REMINDER TO THE BOARD:
The World Bank and the Loss and Damage Fund are uncomfortably paired.
ACKNOWLEDGMENTS

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INTRODUCTION

As we look towards the first meeting of the Board of the Loss and Damage Fund (LDF/Fund), following the much-delayed nomination of developed country Board members, this brief seeks to remind Parties and observers of the reasons why the World Bank and the LDF are uncomfortably paired and what conditions the Bank must meet to become the interim host of the Fund. It also looks at what can be done at the first meeting of the Board of the LDF and in the context of the 2024 International Monetary Fund (IMF) – World Bank Spring Meetings to encourage the Bank to make known whether it can meet the conditions set out in the COP28 decision for it to become the interim host of the LDF secretariat and, more broadly, to what the Bank would need to do for the Board to agree the Bank becoming the long term host of the Fund.

AFTER 32 YEARS OF DELAY, A LOSS AND DAMAGE FUND WITH THE WORLD BANK AS INTERIM HOST

The history of Loss and Damage negotiations under the United Nations Framework Convention on Climate Change (UNFCCC/Convention), dates back more than thirty years.
In 1991, Vanuatu, as the Chair of the Alliance of the Small Island States (AOSIS), made the first proposal to address loss and damage by calling for an insurance mechanism to compensate for loss and damage caused by sea level rise, as negotiations were underway to establish the UNFCCC. The proposal was rejected, and since then Loss and Damage has become one of the most contentious issues in climate negotiations, where countries in the global South have pursued “compensation” for climate-induced loss and damage. Developed countries, however, continue to reject demands for “compensation” even though the preamble to the UNFCCC makes clear that the largest share of historical and current global emissions of greenhouse gasses originated in developed countries and Article 9.3 of the Paris Agreement indicates that “developed country Parties should continue to take the lead in mobilizing climate finance.”

In 2022, major climate and weather events in developing countries caused more than US$109 billion in losses, a figure that does not take into account smaller locally devastating events, slow onset impacts, or non-economic loss and damage. Current midpoint estimates of economic loss and damage in developing countries suggest costs of US$425 billion per year in the 2020s and US$671 billion per year in the 2030s. In light of these projections, a Loss and Damage finance floor of US$400 billion per year has been suggested, with loss and damage financing needs likely to be revised upward over time as the climate crisis escalates even if drastic emissions cuts are made and finance for adaptation increases.

Finally, after 32 years of delays, Parties agreed to establish a Loss and Damage Fund and Funding Arrangements (FA) following intense negotiations in 2022 at COP27 in Sharm el-Sheikh, Egypt. This historic decision came after three decades of multilateral processes failed to deliver a fund for loss and damage and was made possible because of the unity of the G77 and China negotiating block and significant civil society pressure.

In addition to the Fund and FA, the COP27 decision established a Transitional Committee (TC) tasked with providing recommendations for the operationalisation of the Fund and FA at COP28. Mandated to hold at least three meetings, the TC began its work in March 2023. However, due to strong divergence on many aspects of the Fund and its governing instrument, including scope, scale, sources of finance, and whether the Fund would be an operating entity of the Financial Mechanism of the UNFCCC, the TC required five meetings to agree on a set of recommendations to transmit to the COP28 presidency. When an agreement was finally reached at the fifth and final
meeting (TC5) in Abu Dhabi in early November 2023, it was decided that if it meets a set of criteria, the World Bank will become the interim host of the secretariat of the LDF and that the Fund would become an operating entity of the Financial Mechanism of the UNFCCC.

However, the agreement reached at TC5 was considered to be a fragile and delicate compromise around eligibility, scope and responsibility reflecting the many compromises that TC members had made to reach an agreement, including on sources of finance — developed countries are only required to make voluntary contributions to the Fund — and on the hosting arrangements. Until a compromise was reached at TC5, developing countries had been adamant that the Fund must be a stand-alone fund, raising serious concerns — alongside civil society — about the culture of the World Bank, its relatively high administrative fees and inability of its current business model to provide direct access to countries and communities, amongst other things. Therefore, even though, the recommendations agreed at TC5 were later adopted when the Fund was operationalised during the opening ceremony of COP28 — following an unprecedented move by the COP28 presidency — concerns remain about whether the World Bank will in fact be able to meet the criteria needed for it to become the host of the LDF’s secretariat for the interim period, and if a secretariat under the World Bank will be fit-for-purpose.

