdensome.

Based on the experience of the GCF, we make the following specific recommendations:

1. Funding should be timely

Speed and agility are key to the L&D facility's success; finance must be delivered on the ground in a timely fashion. L&D is already occurring, and the establishment and operationalization of the facility needs to happen quickly. The GCF was formally established in Cancun in 2010. However, it took five years and ten board meetings to finalize the GCF's institutional arrangements, and the fund approved the first project in its eleventh board meeting in November 2015. The first funding was disbursed in September 2016 and May 2017. Subsequently, the GCF has been criticized for the slow pace of disbursement. Currently, the GCF has committed funds of $12.8 billion USD, but only $3.6 billion has been disbursed.

Once operational, the speed of project approval in the GCF has been slow. The average time from proposal submission to approval has been 622 days (almost 2 years), and 38 out of 216 projects took between 3 years to 5 years to be approved (Figure 1). Even under the Simplified Approval Process (SAP), which was designed to streamline the application process, proposals spent an average of 616 days in the pipeline. One frustrated direct access entity representative commented, "*We have had one project in the pipeline for 5 years now, and the other one for 3 years. Both are adaptation micro-scale projects*." While tensions between speed and quality contribute to this lengthy process, this timeline does

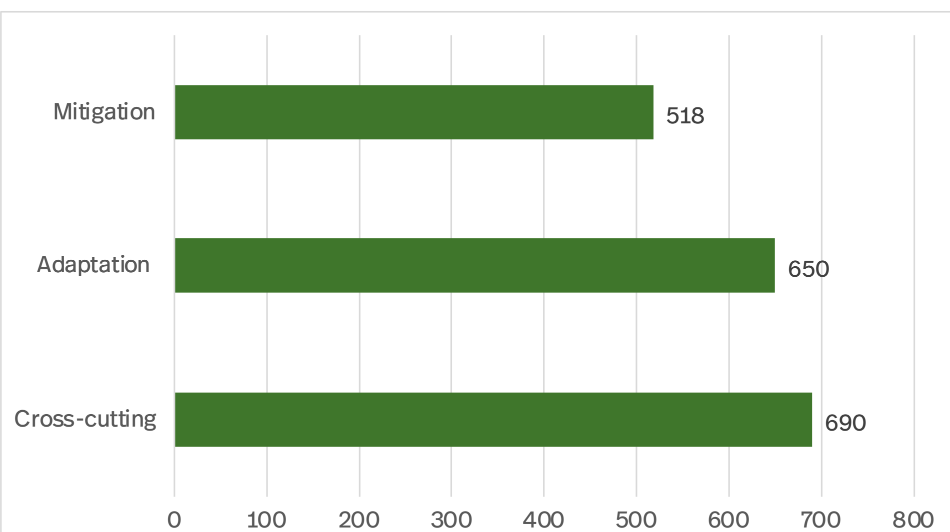

Figure 1: Number of days GCF projects were in the pipeline

14. Schlosberg & Collins. [From environmental to climate justice: climate change and the discourse of environmental justice](). WIREs Clim Change 5:359-374. (2014)

not align with the urgency of climate action required. As one survey respondent articulated, by the time a project gets approved and the project receives funding, the local context has changed quite a bit from what was analyzed while developing the proposal.

As one regional access entity articulated, the delays had important negative impacts on both the process and outcomes of the proposal development process: "*We have waited 8 months just to get feedback for a concept note. This clearly goes against the proposal and the stakeholder engagement, both with public and private actors.*" Many times, additional elements are requested by the GCF secretariat which necessitates new studies or data collection resulting in either inability to continue the process or further delays.

Given lessons learned from the GCF, the L&D facility requires a more innovative funding model that does not rely solely on applicants developing lengthy proposals for review by the board before funds can be dispersed.

To respond to urgent L&D, both the operationalization and proposal approval process of the L&D facility must be simplified. A pre-approved funding mechanism whereby countries prone to regular hazards apply for pre-approval, which could be disbursed immediately once they face such losses and damages, could be one approach. This would mitigate the lengthy bureaucratic process at the time of crisis and accommodate the urgent support needed for L&D. More broadly, given lessons learned from the GCF, the L&D facility requires a more innovative funding model that does not rely solely on applicants developing lengthy proposals for review by the board before funds can be dispersed.

