

TSU WORKING PAPER FROM WORKING GROUP 5 (B)

This document provides options for new funding arrangements for addressing loss and damage that complement and include sources, funds, processes and initiatives under and outside the United Nations Framework Convention on Climate Change and the Paris Agreement.

The proposed options and approaches described in this paper do not constitute a recommendation by Technical Support Unit (TSU) nor reflect any particular views expressed by the TSU. The options are proposed for consideration by the Transitional Committee (TC) and does not prejudice the final recommendations of the TC on the scope and arrangements of the new fund and funding arrangements.

The document complements the Synthesis Report and is produced in synergy with working papers developed by the TSU focusing on decisions 2/CP.27 and 2/CMA.4, paragraphs 5(a), 5(c) and 5(d). To minimise duplications, this paper cross references these documents on relevant topics. The proposed options are builds on the discussions on the scope of the loss and damage fund and funding arrangements that have been initiated under the TC.

I. Introduction

1.1 Mandate

1. The 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) took a historic decision to establish ‘new funding arrangements and a fund’¹ for responding to loss and damage, including establishing institutional arrangements, modalities, structure, governance and terms of reference for a fund², thereby sending a clear signal of solidarity with developing countries that are particularly vulnerable to climate change. Further, a Transitional Committee (TC) on the operationalization of the new funding arrangements and fund was established, to make recommendations for consideration and adoption by COP 28 and CMA 5.

2. The COP 27 responds to mounting scientific evidence of the Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change³, and other best available science, noting the increasing gravity, scope and frequency of loss and damage that will continue to increase with additional fraction of a degree of temperature increases, including evidence of hard limits to adaptation in most vulnerable regions and ecosystems of Small Island Developing States and Africa.

3. This working paper is being prepared by the Technical Support Unit (TSU) in response to and further support the deliberations of the Transitional Committee (TC) during [its first and second meetings](#). In particular TC requested during the second meeting to conduct further technical work on the understanding of the mandate to the TC with regards to decisions 2/COP.27 and 2/CMA.4, paragraph 5(b). This working paper is produced for consideration by the TC at its third meeting.

1.2 Scope

4. The scope of the working paper is to discuss options for new funding arrangements for addressing loss and damage that complement and include sources, funds, processes and initiatives under and outside the United Nations Framework Convention on Climate Change (the ‘UNFCCC’) and the Paris Agreement. These options for new funding arrangements aim to provide and assist in mobilizing new and additional resources, and that these new arrangements complement and include innovative sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement⁴ to address loss and damage associated with the adverse effects of climate change in developing countries that are particularly vulnerable.

¹ Decisions 2/CP.27 and 2/CMA.4, paragraph 5b

² Decisions 2/CP.27 and 2/CMA.4, paragraph 5a

³ Intergovernmental Panel on Climate Change. 2022. Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. H Pörtner, D Roberts, M Tignor, et al. (eds.). Cambridge: Cambridge University Press. Available at <https://www.ipcc.ch/report/ar6/wg2/>.

⁴ Decisions 2/CP.27 and 2/CMA.4, paragraph 2

5. The structure of the working paper is as follows:
 - a) Section 2 provides a summary of findings and implications for new funding arrangements.
 - b) Section 3 reviews existing funding arrangements related to loss and damage and proposes three categories of potential new funding arrangements within a structured typology for addressing loss and damage used in the synthesis paper.
 - c) Section 4 discusses the processes of interaction of new funding arrangements under and outside of the UNFCCC and Paris Agreement

1.3 Approach

6. This working paper explores potential elements and options for new funding arrangements relevant to loss and damage, based on a review of existing funding arrangements, and best practices of funds and agencies, as well outlines implications and processes for establishing such new funding arrangements under and outside of the UNFCCC and the Paris Agreement.

7. In outlining the different options for new funding arrangements, the working paper draws on institutional and external resources, peer-reviewed literature, published reports, documents, and background materials relevant to financing for averting, minimizing, and addressing loss and damage.