“It was decided that if it meets a set of criteria, the World Bank will become the interim host of the secretariat of the Loss and Damage Fund.”

“Developing countries had been adamant that the Loss and Damage Fund must be a stand-alone fund, raising serious concerns — alongside civil society — about the World Bank.”

“The Loss and Damage Fund was operationalised during the opening ceremony of COP28 but concerns remain about whether the World Bank will be able to meet the criteria needed for it to become the host and if a secretariat under the World Bank will be fit-for-purpose.”
The COP28 decision to operationalize the LDF states that the Fund’s secretariat will have the World Bank as an interim host for four years. To do so, the Bank must promptly operationalize the Fund as a Financial Intermediary Fund (FIF) —for which the World Bank has also been requested to provide trustee services— and submit to the newly established LDF Board by no later than eight months after the conclusion of COP28 (by August 2024). The criteria set out in paragraph 20 of the Governing Instrument of the Fund indicates that continued operationalization of the LDF during the interim period will be conditional upon the World Bank hosting the FIF in a manner which:

a. Is fully consistent with the Fund’s governing instrument;

b. Ensures the full autonomy of the Board of the Fund to select the Executive Director of the Fund at a level of seniority set by the Board, in line with the relevant World Bank human resources policies;

c. Enables the Fund to establish and utilize its own eligibility criteria, including based on guidance from the COP and CMA;

d. Ensures that the Fund’s governing instrument supersedes, where appropriate, the policies of the World Bank in instances where they differ;

e. Allows all developing countries to directly access resources from the Fund including through subnational, national and regional entities and through small grants funding for communities, consistent with policies and procedures to be established by the

“The World Bank must promptly operationalize the Fund as a Financial Intermediary Fund and submit to the Board of the Fund by no later than eight months after COP28.”
 Board of the Fund and applicable safeguards and fiduciary standards;

f. Allows for the use of implementing entities beyond Multilateral Development Banks, the International Monetary Fund, and United Nations agencies, consistent with policies and procedures to be established by the Board of the Fund and applicable safeguards and fiduciary standards;

g. Ensures that Parties to the Convention and the Paris Agreement which are not members of the World Bank are able to access the Fund without requiring decisions or waivers from the World Bank Board of Directors on individual funding decisions;

h. Permits the World Bank, in its role as a trustee, to invest contributions to the Fund on the capital markets to preserve capital and general investment income in line with due diligence considerations;

i. Ensures that the Fund can receive contributions from a wide variety of sources, in line with due diligence considerations;

j. Confirms that the Fund’s assets and its Secretariat have the necessary privileges and immunities;

k. Ensures a cost recovery methodology that is reasonable and appropriate;

In addition to the criteria set out in paragraph 20, the World Bank will also need to pass the following three “tests” laid out in paragraphs 21-24 of the Governing Instrument of the Fund. The first two “tests” will determine if the Bank can become the interim host. These are:

1. Confirming that there is a willingness by the World Bank to host the LDF secretariat as a FIF with the conditions set out in paragraph 20. This is to be established by the World Bank providing confirmation within 6 months of COP28 (by May 2024) (paragraph 21). If the Bank is not willing, then the Board will instruct the Conference of the Parties (COP) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) to operationalize the Fund as an independent stand-alone institution. If yes, the Bank must provide FIF documentation within eight months of COP28 (by August 2024).

2. Following a review, the Board of the Fund confirms the FIF documentation for the LDF can meet the conditions set out in paragraph 20 within the interim period (Paragraph 22). If it has not, then the Board will instruct the COP and CMA to operationalize the Fund as an inde-
pendent stand-alone institution. If the FIF documentation does meet the conditions, the World Bank will become the interim host.

Whilst, the third test will determine whether the bank will continue to host the LDF secretariat once the interim hosting period is up:

3. An independent assessment of the performance of the World Bank as host of the Fund’s secretariat during the four-year interim period will take place (Paragraph 23). If the Bank has not performed well, the COP and CMA will take steps to operationalize the Fund as an independent stand-alone institution. If the conditions have been met by the World Bank as determined by the Board and performance is deemed adequate, the COP and CMA will end the interim period and the Bank will continue to be host — with or without conditions.