2. Finance must be widely accessible and should target the most vulnerable

To ensure that the L&D facility reaches the most vulnerable, a wide range of actors need to be able to access the funds, including both national governments directly (and not through international entities), but also sub-national governments, NGOs, and community groups. Local and regional entities have had limited success accessing the GCF. Despite the GCF having a mandate to increase direct access funding, national and regional organizations lead only 24% of GCF projects (Figure 2). 157 of 207 funded projects are led by international entities.

Finance through the L&D facility should target the most vulnerable, which means it should target particularly vulnerable countries (while recognizing that L&D occurs in other contexts too). The GCF prioritizes funding to Least Developed Countries (LDCs) and Small Island Development States (SIDS), but out of $12.8 billion, only $2.18 billion has been allocated to adaptation in these nations (an additional $2.96 billion is for cross-cutting projects, with both mitigation and adaptation benefits), suggesting that the percentage of funding going towards adaptation needs in these contexts is low. Among LDCs, more has been allocated for mitigation than adaptation.

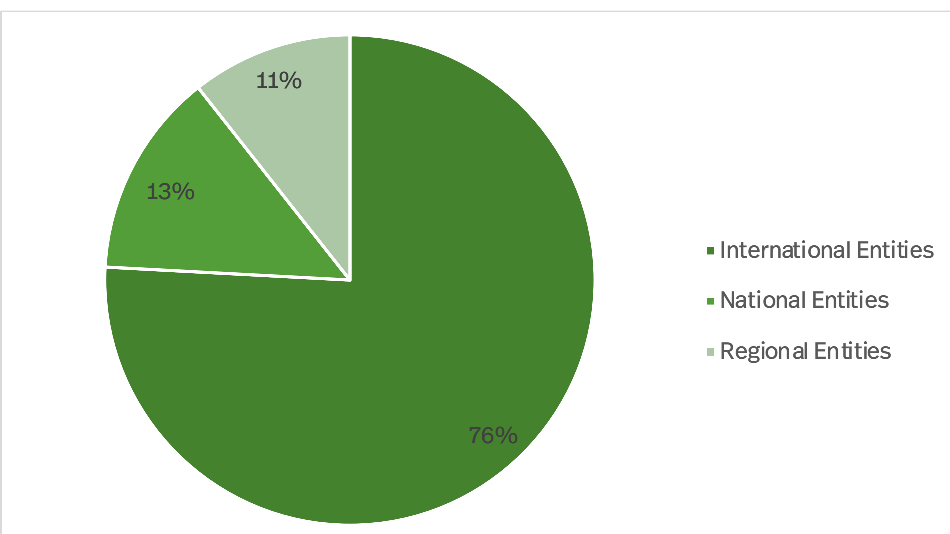

Figure 2: Number of GCF projects awarded to different entities

The accreditation process of the GCF is quite demanding and requires a lengthy timeline, which can take 2-3 years in many cases as well as extensive resources which many local organizations do not have the capacity to fulfill, effectively limiting their access. Even after completing accreditation, many national entities fail to receive funding (61 of 114 accredited entities have not yet received any funding).

The imposing requirements for proposal development and complicated feedback on proposals from the GCF reduce country ownership, which is critical for long-term sustainability. Survey respondents shared that local-level data are often raw and segregated, and the resources and capacity to carry out the full-fledged feasibility studies required to fulfill those criteria are lacking at many national-level entities. One survey respondent articulated: "*It is very unlikely that many DAEs [Direct Access Entities] would be able to develop a funding proposal to GCF's exacting standards and have the resources and capacity to keep up with the multiple reviews and amendments.*" Project preparation and readiness grants are designed to enhance these capacities, but while these mechanisms may enhance capacity to comply with funding requirements, they do not necessarily reflect local priorities.[15,16]

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The technical language of the GCF creates an additional barrier for national and local organizations to access the fund. The language is quite complicated with jargon and is challenging for non-English speakers. In addition to being a climate expert, organizations need someone with expertise in the GCF to be able to be successful.

