

## Co-Chairs Note: Funding Arrangements

*Non-exhaustive, indicative list of issues raised*

### Overview

1. Given the urgent and immediate need, the Transitional Committee developed recommendations to meaningfully improve the ability of countries to respond to loss and damage by addressing gaps related to speed, eligibility, adequacy and access. These recommendations are aimed at strengthening sources, funds, processes and initiatives to deliver impact on the ground more quickly and to complement the work of the Fund in responding to loss and damage.

### Purpose

2. The COP/CMA established new funding arrangements for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in respond to loss and damage, including with a focus on addressing loss and damage by providing and assisting in mobilizing new and additional resources, and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.
3. The activities and support provided under the new funding arrangements should remain consistent with the principles and purposes of the Convention and its Paris Agreement.
4. The purpose of the new funding arrangements is to mobilize significant additional, grant -based and non-debt financing for addressing loss and damage by increasing country investments in loss and damage; promoting a more coordinated approach to loss and damage investments; and convening key stakeholders and serving as a platform for discussion and advocacy around strengthening loss and damage responses that complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.
5. The funding arrangements aim to advance the goal of coherent and well-coordinated loss and damage finance as part of the overall climate finance architecture in light of the principles and provisions of the Convention and the Paris Agreement. The various channels to finance measures to address loss and damage should have clear roles, avoid duplication of efforts, share best practices, and promote synergies.
6. New and enhanced funding arrangements will work in coherence and complementarity to the fund. This will be enabled through a sensible division of labour that avoids duplication, transparent planning processes and best use of existing (and upcoming) mechanisms like WIM and Santiago Network.
7. Funding arrangements include sources, Funds, processes and initiatives aimed at responding to loss and damage.
8. Funding arrangements in the areas including pre-arranged financing, fiscal space or humanitarian aid need to be enhanced quickly to be fit for purpose. All parties, institutions and shareholders will work actively towards relevant change and scale.
9. The new funding arrangements and Fund should target the particularly vulnerable people and communities (incl. women, youth and marginalised groups), in developing countries that are facing the adverse impacts of climate change and have limited capacity for adaptation.

10. The COP/CMA should invite Parties and relevant institutions to take forward improvements, including but not limited to the recommendations in Annex 1, in such sources, funds, processes and initiatives outside the Convention and the Paris Agreement to address gaps in speed, eligibility, adequacy and access to finance across a variety of challenges, such as climate-related emergencies, sea-level rise, displacement, relocation, migration, insufficient climate information and data and the need for climate-resilient reconstruction and recovery.

### **The Fund and the Funding Arrangements**

11. The Fund will cooperate closely with enhanced and new funding arrangements for streamlined procedures and it can channel funds to funding arrangements.
12. Under the leadership of the Board and Executive Director of the Fund, and under the guidance of the COP/CMA, entities that constitute the funding arrangement shall explore ways to promote better coordination among bilateral and multilateral channels to get these institutions working better together and interacting more frequently. Coordination should also occur at the operational, national, and programmatic levels.
13. The Fund will work with other existing funding arrangements in the mosaic. The Fund will reinforce the FA activities through top-up funding, financial incentives (guarantees, blended finance, concessional funding, etc.) and coordination, to fill the priority gaps in the activities of these FA (understood not as thematic gaps but funding gaps for identified thematic areas). This will provide additional, new, adequate, scaled-up and efficient funding to complement and enhance the solutions in the existing funding landscape.
14. The Fund may also work with a number of existing funding arrangements to address funding gaps in their activities, with the aim of reinforcing these FA's activities and leveraging their resources. There may be some funding agreements that are part of the mosaic but are conducting their activities autonomously, without interacting with the fund apart from coordination purpose.
15. The COP/CMA to encourage all existing funding arrangements and entities not mentioned in this paper but with the capacity to engage, to liaise with the fund or with countries to see how they can participate in the response to national resilient plans and thus broadening the list of priority areas of cooperation between the Fund and FAs.
16. The Fund and the new funding arrangements' operationalization must also consider coordination, efficiency, coherence and complementarity with existing instruments inside and outside the UNFCCC and the Paris Agreement, as well as multilateral and bilateral cooperation across sectors, arrangements for humanitarian action and disaster risk reduction, early-warning systems, forecast-based action, pre-arranged finance, etc. as well as seek to avoid duplication.
17. A coordinator and enabler for defining needs and improving access to funding from other funding arrangements. The Fund should be placed at the centre of the architecture: it should receive a strong mandate to drive all loss and damage response and actors in the right direction. The Fund will work with a list of funding arrangement entities by offering them financial or other support to deliver better on loss and damage, through partnerships to implement the roadmap for the resilience of vulnerable countries.
18. The COP/CMA should invite the Fund to set-up operational partnerships with a number of existing funding arrangements active in these areas with a view to bridging funding gaps in their activities,

particularly in relation to Pre-arranged finance; Human mobility including planned relocation, migration and displacement, Recovery and reconstruction. These funding arrangements should be reinforced from inside, by enhancing their mandate and channelling more resources in new windows or programmes related to loss and damage. This pillar could include humanitarian aid actors, which fulfil a vital individual role in responding to climate change induced disaster and in preparedness and therefore should coordinate with the fund and the other FAs.