ENCOURAGING THE WORLD BANK TO MEET THE CONDITIONS SET OUT IN THE COP28 DECISION

In mid-March 2024, the World Bank created a webpage for the LDF that contains an About page and an FAQ. On the About page the Bank provides an indicative timeline of the key steps it will take to meet the deadlines set in the COP28 decision which the Bank notes as falling in “early June 2024”, to confirm willingness to host the Fund to the COP28 Presidency, and “early August”, to submit to the Board of the Fund the relevant FIF documentation and a hosting agreement. However, as of the 26th of March 2024,
the webpage does not explicitly confirm that the Bank is willing to host the Fund. The key steps indicated by the World Bank are as follows:

<table>
<thead>
<tr>
<th>Through March</th>
<th><strong>Draft Board Paper:</strong> This will describe the rationale and objectives of the FIF, key design features, proposed activities, roles and responsibilities of the Bank as host and trustee as laid out in the COP decision text.</th>
</tr>
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<tr>
<td>By mid-April</td>
<td><strong>World Bank Board approval:</strong> Approval of the Board paper which will allow World Bank management to proceed with establishment of the FIF in cooperation with the Board of the Fund and for the Bank to perform the necessary functions, in line with the COP’s invitation and based on the COP Decision.</td>
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<tr>
<td>Mid-April-July 2024</td>
<td>Preparation of detailed hosting arrangement and trustee arrangement, in consultation with the Fund Board*</td>
</tr>
<tr>
<td>By end July 2024</td>
<td>Agreement with the Fund Board on the hosting arrangement and trustee arrangement*</td>
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* The World Bank notes that both these steps are contingent on the establishment of the Fund’s Board and that the World Bank is not involved in the process for establishing the Board of the Fund.

Paragraph 25 of the Governing Instrument of the Fund indicates that prior to the establishment of the FIF, the Board of the Fund will provide guidance to the World Bank as it takes the necessary steps to establish the Fund’s secretariat as a FIF. If we anticipate that the first meeting of the Board will fall in the second half of April, the World Bank’s timeline indicates that it will have got approval for its Draft Board Paper which will allow management to proceed with establishment of the FIF in cooperation with the Board of the LDF. The Board of the LDF must therefore be ready to provide relevant guidance to the Bank responding to its proposed way forward to ensure that it will meet the deadlines and conditions set in the COP28 decision. To do so, the Board of the Fund must agree on how it will undertake the task of providing the World Bank with guidance and on how it will assess the hosting and trustee agreement provided by the World Bank against the conditions in the COP28 decision.

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“Paragraph 25 of the Governing Instrument of the Fund indicates that prior to the establishment of the FIF, the Board of the Fund will provide guidance to the World Bank as it takes the necessary steps to establish the Fund’s secretariat as a FIF.”

“The Board of the Loss and Damage Fund must be ready to provide relevant guidance to the World Bank to ensure that it will meet the deadlines and conditions set in the COP28 decision.”
In addition to the Board providing guidance to the World Bank, the IMF - World Bank Spring Meetings, — which will take place in Washington D.C. from the 17th to the 19th of April — provide another opportunity for Parties and civil society to put pressure on the Bank to make known ahead of the first Board meeting whether or not the Bank is willing to meet the conditions.

A “FIT-FOR-PURPOSE” WORLD BANK?

In light of the COP28 decision to invite the World Bank to become the interim host of the LDF, the following sections seeks to remind Parties and observers of the reasons why the World Bank and the Loss and Damage Fund are uncomfortably paired, and therefore why the conditions have been imposed, whilst also providing an overview of some of the Banks strengths and what the Bank should do to increase it chances of becoming the long term host of the Fund.

THE CASE FOR THE WORLD BANK AS INTERIM HOST

In this section, we look at some of the strengths of the World Bank, including the reasons why developed countries wanted the Bank to host the secretariat of the LDF.