The L&D facility must avoid using overly technical language that will prevent a wide range of actors from accessing funding. Moreover, it must recognize that in some contexts, governments are not the best positioned to meet the needs of the most vulnerable, and that organizations working on-the-ground are more adept at dispersing funds urgently in response to L&D.

3. Guidance on funding criteria needs to be clear

Despite calls for funds to be responsive and 'country-driven,' the L&D facility cannot possibly provide funding for all losses and damages. Guidance on what it can support is critical to ensure that expectations are set appropriately, the process is transparent, and applicants do not spend time, energy, and political capital developing proposals that cannot be funded. The GCF has six investment criteria that are used to assess the suitability of projects, but the criteria are not always clearly defined. For example, 'paradigm shift potential' is particularly open to interpretation, as even the board members themselves acknowledge. During board deliberations, one developed country board member reflected, "*I think we all kind of struggle with defining exactly what we mean by paradigm shift*." As observed in the GCF deliberations, ambiguous funding criteria (such as paradigm shift, innovation, and climate rationale) have led to concerns during the approval process.[17]

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In particular, demonstrating 'additionality,' or the additional costs associated with climate change over and above the costs of development,[18] and articulating the climate rationale for a project has proven challenging. These elements are designed to ensure that proposals are based on climate science and are sufficiently climate-focused and not addressing development, but distinguishing between climate and development is more challenging for adaptation than mitigation. One direct access entity articulated, "*For a small island developing state, 'development' and 'climate change' has become a consolidated and integrated approach by the necessity of its small population and dispersed isolated geography*." Only three projects have ever been officially rejected by the GCF board, with an additional four projects withdrawn from consideration after being presented to the board. In at least two of

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15. Omukuti. Do country-owned adaptation interventions reflect local level priorities? Application of a framings approach. Climate and Development, 12(9), 827-839. (2020).
16. Rahman et al. Locally led adaptation: Promise, pitfalls, and possibilities. Ambio, 1-15. (2023).
17. Kuhl et al. The liberal limits to transformational adaptation in the Green Climate Fund. Climate and Development. (2023).
18. Sherman et al. Drawing the line between adaptation and development: a systematic literature review of planned adaptation in developing countries. Wiley Interdisciplinary Reviews: Climate Change, 7(5), 707-726. (2016).

these cases (one for a project in Ethiopia and one for a project in Bangladesh), concerns raised by board members were related to the 'climate rationale' or 'GCF additionality.' In addition to being challenging for applicants, the need to demonstrate additionality has been widely critiqued as impractical on the ground, potentially maladaptive and incentivizing incremental adjustments to specific climate impacts rather than broader transformational change.[19,20,21,22]

Similar ambiguities are associated with L&D-related concepts including the term 'loss and damage' itself.[23] Debates around attribution of L&D are likely to influence L&D finance in similar ways that arguments around the 'climate rationale' and 'additionality' have impacted adaptation proposals. The design of the L&D facility should seek to avoid such reductionist interpretations of L&D and other associated concepts. Assuming that at least some funding streams will continue to rely on the model of proposals submitted by applicants, the facility should develop a clear interpretation of each concept, along with expected attributes that contribute to the funding process. This will help make the process as transparent as possible and support entities to understand and incorporate the necessary elements into proposals.

4. Financial instruments need to be appropriate

Finance alone is not enough; the financial instruments must be fit-for-purpose. The L&D facility will need to cover a wide range of circumstances including sudden and extreme weather events, slow-onset hazards, and non-economic L&D (e.g. health, mobility, local knowledge, cultural heritage, biodiversity),[24] which will require a flexible financial mechanism that supports this wide horizon of L&D needs.

The GCF has five different funding mechanisms including grants, loans, equity, guarantees, and result-based payments, designed to meet different needs. Within the GCF, grants and loans each make up 41% of the portfolio (Figure 3). Loans, particularly for adaptation, have been criticized because of their potential negative impacts and likelihood of increasing vulnerability.[25,26] The largest GCF-financed project (a cross-cutting project with both mitigation and adaptation objectives) received $200 million, but of that, $145 million was provided as a loan and only $55 million as a grant. This is a reminder that it is important to consider not only the size of projects but also the quality/mode of finance.

