



# Fund for Responding to Loss and Damage Functionality: Remaining Committed to Climate Justice

The operationalization of the **Fund for Responding to Loss and Damage** in 2023 marked a historic milestone in global climate finance, representing a significant step toward addressing the severe and escalating consequences of climate change on vulnerable communities. Designed to provide financial support for nations experiencing irreparable climate-induced losses, the Fund signifies a long-awaited acknowledgement of the disproportionate burden borne by developing countries, particularly Small Island Developing States (SIDS) and Least Developed Countries (LDCs). With the appointment of its executive director, Ibrahima Cheikh Diong, in November 2024, the development sector now eagerly anticipates the full activation of the Fund, particularly regarding the financial instruments to be utilized and the allocation framework to be adopted.

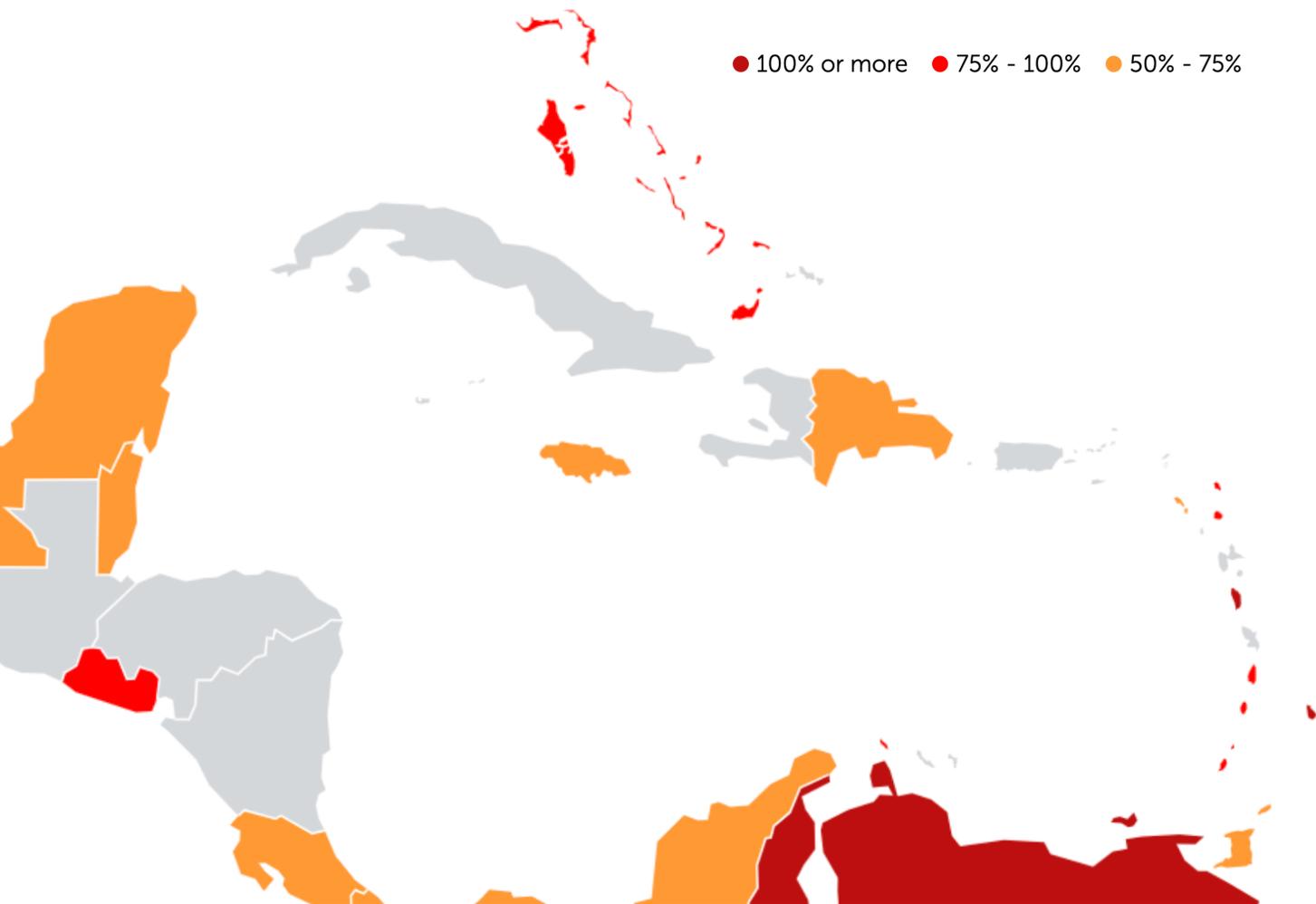
The recent Board meeting, held in the Philippines from December 2–5, 2024, provided some direction by mandating the Secretariat—under the guidance of the Co-Chairs and in consultation with various stakeholders, including "communities on the frontlines of climate change"—to develop **inclusive, bottom-up, country-led approaches that enhance and strengthen national responses to loss and damage**, utilizing the full range of financial instruments outlined in the Fund's Governing Instrument.<sup>1</sup> While this progress is promising, concerns remain about the extent to which climate justice principles will be upheld in the Fund's implementation.