FASTER IMPLEMENTATION AND MORE CONFIDENCE FROM CONTRIBUTORS

During the Transitional Committee process developed countries argued that the World Bank FIF would provide a ready made structure to host the LDF secretariat that would allow funds to start flowing quickly.15 The Pandemic Fund16 was raised as an example of a FIF that was set up very quickly having been established in September 2022 and already disbursing funds in February 2023.17

“Developed countries argued that the World Bank FIF would provide a ready made structure to host the secretariat of the Loss and Damage Fund that would allow funds to start flowing quickly.”
The indicative timeline from the World Bank’s LDF webpage also suggests that the Bank will provide the FIF as quickly as requested in the COP28 decision. Developed countries also indicated that a World Bank hosted LDF would give them more confidence to make contributions to the Fund.18

MULTILATERAL DEVELOPMENT BANKS
INCREASING THE SCALE OF CLIMATE FINANCE

Given high inflation rates and pressure on public budgets in all countries, the role of Multilateral Development Banks (MDBs), including The World Bank Group, will be crucial in increasing the scale of climate finance for emerging markets and developing countries. For instance, the World Bank Group delivered a record US$38.6 billion in fiscal year 2023 in climate finance.19 This is an increase of 22 percent from the US$31.7 billion all-time high reached in the previous fiscal year. However, much of the World Bank Group’s climate finance is provided as concessional loans with grants totalling only 11% across 2013-2021 — a figure that is still relatively high and only surpassed by the African Development Bank20. The World Bank Group continues to be the largest multilateral financier of climate action in developing countries.21 Moreover, it is estimated that the flow of climate finance from the World Bank Group, should triple from around US$60 billion a year to about US$180 billion a year within the next five years.22 In 2022, the International Finance Corporation — the private sector arm of the Group — delivered an unprecedented US$4.4 billion in climate finance and mobilized an additional US$3.3 billion from other sources. Whilst the Multilateral Investment Guarantee Agency, the Group’s risk insurance and credit enhancement arm, delivered US$1.1 billion in climate finance in 2022.23

MANAGEMENT OF FIFs

Evaluations of FIFs hosted by the World Bank found that their operations are supported by strong management systems and financial controls and that hosted secretariats benefit from the strengths of its infrastructure and outreach with governments around the world.24 The FAQ on the World Bank’s LDF webpage provides further information on how the Bank will support the LDF as a FIF which suggests that the LDF could benefit in the same way. In its limited role as FIF Trustee, the Bank indicates that it will provide “a set of agreed financial services that involve receiving, holding in trust and investing contributed funds, and transferring them to Implementing Entities or recipients when instructed by
the FIF governing body.” The Bank also indicates that the FIF Secretariat will support the work of the FIF governing body (the LDF Board) and act as a liaison between the LDF Board, the Trustee, the implementing entities and any other relevant parties. In light of questions raised about the World Bank’s influence over the LDF, the Bank stresses that the “FIF Trusteeship does not involve overseeing or supervising the use of funds” and that the Board of the LDF is responsible “for the FIF’s strategic direction and work program priorities, including setting policies, selecting Implementing Entities and making funding decisions.” Similarly, the Bank highlights that the implementation of activities financed by the LDF will be carried out by Implementing Entities that will receive funding allocations for specific activities from the LDF following decisions made by the LDF Board, and that the Board, not the Bank, will determine if the World Bank will become one of the Implementing Entities for the LDF and what the eligibility criteria for loss and damage funding will be.

CHALLENGES THE WORLD BANK NEEDS TO RESOLVE TO BECOME A TRUSTED HOST

In this section, we look at some of the challenges that the World Bank will need to overcome to meet the conditions set in the Governing Instrument and to become a trusted long term host of the secretariat of the LDF.

DIRECT ACCESS

Without a change to the Bank’s existing policies, the operationalisation of the LDF secretariat as a World Bank FIF would make direct access impossible. This would mean that the Bank would fail to meet item (e) of the criteria laid out in paragraph 20 of the COP28 decision.25 The World Bank’s FIF framework, under which LDF would be governed, currently indicates that FIFs may only use MDBs and United Nations (UN) agencies as implementing entities. This is the case for existing FIFs such as the Global Environment Facility (GEF), Global Infrastructure Facility and Climate Investment Funds which operate in this way. With no direct access to the LDF, national government institutions, sub-national agencies, civil society groups and grassroots organizations would not be able to access funds without going through an MDB or UN agency “middle man” which will incur greater costs. Direct access has been a priority for developing countries especially in the context of loss and damage funding and removing intermediaries would mean that significantly more money would flow to...
beneficiaries and that substantially more capacity would be built in-country. Although the World Bank has made a commitment to “pursue” direct access and seek approval from its Executive Board to do so—it must guarantee direct access and indicate how it will achieve this to the Board of the LDF who will then assess whether the Bank has met the conditions agreed at COP28.26