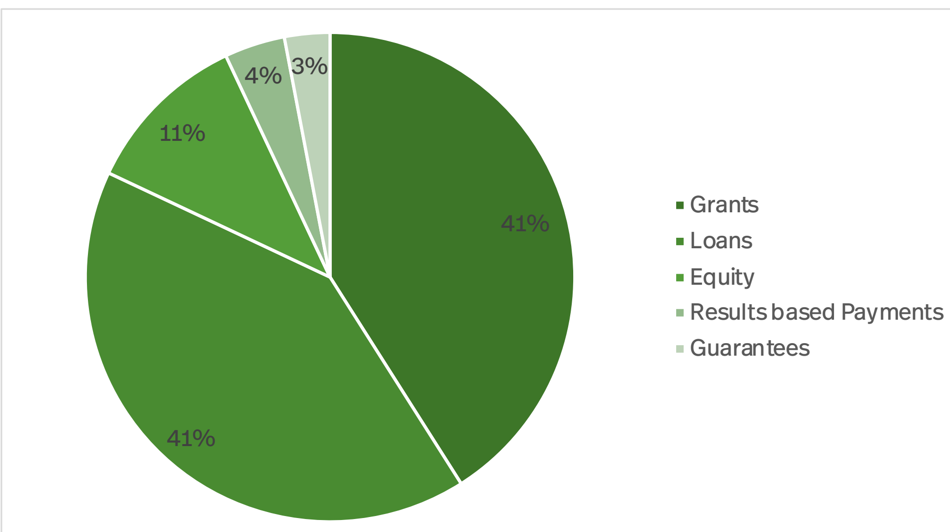

Figure 3: Percentage of GCF funding by financial instrument

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19. Eriksen et al. Adaptation interventions and their effect on vulnerability in developing countries: Help, hindrance or irrelevance? World Development, 141, 105383. (2021).
20. Schipper et al. The debate: Is global development adapting to climate change?. World Development Perspectives, 18, 100205. (2020).
21. Dilling et al. The dynamics of vulnerability: why adapting to climate variability will not always prepare us for climate change. Wiley Interdisciplinary Reviews: Climate Change, 6(4), 413-425. (2015).
22. Scoville-Simonds et al. The hazards of mainstreaming: Climate change adaptation politics in three dimensions. World Development, 125, 104683. (2020).
23. Bhandari et al. (2022)
24. UNFCCC. Non-economic losses in the context of the work programme on loss and damage. Technical Paper. (2013).
25. Linnerooth-Bayer & Hochrainer-Stigler. Financial instruments for disaster risk management and climate change adaptation. Climatic Change 85-100. (2015).
26. Bouwer & Aerts. Financing climate change adaptation. Disasters, 30(1), 49-63. (2006).

Another challenge is co-financing. For adaptation projects, the GCF has approved $3.23 billion in GCF funds, and an additional $4.93 billion in co-finance. Co-financing may be considered appropriate based on arguments of efficiency and value for money, as well as arguments around additionality. However, co-financing requirements limit fund access for many vulnerable countries. One Nationally Designated Authority described:

> *With regards to the co-financing requirements, the country is mostly looking for grant funds, as entering into debt agreements is more complicated, as the levels of bureaucracy required to confirm and commit to the project are somewhat of an obstacle and would result in the project either being stalled, or outright rejected as the capacity to provide this co-finance is not always available.*

Financial instruments that necessitate financial commitments on the part of recipients will limit access for many countries and fail to fulfill the purpose of the facility, potentially increasing vulnerability or exposure to risk. Financial logics infuse the GCF regardless of the financial instruments. Bankability and financial sustainability are key factors in GCF-approved project design,[27] leading critics to argue that the GCF is run like a bank as opposed to a fund for ensuring climate justice.[28,29] Despite recognition that L&D should not be treated as an investment, discussions already suggest that these logics will dominate at least some of the discourse on L&D. For example, insurance has been identified as a potentially important financial mechanism for L&D.[30,31] However, insurance has also been criticized as inappropriate for some L&D needs because the cost of insurance products prevents smallholders from accessing it, and, in many cases, the trigger threshold may not be met but the hazard still causes losses and damages.[32,33,34]

Ensuring that financial mechanisms do not cause harm should be a top priority. The L&D facility should avoid becoming another insurance mechanism for industry and consider the consequences of any financial instrument addressing L&D before adopting it.