### **Funding arrangements and the COP/CMA Bodies**

19. The Santiago Network should enhance coordination and coherence of support to respond to loss and damage provided by Network members by serving as a forum for Network members to regularly exchange updates on their work and develop collaborative programmes.
20. The Executive Committee of the Warsaw International Mechanism should take into account the new funding arrangements, including the Fund, in its efforts to enhance action and support, including finance, technology and capacity building, to address loss and damage associated with the adverse effects of climate change.

### **Arrangements with intergovernmental organisations**

21. The COP/CMA could recommend to existing humanitarian entities to scale up funding that enables quick scaling up of response to urgent needs, in line with the national resilient planning.

### **High Level Dialogue**

22. A high-level coordination council and dialogue between all relevant institutions and initiatives will be organised regularly.
23. The COP/CMA will establish a high-level advisory and coordination council (the Council) on the new funding arrangements. The Council shall be mandated to ensure greater coordination and coherence amongst designated funding arrangements to better respond at scale to the growing impacts of loss and damage of today and the future. This should be done through, among other things, supporting the Fund and working with the different funding arrangements to achieve complementary and coherence.
24. The high-level Coordination Council (the "Council") with the purpose of facilitating broad support and participation across sources, funds, initiatives and processes under and outside the Convention and the Paris Agreement in assisting developing countries that are particularly vulnerable to the adverse effects of climate change in responding to loss and damage.
25. The membership of the council may consist of high-level representatives from institutions engaged in responding to loss and damage, including, inter alia:
  - a) The World Bank and Regional Development Banks;
  - b) The International Monetary Fund;
  - c) Relevant UN Agencies, such as IMO, UNOCHA, UNSDR, UNDP, UNEP, UNESCO, FAO, WFP, and WHO;
  - d) Relevant multilateral climate funds, such as the Fund, GCF, GEF, AF, and CIF; and
  - e) Experts on Loss and Damage chosen on the basis of their expertise as well as their representation of different regions and perspectives;

26. The Council will elect a Chair who will convene the Council Dialogues.
27. The Council is to meet once every [two years][five years in alignment with the process for the global stocktake under the Paris Agreement in order to:
- a) Identify steps taken by sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement in support of responding to loss and damage;
  - b) Facilitate a structured and timely exchange of relevant knowledge and information;
  - c) Strengthen capacity and synergies to enhance the integration of measures to respond to loss and damage into sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement by drawing on the experiences of others, exchanging good policy and practice and leveraging research and data systems; and
  - d) Identify new opportunities for cooperation, coordination and complementarity;
28. The Council should produce a report describing the outcomes of its meetings.

## **Annex 1: Recommendations to Funding Arrangements**

### **Pre-Arranged Finance**

Recommendations to strengthen pre-arranged finance include:

- a) Providing financial and technical support through multilateral and bilateral assistance channels, including Global Shield, for regional risk pools to develop parametric insurance products with triggers based on forecasts or early warnings;
- b) Strengthening national and sub-national fiscal resilience strategies vis-à-vis climate shocks, as well as contingency plans and support structures, including social protection systems, through domestic efforts and capacity building by multilateral and bilateral technical assistance providers, including Global Shield;
- c) Reinforcing pre-arranged finance mechanisms and disaster risk finance & insurance (CDRFI), such as by paying premium and capital support, direct grants, commissioned research, analytics or capacity building requiring grants to third parties, via the Global Shield Financing Structure or regional pre-arranged financing and insurance solutions such as ARC (African Risk Capacity). Upscaling social and adaptive protection mechanisms (for instance the current attempts of the World Bank and ILO to further develop support in the implementation of social protection could be upscaled
- d) Enhancing the Santiago Network's ability to build and strengthen national [and local] systems to respond to loss and damage, such as shock responsive social protection systems and to consider loss and damage in national and local planning and policy frameworks, including assessing loss and damage risks and appropriate responses;
- e) Enabling greater access to risk transfer products by co-funding product development and/or subsidizing risk premiums, in line with SMART premium and capital support principles;
- f) Systematically including climate-related disaster clauses in loan agreements and using shock-resilient loans in lending operations at the multilateral, bilateral and regional development banks; and,
- g) Exploring through Global Shield the development and public financing of a global development reinsurance structure for all development insurers and regional risk pools as a joint anchor in view of increasing climate impacts.
- h) the Global Shield against Climate Risks will maximise its impact and scale its function as a platform to advance the agenda of pre-arranged finance.