FUNDING FOSSIL FUEL PROJECTS

Even while recognizing that the World Bank Group has supported global developmental efforts and that it is positioning itself to be a climate-friendly bank, its business model — which sees the Bank continuing to fund fossil fuel projects — means that the Bank is perpetuating the burning of fossil fuels at a time when rapid emission cuts are needed to avoid future loss and damage. For instance, in a report by The Big Shift Global — a coalition of 50 NGOs — it is estimated that the World Bank has provided nearly US$15 billion in finance directly to fossil fuel projects since the Paris Agreement was signed in 2015 and that the Bank is likely to have catalyzed more investments indirectly.27 Further evidence of this comes from Urgewald — a campaign group that tracks global fossil fuel finance — which found that the World Bank supplied roughly US$3.7 billion in trade finance in 2022 that was likely to have ended up funding oil and gas developments.28

LOANS AND CONDITIONALITIES

The World Bank’s business model also relies heavily on loans and conditionalities. Loans are entirely inappropriate for addressing loss and damage as they further exacerbate the indebtedness of developing countries impacted by loss and damage. With mounting debt an increasing burden for developing countries, the poorest nations29 who are eligible to borrow from the World Bank — which includes many of the most climate-vulnerable countries — are spending over a tenth of their export revenues to service long-term debts — the highest proportion since 2000.30 At the end of 2021, the external debt of these economies totalled US$9 trillion — more than double the amount a decade ago. Rising interest rates and slowing global growth meant that about 60 percent of the poorest countries are already at high risk of debt distress or already in distress. If the LDF as World Bank FIF were to employ loans to scale up loss and damage programming, increased debt repayments would further reduce scarce resources from public services, including health, education, social protection and climate-resilient infrastructure, at a time when regions including Africa are spending more on servicing debt than serving their needs.31

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“The World Bank’s business model also relies heavily on loans and conditionalities. Loans are entirely inappropriate for addressing loss and damage as they further exacerbate the indebtedness of developing countries impacted by loss and damage.”

“Regions including Africa are spending more on servicing debt than serving their peoples’ health and schooling needs.”
peoples’ health and schooling needs.\textsuperscript{31} It is for this reason, that the Chair of the AOSIS, Diann Black-Layne reiterated at TC4, that the World Bank is a lending institution and debt-strapped nations dealing with loss and damage require grant-based funding.\textsuperscript{32}

\section*{WORLD BANK INFLUENCE OVER THE FUND}

Although conditions are set out in the COP28 decision to ensure full autonomy of the Board of the LDF and the World Bank has indicated in the FAQ on its LDF webpage\textsuperscript{33} that it will not have any role in decision-making, concerns remain around whether the Bank will seek to influence the Board. Throughout TC4 and TC5 developing countries repeatedly raised concerns that developed countries would influence the LDF through the World Bank noting that as the Bank’s largest shareholder the US — a historic blocker of Loss and Damage finance — has ideological influence over the Bank.\textsuperscript{34,35} If it were the case that the Bank will seek to influence the Board of the LDF, this would violate the conditions set in the COP28 decision.

The FAQ on the World Bank’s webpage for the LDF explicitly indicates that the Board of the LDF will determine eligibility. However, if the Board were influenced to adopt the World Bank’s typical model, where the Bank separates countries into income groupings, it would likely mean that middle-income countries like Pakistan would need to take loans to fund recovery from loss and damage. Following the extreme Pakistan floods in 2022, over 90 percent\textsuperscript{36} of funds secured by Pakistan during a pledging conference to address the loss and damage caused by the floods were loans. These loans will further exacerbate Pakistan’s debt burden which will, in turn, reduce spending on public services. In order to avoid further reducing the fiscal space of developing countries facing loss and damage, all developing countries must therefore receive grant-based support regardless of their income grouping.