<sup>1</sup> UNFCCC, 'Decisions of the Board – Fourth Meeting of the Board, 2–5 December 2024'. (2025).

**A core tenet of climate justice is that nations and industries most responsible for climate change should support those least responsible but most affected, without imposing additional economic burdens on these vulnerable countries.**

As highlighted in a 2022 Discussion Paper by the Climate Action Network (CAN) and Debt Justice UK, addressing the climate crisis in the Global South requires debt relief and increased grant-based financing, acknowledging the climate debt that wealthy nations owe due to their historical emissions, from colonialism to the present.<sup>2</sup> However, the Fund’s Governing Instrument states that financing will be provided through “grants and highly concessional loans” based on the Board’s policies. The inclusion of loans—even concessional ones—is concerning, as it risks exacerbating the debt burden in already highly indebted nations. The Caribbean region exemplifies this predicament.

**In 2023, ten Caribbean SIDS exceeded the 60% debt-to-GDP threshold deemed sustainable, with two surpassing 100%.<sup>3</sup>**



<sup>2</sup> Woolfenden, Tess and Khusal, Sindra Sharma. (2022). ‘The Debt and Climate Crises: Why Climate Justice Must Include Debt Justice’. Climate Action Network, Debt Justice UK.

<sup>3</sup> IMF. (October 2024). ‘Fiscal Monitor. Gross Debt Position’, 2024.

Although the Governing Instrument acknowledges the need to consider debt sustainability in the deployment of financial instruments, prevailing metrics have been criticized for prioritizing creditors' interests over countries' development needs. As noted in UNCTAD's 2023 Trade and Development Report, "The IMF–World Bank frameworks to assess debt sustainability are, at their core, risk management tools for creditors. As such, they are ill-suited to provide borrowers with a comprehensive overview of the linkages between debt sustainability and development financing requirements."<sup>4</sup>

**Consequently, these frameworks may fail to shield debt-strapped nations from taking on additional loans that weaken economic stability and divert resources from essential social services.**

Concern regarding the Fund's reliance on loans is further compounded by the fact that financing for the Fund is voluntary, and as of the latest work plan, the Board has yet to finalize a long-term resource mobilization strategy. The Fund's sustainability is further threatened by geopolitical developments, such as President Donald Trump's executive order to withdraw the United States from the Paris Agreement,<sup>5</sup> raising uncertainties about continued financial contributions from the U.S. and potential ripple effects among other donor countries. Given these constraints, the Board may be compelled to rely heavily on loan facilities rather than grants, further straining developing nations. As emphasized in the Climate Finance Fundamentals April 2024 briefing, the Fund must prioritize grants and non-debt instruments to ensure adequate, just, and sustainable financing for loss and damage as a matter of climate justice.

**The Caribbean and other vulnerable regions cannot afford to continually finance mitigation and adaptation efforts for a crisis they did not create.**



<sup>4</sup> UNCTAD Secretariat. (2024). 'Trade and Development Report 2023: Growth, Debt and Climate: Realigning the Global Financial Architecture'. *Trade and Development Report*. Geneva: UN.