## Humanitarian Assistance

Recommendations to strengthen the response of the humanitarian sector include:

- a) Exploring the establishment of a climate financing mechanism within the Central Emergency Response Fund through the UN Office for the Coordination of Humanitarian Affairs (OCHA);
- b) Explore the convening, by UN OCHA and the International Federation of Red Cross and Red Crescent Societies (IFRC), of a group of humanitarian leaders to quickly identify actionable recommendations for how humanitarian structures can be better tailored and resourced to meet rising and compounding impacts of climate change and respond to climate-related loss and damage;
- c) Scaling up, through humanitarian actors and donors, anticipatory approaches to humanitarian action; and
- d) Scaling up the effectiveness and timeliness of humanitarian funding, including through flexible funding that enables quick scaling up of response to urgent needs and ensures operational continuity.

## Recovery and Reconstruction

Recommendations include:

- a) Increasing countries' fiscal space through timely and sufficiently deep debt treatments through the Common Framework for Debt Treatment Beyond the Debt Service Suspension Initiative ("Common Framework") for those eligible, or other multilateral, broad-based debt treatment processes;
- b) Striving for more robust policy actions, in Multilateral Development Bank policy-based or results-based operations and through the IMF's Resilience and Sustainability Trust, so that these infusions of support can be better targeted at concrete steps to increase resilience and preparedness and to foster structural transformation via meaningful policy reforms;
- c) Development by Multilateral Development Banks of a method to integrate vulnerability into allocation decisions to allow for some allocation decisions to be based on vulnerability, not just income;
- d) Allowing a broader range of Multilateral Development Bank projects to be subject to the Contingent Emergency Response Component so that a larger amount of funding is available to be disbursed as budget support in the aftermath of a crisis based on principles of build back better and policy actions;
- e) Setting economic incentives for MDBs to intervene in vulnerable countries, including middle-income countries (de-risking tools or fiscal space mechanism such as CDRC for example); Topping-up and blended funding for encouraging Reconstruction and Rehabilitation activities by MDBs, including addressing the nexus between humanitarian and reconstruction;
- f) Seeking opportunities by Multilateral Development Banks to pair parametric insurance with their loans so that parametric insurance can make payments on the loans in the aftermath of a crisis freeing up fiscal space to recover and reconstruct.

## Human mobility

Recommendations include:

- a) Increasing support by contributors for climate-related projects under the Migration Multi-Partner Trust Fund, and inviting other [funding mechanisms][sources, funds, processes and initiatives] to link to the Migration Multi-Partner Trust Fund to scale up successful projects;

- b) Promoting the inclusion of refugees and migrants in multilateral climate finance institution funded activities, consistent with existing investment, results framework and funding windows and structures; and,
- c) Integrating human mobility into national planning processes, including, inter alia, the process to formulate and implement national adaptation plans, through domestic efforts and capacity building by multilateral and bilateral technical assistance providers.

**Annex 2: Views expressed in-session on 29 August (non-exhaustive, indicative list of issues raised during the discussion)**

1. What are the specific elements of the new funding arrangements that the TC could propose for consideration by the COP/CMA?
  - Funding arrangements should look into complementarity, coherence, harmonization and transparency of L&D finance being delivered by different institutions.
  - Creation by OCHA of a climate window in the CERF or Creation of a new window on non-economic losses of cultural heritage within a UNESCO Fund
  - Part of the work of L&D Fund should be delivered through the Funding Arrangements. The Fund to address the needs as reflected in the country investment plans and catalyzed/leveraged by Funding Arrangements (e.g. making loans more concessional for recovery and reconstruction).
  - Coordination and reporting mechanism to COP/CMA. Establishment of high level council or forum convened by the UNSG or ES by COP28.
  - Ensure eligibility to all developing countries eligible for support under the UNFCCC and PA.
  - Focus beyond fiscal losses and expand to include people and residual losses
  - Deliver L&D support in line with the principles of the UNFCCC and PA, and principle of predictability
  
2. What can be done to strengthen existing mechanisms and funding arrangements?
  - L&D Fund to coordinate and provide guidance to other institutions. The challenge is how to ensure that other institutions will respond to the guidance as the UNFCCC does not have an influence on these institutions.
  - Coordination and technical assistance through Santiago network
  - Expanding fiscal space through the Common Framework
  - Recovery and reconstruction support through MDBs; MDBs form part of, but not core of the system, given problems with debt sustainability. Need to distinguish between debt and non-debt Funding Arrangements.
  - Work on human mobility in conjunction with IOM and other relevant entities
  - Improving efficiency and effectiveness of existing funds, and leverage synergies and coherence of different funding arrangements
  - Criteria to guide identification of institutions as part of the funding arrangements and have clarity on which institutions comprise the funding arrangement (access, eligibility, reporting, no “L&D washing”)
  - Consider scale of problem versus scale of existing funding arrangements
  - Established institutions like WIM Excom can support understanding of technical issues related to loss and damage