\section*{THE WORLD BANK’S ADMINISTRATION FEES}

The World Bank charges relatively high administrative fees to the funds it hosts and past examples indicate that it can significantly increase administrative fees at short notice. In a submission made during TC4\textsuperscript{37}, the World Bank indicated that it would charge the following fees to host the LDF secretariat as a FIF:

\begin{quote}
The World Bank has indicated in the FAQ on its Loss and Damage Fund webpage that it will not have any role in decision-making, however, concerns remain around whether the Bank will seek to influence the Board of the Fund.\textsuperscript{33}
\end{quote}

\begin{quote}
If the Board of the Loss and Damage Fund were influenced to adopt the World Bank’s model for eligibility it would likely mean that middle-income countries like Pakistan would need to take loans to fund recovery from loss and damage.\textsuperscript{34,35}
\end{quote}

\begin{quote}
The World Bank charges relatively high administrative fees to the funds it hosts and past examples indicate that it can significantly increase administrative fees at short notice.\textsuperscript{37}
\end{quote}
1. **Trustee fee:** Standard Trustee services are carried on a sliding scale basis linked to the size of the funds under management. Such costs are generally around 0.5 percent of total contributions to the FIF. This covers services including commitment and transfer of funds, administration of assets, preparation of reports for the Fund Board, etc.

2. **Secretariat hosting costs:** FIFs are assessed at the full cost (direct + indirect) of hosting the fund. Direct costs (e.g. staff salary and benefits, staff travel, cost of consultants hired by the Secretariat) typically represent an average of 83 percent of secretariat costs, while indirect costs (e.g. office space, IT services, security) average 17 percent of total secretariat costs.

Additionally, if the Board of the LDF were to decide that the World Bank would become an implementing entity of the LDF, the following additional charge would apply:

3. **Implementing entity fees:** The World Bank for its role as implementing entity charges on average 5 percent of the total FIF financed project cost for the portion of assistance that is implemented through the World Bank.

The GEF, which is a World Bank hosted FIF with the World Bank as Trustee, is expected to program US$5.3 billion for the period 2022-2026. This amounts to roughly US$1.06 billion a year. In 2024, the GEF has budgeted US$3.532 million for World Bank trustee fees and US$30.5 million for FIF secretariat costs. This comes to a total of US$34.032 million or 3.23 percent of what the GEF programs each year. If we take this as an example for what the LDF might pay in World Bank trustee fees and secretariat hosting costs if the LDF programmed US$100 billion a year, this would suggest that the costs could be as much as US$3.2 billion a year.

According to a Global Partnership for Education (GPE) board committee member, the combined cost incurred by the GPE — another World Bank hosted FIF with the World Bank as Trustee programing US$5 billion of funding to education projects in low and lower-middle-income countries— this amounts to 1.5 percent of annual income. Depending on disbursements made by GPE this works out to around US$37.5 million a year.

In comparison, when we look at what the Green Climate Fund (GCF) is paying as stand alone climate fund programing US$13.9 billion for the period 2024-2027 with the World Bank as the trustee, we see that secretariat costs are budgeted at US$99.962 million and trustee fees at US$4.531 million with a total of US$104.493 million for 2024. Therefore, if the GCF is programming roughly US$3.47 billion a year, hosting fees come to 3.01 percent of this. This would suggest that the secretariat and trustee fees for the GEF are 3.23 percent of what the GEF programs each year. If the Loss and Damage Fund programmed US$100 billion a year, this would suggest that the costs could be as much as US$3.2 billion a year.

“World Bank fees for the GEF are 3.23 percent of what the GEF programs each year. If the Loss and Damage Fund programmed US$100 billion a year, this would suggest that the costs could be as much as US$3.2 billion a year.”

“If the GCF is programming roughly US$3.47 billion a year, the hosting fees come to 3.01 percent of this. This would suggest that the secretariat and trustee fees for the LDF as a World Bank FIF are 0.22 percent higher than if the LDF were a stand alone fund.”
fees for the LDF as a World Bank FIF are 0.22 percent higher than if the LDF were a stand alone fund.