<sup>5</sup> Bearak, Max. (20 January 2025). 'Trump Orders a U.S. Exit from the World's Main Climate Pact'. *The New York Times*, sec. Climate.

Beyond financial instruments, the question of resource allocation is equally critical. The Governing Instrument specifies that allocation should consider, among other factors, the vulnerability of developing countries to climate change. It also mentions the potential establishment of a minimum allocation floor for LDCs and SIDS. While these provisions offer hope that the most at-risk communities will receive priority, they also introduce challenges.

One major issue is the ambiguity in defining "particularly vulnerable" countries, which could allow wealthier, high-emission developing nations to access substantial funding. For instance, despite being among the top three global greenhouse gas (GHG) emitters,<sup>6</sup> China and India argue that their vulnerable communities will face severe climate impacts, justifying their need for access to the Fund.<sup>7</sup> A 2024 report indicates that China is home to 16 of the 20 global regions most vulnerable to climate change, with climate-related disasters costing the country approximately USD 12.83 billion in the first half of 2024 alone.<sup>8</sup>

**While vulnerability should be acknowledged, the Fund must differentiate between historically high-emitting countries and nations that have contributed negligibly to global greenhouse gas emissions, such as Caribbean SIDS, which account for less than 1% of global emissions.<sup>9</sup>**



<sup>6</sup> IEA. (2023). 'CO2 Emissions in 2023'. Paris: IEA.

<sup>7</sup> Khadka, Navin Singh. (4 December 2023). 'COP28: Should India and China Benefit from a Climate Damage Fund?'

<sup>8</sup> Inglis, Becca. (2024) 'How Does the Loss and Damage Fund Work for Climate Justice?' *Global Witness* (blog).

<sup>9</sup> Rambarran, Jwala. (2022). *Caribbean Emancipation 2030: A Sovereign Debt and Climate Justice Initiative for Caribbean SIDS*. Caribbean Policy Development Centre.

Although the proposed minimum allocation floor for LDCs and SIDS is a step toward addressing these concerns, the absence of a specific percentage remains a significant limitation. The discretion left to the Board in determining actual allocations raises the risk of inadequate support for the most vulnerable. The Lowy Institute has suggested that the Fund should be ambitious, allocating at least 60–70% of its resources to SIDS and LDCs.<sup>10</sup>

While further research is needed to substantiate such a figure, their proposal for a weighted, multi-factor allocation mechanism—incorporating vulnerability, responsibility, capacity, and fairness—merits serious consideration. Such a model would ensure that the most climate-affected but least responsible nations receive adequate support while maintaining transparency and equity in fund distribution.

As the Fund moves toward full operationalization, it is imperative that its strategies align with climate justice principles. At the upcoming Board meeting in April 2025 in Barbados, representatives must advocate for:



1. **Grant-Based Finance as the Primary Instrument** – The Fund should prioritize grants over loans to prevent further financial burdens on vulnerable nations.



2. **A Long-Term, Sustainable Resource Mobilization Strategy** – The Fund must secure consistent contributions from developed nations, recognizing their climate debt obligations rather than relying on voluntary commitments.



3. **A Just and Transparent Allocation Mechanism** – A multi-factor allocation system should ensure that historically low-emitting, high-risk nations receive the majority of financial support.

Without these safeguards, the Fund risks perpetuating financial dependencies rather than fostering resilience among vulnerable nations. Climate justice demands that those least responsible for the crisis are not only supported but empowered to recover and adapt without the weight of unsustainable debt. The decisions made in the coming months will determine whether the Fund serves as a transformative tool for climate justice or merely another financial mechanism that falls short of its mission.

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<sup>10</sup> Pill, Melanie and Hammersley, Georgia. (2024). ‘A Climate Loss and Damage Fund That Works’. Sydney: Lowy Institute.

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This publication was made possible by the generous support of the Open Society Foundations (OSF) and Funders Organized for Rights in the Global Economy (FORGE). The opinions or views expressed in the article should not be attributed to the OSF or FORGE.



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