Figure 4: GCF board meeting deliberations *Source: Novethic.fr*

5. Power dynamics and politics require careful management

Equal representation by developed and developing countries is a core principle of the UNFCCC. The experience of the GCF, however, indicates that equal representation on the board does not ensure equal participation in raising concerns during project deliberations, and additional institutional design features are needed to achieve equitable participation by the Global South. The GCF board consists of 12 members from developed countries,

27. Kuhl et al. (2023).
28. Cholibois Electrifying the 'eighth continent': Exploring the role of climate finance and its impact on energy justice and equality in Madagascar's planned energy transition. Climatic Change, 161(2), 345–364. (2020).
29. Bertilsson & Thörn. Discourses on transformational change and paradigm shift in the Green Climate Fund: The divide over financialization and country ownership. Environmental Politics, 30(3), 423–441. (2021).
30. Linnerooth-Bayer et al. Insurance as a Response to Loss and Damage?. In Loss and damage from climate change: Concepts, methods and policy options, 483-512. (2019).
31. Warner et al. Adaptation to climate change: linking disaster risk reduction and insurance. UNFCCC. (2009).
32. Linnerooth-Bayer et al. (2019)
33. Collier et al. Weather index insurance and climate change: Opportunities and challenges in lower income countries. The Geneva Papers on Risk and Insurance-Issues and Practice, 34, 401-424. (2009).
34.Linnerooth-Bayer & Mechler. Insurance against losses from natural disasters in developing countries. New York: UNDESA (2009).

12 members from developing countries, and five observers from civil society and the private sector. Despite this institutional design for the GCF board, across deliberations on 181 proposals, developing country board members raised only 147 concerns compared to 409 by developed country board members (Figure 5).

This discrepancy is important not only in terms of an equitable process but also substantively, as the types of concerns raised varied by their positionality. Board members from developed countries were more concerned with how compelling the climate rationale was, whether funds were being optimally used, and how well the GCF investment criteria were explained; whereas developing country board members and observers raised more concerns about whether the proposal would cause further risk and harm, how inclusive the proposal development process was, and if gender was considered properly.[35]

The GCF process also suggests that civil society participation is important for accountability but has limited impact on the approval process. Observers enhance attention to human rights and gender issues such as weak gender integration in the implementation plan, unclear gender roles, possibilities of forced labor, and redistribution of risks, among others. While civil society observers were vocal, and voiced 461 concerns in the GCF board deliberations, these concerns were less frequently incorporated into final board decisions than those raised by board members themselves. Of the 181 projects analyzed, the board attached conditions that modified the proposal on 49 projects before approval. However, of these, only 14 included conditions based on the concerns raised by civil society whereas all 49 projects included conditions that were raised by developed country board members.

L&D is politically contentious, so attention to ensuring equitable participation and input into the decision-making process will be critical. The experience of the GCF suggests that measures in addition to presence on the board are required to achieve equitable participation. In addition, the involvement of civil society is critical to enhancing the accountability of the board and projects. A structure is necessary that ensures all points raised in the approval process, including by observers, are given serious attention. Given the concerns raised by civil society on the potential risks and harms of GCF proposals, additional guidance from the facility to ensure that L&D projects don't cause harm may be needed. For example, civil society has played a key role in drawing attention to the fact that the GCF rules do not explicitly prevent funding fossil fuels.[36,37]