Another GEF experience highlights that the World Bank could try to significantly raise the administrative fee of the LDF at short notice. In 2023, the World Bank proposed an increase to their administrative fee of the GEF by at least 300 percent to the 2023 financial year. In response, the GEF Council proposed an alternative charge which might result in a lesser but still significant cost increase of at least 188 percent. Negotiations on this continue between the bank and GEF.44

Similarly, the GPE has also seen host fees increase dramatically at short notice. According to a GPE board committee member, at one point, the World Bank charged an administrative fee of 12 percent to host the GPE Secretariat.45 Yet a few years ago, this went up to 17 percent and the Bank tried increasing it to 24 percent arguing that this is what other Fund secretariats’ hosted by the World Bank are being charged. This was resisted by the GPE Board, who were finally able to negotiate the charges down to 20.5 percent, but not without being informed by the Bank that this was an exceptional arrangement.46

To stand a chance of becoming the long term host of the secretariat of the LDF, the World Bank should not continue its practice of significantly raising fees at short notice and instead set administrative fees that rise gradually over time in line with costs incurred by stand alone climate funds such as the GCF.

REFORMING THE GLOBAL FINANCIAL SYSTEM

If we are to remotely consider the World Bank as the long-term host of the LDF and not just an interim host, then the Bank needs to focus on a debt-restructuring framework — together with the IMF and Financial Stability Board — that can be acceptable to Development Assistance Committee (DAC) and non-DAC countries.47 Debt restructuring, and/or forgiveness, is needed urgently by climate-vulnerable countries who are not able to program for durable climate solutions — including to address loss and damage — because developed countries and institutions like World Bank are not providing debt-free lending instruments as recommended by the Bridgetown Initiative.48 Although it is unlikely that debt-restructuring will happen quickly and at scale, due to pushback from emerging economies like China which are currently paralyzing global debt-forgiveness efforts, Northern institutions like the World Bank must take the lead starting with the LDF.49

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“Debt restructuring, and/or forgiveness, is needed urgently by climate-vulnerable countries who are not able to program for durable climate solutions — including to address loss and damage.”
Recognizing the World Bank’s business model is that of a Bank that provides “aid” often in the form of loans, it is important to note that disbursement of funds is at the discretion of the “donor” which — by and large — ignores the responsibility of historical polluters under the “polluter pays principle” — a key principle under the UNFCCC, for loss and damage finance, and, more broadly, the climate justice discourse and practice.

HUMAN RIGHTS ISSUES

Many projects funded by the World Bank have not only failed to benefit local communities but have actually caused harm to people and the environment. It is crucial that the Bank puts in place stronger environmental, social and human rights safeguards that promote remedial actions against non-compliance. Whilst the World Bank’s Environmental and Social Framework (ESF) provides protection to people and the environment from potential adverse impacts that could arise from Bank-financed projects, it lacks stronger accountability mechanisms which would allow affected communities to raise complaints and help the Bank address transparency, non-discrimination, social inclusion, and public participation. A strengthened, or repurposed, ESF — together with enhanced accountability mechanisms — will support in addressing issues that might arise from disbursing loss and damage funding to affected countries and communities, especially from the perspective of multi-stakeholder consultations; information disclosure; free, prior and informed consent; fair share; targeted interventions; equitable benefit sharing mechanisms; and remedial measures in cases of non-compliance.

“...It is crucial that the Bank puts in place stronger environmental, social and human rights safeguards that promote remedial actions against non-compliance.”
CONCLUSION

Ultimately, the principal objective of the Board of the LDF must be to ensure that the Fund is up and running in 2024 so that it can start disbursing funds pledged at COP28 to communities and countries on the front lines of the climate crisis that are facing loss and damage right now. Although the Bank has indicated what key steps it will take to set up the LDF secretariat as a FIF, we still need to hear concretely from the Bank whether it is willing to host the LDF and if it can meet the conditions set out in the COP28 decision. This must happen no later than within 6 months of COP28 (by 13th of May 2024) and the Bank must provide FIF documentation by no later than eight months after COP28 (by 13th August 2024) so that the Board of the LDF can assess if the Bank has met the conditions. If the World Bank does not stick to its indicative timeline, affected communities will face further unacceptable delays which will result in more lost lives, homes and livelihoods.

The FIF documentation provided by the World Bank and assessment undertaken by the Board of the LDF should highlight what key design features the Bank has put in place and whether the FIF will ensure new, additional, predictable, adequate financial support to assist countries and communities impacted by loss and damage.