II. Summary of findings

8. The existing funding arrangements for loss and damage fall short of responding to current and future scale of loss and damage, are not sufficient to address the existing funding gaps, and are fragmented for coherently supporting developing countries that are particularly vulnerable to the adverse effects of climate change. This is confirmed by the Synthesis Report *on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change*⁵, published by the secretariat in May 2023, the WIM/EXCOM paper on *elaboration of the sources of and modalities for accessing financial support for addressing loss and damage*⁶ and outcomes of two Glasgow Dialogues conducted in 2022 and 2023. These reports highlight the limited scale and coverage of the entire spectrum of finance for loss and damage (e.g., extreme and slow onset events, economic and non-economic loss and damage, and mobility). Setting up a new fund for loss and damage and its interaction with the existing funding arrangements should therefore consider future climate risks, the need to facilitate increased scope and scale and the implications for implementation under and outside the UNFCCC and Paris Agreement.

9. Alongside the gaps in current funding arrangements is the issue of inadequacy in the amount of financial and other resources allocated to addressing current and future loss and damage

⁵ https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport.pdf

⁶ <https://unfccc.int/documents/196468>

resulting from adaptation gaps, hard limits to adaptation and residual, unavoidable climate risks in vulnerable countries and regions, and collapse of critical ecosystems and ecosystem services. The information also reveals that with agencies focusing on project-based approaches, technical aspects of loss and damage, closely aligned with their mandates or priority areas, there are critical areas left with little or no financial support; long-term finance for slow onset events (SOEs), non-economic losses (NELs), mobility (displacement, planned relocation and migration) and large-scale irrecoverable events are mostly under-funded. In this regard, new funding arrangements should consider adequate support to rapid onset and slow onset events as well as the compounding, transboundary nature of such losses and damages.

10. Discussions though the TC meetings and workshops have highlighted the importance of strengthening and scaling up the broader loss and damage mosaic of funding arrangements and, finance instruments and solutions – complementary to the fund. Based on TSU review of existing arrangements and guided by TC deliberations, three categories of options are presented in this paper (ref. Annex 1):

- a) New funding arrangements within existing climate funds under the UNFCCC;
- b) New funding arrangements between funds and processes outside of the UNFCCC; and
- c) Hybrid arrangements with multiple options for funding arrangements under and outside of UNFCCC processes.

11. The combination of options for new funding arrangements should allow comprehensive risk management support for loss and damage, in the context of finance for ongoing and ex post action (including recovery, rehabilitation and reconstruction), with adequate finance and arrangements for SOEs, NELD and mobility. It should also allow for the deployment of a variety of instruments through stakeholders and partners including inter alia regional and global risk pooling mechanisms such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), African Risk Capacity (ARC), Pacific Catastrophe Risk Insurance Company (PCRIC) and the Global Shield against Climate Risks; and leverage other forms of pre-arranged finance such as those deployed through the humanitarian architecture.

12. The new funding arrangements should complement the need for leveraging new financial instruments, innovative sources and targeted funding for underfunded areas. Based on this current situation, the new funding arrangements must consider the adequate treatment of all aspects of loss and damage. Many recommendations have also been put forward to the TC in that regard, through region and country specific case studies⁷, and submissions⁸. For example, an understanding of how to adequately resource NELs such as cultural values, identity and indigenous knowledge, would necessitate direct delivery of finance and engagement with at-risk local actors that should be factored in the design of the new funding arrangements.

⁷ <https://unfccc.int/case-studies>

⁸ <https://unfccc.int/submissions-to-the-transitional-committee>

13. The new funding arrangements should consider coordination of and partnership of existing systems where new mandates and guidance can incentivize adaptation while scale-up support for preparedness, response, recovery, rehabilitation and reconstruction considering residual, unavoidable climate risks. At the same time, it should have the flexibility to allow country drivenness where country's plan and strategies for addressing loss and damage can be incorporated as they are developed through technical assistance, institutional readiness and improved policy coherence (e.g., enhancement of Nationally Determined Contributions, National Adaptation Plans and other climate and disaster risk reduction policies).