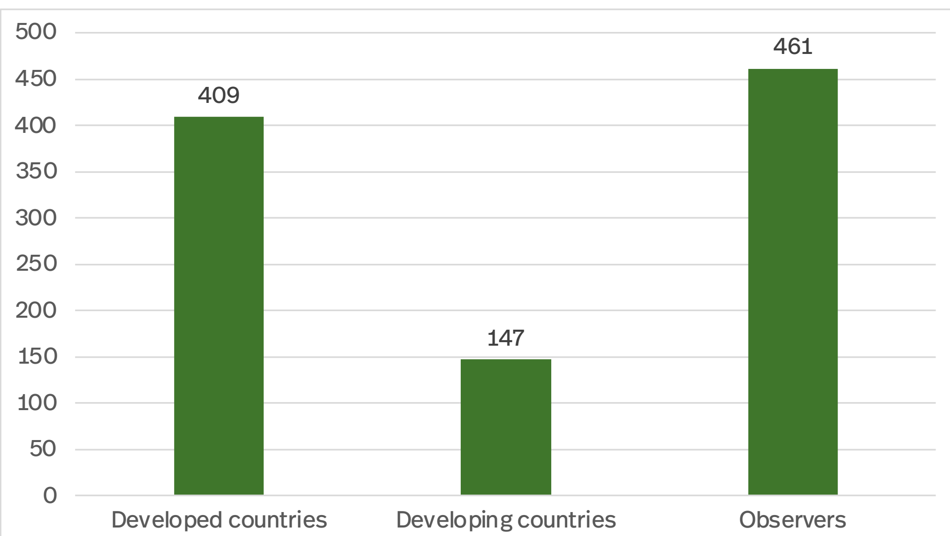

Figure 5: Concerns raised by GCF board members and observers

Conclusions

A new L&D facility represents an opportunity to design climate finance that is more responsive and just than any previous institution, but only if past lessons are heeded. An overarching lesson from the experience of the GCF is that the model of requesting detailed proposals from applicants that fulfill complex investment criteria is slow, limits access, is confusing for recipients, and despite a "veil of objectivity,"[38] remains subject to the same North-South politics that have long hindered progress on L&D.[39]

35. Kuhl et al. (2023).
36. The Guardian. UN green climate fund can be spent on coal-fired power. London. (2015).
37. Cleantechnica. Green Climate Fund Can Be Spent to Subsidise Dirty Coal. (2015).
38. Kuhl. Policy making under scarcity: reflections for designing socially just climate adaptation policy. One Earth, 4(2), pp.202-212. (2021).
39. Falzon et al. Tactical Opposition: Obstructing Loss and Damage Finance in the United Nations Climate Negotiations. Global Environmental Politics, 1-25. (2023).

A "paradigm-shift" (to borrow GCF language) in the approach to climate finance is needed. In addition to traditional proposal-based modalities, innovations that place the onus on the facility to go to the recipient and be proactive in identifying losses and damages where finance would be helpful would enhance the likelihood that the L&D facility meets the needs of the most vulnerable. Humanitarian aid provides a useful model that could be expanded upon in times that require urgency. Moving quickly to reach people in crises and delivering finance in difficult contexts will enhance the legitimacy of the L&D facility and increase trust.

It is estimated that the average annual cost of addressing L&D in developing countries will be at least $435 billion USD by 2030 and $1 trillion by 2050.[40] Given that to date only $300 million has been pledged by high-income countries,[41] it cannot be expected that a dedicated L&D facility will be able to address all L&D needs. A mosaic of funding arrangements is likely necessary, as L&D is complex and requires a variety of mechanisms.[42] Additionally, current financial and institutional arrangements by governments or other institutions in developing countries are not sufficient to comprehensively address L&D that can support local needs and respond quickly.[43,44] Even with these limitations, a dedicated L&D facility will play a critical role in this landscape, both directly and through its demonstration role. Ensuring that the institutional design takes into consideration critical lessons from existing climate finance mechanisms such as the GCF is one important step in ensuring the delivery of the long-overdue promise of climate justice for L&D.

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40. Huq & Joshi. Funding Loss and Damage. International Centre for Climate Change and Development. (2023).
41. Ibid
42.Warner & Weisberg (2023).
43. Huq &Joshi (2023)
44. (IPCC). Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, In press, (2021). doi:10.1017/9781009157896

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