Moreover, we also need to understand whether the World Bank — should it be assessed that the Bank can meet the interim conditions and the Board agrees that it will become interim host — will be in a position to promote a “fit-for-purpose” business model that will enable direct access and debt-free funding modalities. This is not only important from a climate justice perspective, but also crucial to meet the immediate needs of climate-vulnerable countries and communities while they work towards addressing sustainable development gains and shared prosperity.

To ensure that the World Bank becomes a suitable host for the LDF secretariat, the Bank must lead the way in transforming the current multilateral financial system by making it more equitable and by channeling financial resources toward climate-induced loss and damage and other crises. These reforms should be aligned to the Bridgetown Initiative which advocates for sweeping reforms to reduce debt burdens, free up additional funding for climate change and channel private capital to promote sustainable development.
The World Bank should prioritize climate-critical infrastructure in debt restructuring processes. Noting the magnitude of climate challenges, we cannot risk losing decades of progress. Instead, solutions should be found, particularly for financing loss and damage even while continuing to deploy funds to respond to macroeconomic shocks.

For loss and damage finance to be fair and effective, it should be in the form of grants, drawn mainly from public finance. Such sources of funding should not add to existing debt burdens. Moreover, loss and damage finance should include a high level of local ownership, giving affected communities decision-making power over use of funds. The Board of the LDF and the World Bank should, at a minimum, provide grants, and in the case of the latter, suspend debt repayments in the aftermath of climate-induced disasters. Thus, freeing up fiscal space for affected countries to respond with more capacity and resilience. Finally, the World Bank should prioritize disbursing grants directly to local communities and ensure these are managed by local actors.

“For loss and damage finance to be fair and effective, it should be in the form of grants, drawn mainly from public finance. Such sources of funding should not add to existing debt burdens.”
1 Views expressed in this brief are only those of the author and not of any organization the author is or has worked for in the past.
2 We define Loss and Damage (uppercase “L” and “D”) to be policies, plans and actions used to address loss and damage and, in some cases, to avoid and reduce loss and damage through disaster risk reduction and management. We use loss and damage (lowercase “l” and small “d”) to refer to the manifestation of climate change impacts not avoided by mitigation and adaptation efforts.
7 Ibid.
8 Ibid.
9 Ibid.


26 Ibid.


38 “Funding”, The Green Environment Fund. Available online here: https://www.thegef.org/who-we-are/funding


In 2023, for example, GPE had 84 active implementation grants valued at $2.5 billion. 1.5 percent of $2.5 billion works out to around $37.5 million. For more details regarding disbursement of GPE grants see “Results Report 2023” Global Partnership for Education, 2023. Available online at: https://www.globalpartnership.org/content/results-report-2023


Ibid.


The Bridgetown Initiative is a proposal to reform the development/climate finance landscape, particularly how rich countries help poor countries cope with and adapt to climate change. See Masterson, V., “The Bridgetown Initiative: here’s everything you need to know”, World Economic Forum, 2023. Available online at: https://www.weforum.org/agenda/2023/01/barbados-bridgetown-initiative-climate-change/

“China is paralysing global debt-forgiveness efforts”, The Economist, 2023. Available online at: https://www.economist.com/finance-and-economics/2023/02/02/china-is-paralysing-global-debt-forgiveness-efforts


1. **Cover image:** Aladina and Bilal Zacarias Gomes doing homework at their house which was ravaged by Cyclone Freddy. Aladina explained how the cyclone impacted their school, “We had to study under a tree and sit on the ground because the desks were submerged”. In Mozambique, Cyclone Freddy was the longest-lasting tropical cyclone on record, with significant consequences for children’s education. Image credit: “Students do their homework” Mbuto Machili / Global Partnership for Education - GPE, October 10, 2023, licensed under [CC BY-NC-ND 2.0 DEED](https://creativecommons.org/licenses/by-nc-nd/2.0/).

2. **Loss and Damage Collaboration logo:** Sundarbans web, by the [European Space Agency](https://www.esa.int), Contains modified Copernicus Sentinel data (2016), processed by ESA, licensed under [CC BY-SA 3.0 IGO](https://creativecommons.org/licenses/by-sa/3.0/).