14. Scientific evidence points to future large-scale, irreversible loss and damage related to critical ecosystems⁹, ecosystem services and globally significant biodiversity with cascading risks and compounding impacts e.g., loss of cryosphere and glaciers, collapse of ocean currents¹⁰, and increasing acidification. These constitute irrecoverable losses and damages that are uninsurable, risking billions of people without water, food and shelter. Currently few to no funds and funding arrangements have the capacity and mandate to cover these large-scale SOEs. Arrangements with the UN Environment Assembly and UN General Assembly and related trust funds would need to be strengthened to cover large-scale events and losses as they relate to global common resources and transboundary risks and impacts.

15. Existing regional insurance mechanisms (e.g., CCRIF, ARC, PCRIC and Global Shield) play a critical role in pre-arranged finance but would benefit from integrating and strengthening anticipatory response measures through increased scale, affordability, coverage, and scope for different climate scenarios. The funding arrangements must therefore factor in collaborative arrangements for re-insurance as climate risks in regions and countries lead to plausible uninsurable scenarios. Development agencies and banks including partnerships at the regional and national levels play a role in scaling-up affordable insurance for climate change and must be considered in the new funding arrangements to broaden of the scale of finance and solutions at the (sub) national level.

16. The timeline for setting up a new fund and funding arrangements depends on the options selected, institutional arrangement and mandates from the COP and CMA processes. Setting up a new fund and funding arrangement for loss and damage could be quick if considered under an existing fund or institution under or outside the UNFCCC and Paris Agreement. However, such an approach may present some limitations, including among others challenges related to access, scope, and scale, based on the current arrangements for funds and institutions under the UNFCCC.

17. For options, especially those outside of the UNFCCC and Paris Agreement, accountability to COP and CMA will be a key limiting factor for new arrangements. As such, elements for the

⁹ Intergovernmental Panel on Climate Change. 2019. IPCC Special Report on the Ocean and Cryosphere in a Changing Climate. H Pörtner, D Roberts, M Tignor, et al. (eds.). Cambridge: Cambridge University Press. Available at <https://doi.org/10.1017/9781009157964.002>

¹⁰ Ditlevsen, P., Ditlevsen, S. 2023. Warning of a forthcoming collapse of the Atlantic meridional overturning circulation. Nature Communication 14, 4254. Available at <https://doi.org/10.1038/s41467-023-39810-w>

TC to consider though the COP and CMA could include new mandates, platforms, fund to fund arrangements, sharing of information vis-a-vis guidance on coherence, coordination and synergies among existing funding arrangements¹¹.

18. An option could include embedding multiple funding arrangements with the aim of setting up fit-for-purpose arrangements for underfunded areas of loss and damage. Such an approach will increase the likelihood of pooling resources and scale-up support to address non-economic losses and slow onset events, alongside extreme climate events, economic losses and humanitarian response. This approach will also allow for mobilization and use of a range of financial tools and instruments thereby maximizing the catalytic impact of the fund's resources leveraged to address loss and damage.

19. The coordination mechanism for the funding arrangements should be designed and inbuilt in the fund to from the onset to enhance areas of cooperation, facilitate greater understanding of solutions, enhance coherence, blending of financial instruments, and further catalyze action and support across multiple funds, initiatives and agencies in the mosaic of solutions. The funding arrangements should however not compromise on the speed, efficiency, and effectiveness in delivery of resources to countries for response and recovery from arrangements with multiple development, climate change and humanitarian agencies.

20. Financial resources for deployment of social protection measures, accounting for the particular needs of climate migrants, women, men, children, and displaced persons must accompany arrangements to deploy policy responses to effectively and consistently address loss and damage, in particular for slow onset events, humanitarian aid and NELs would be needed. Here coordination with UN processes related to mobility, NAP, NDC, and various others, would be vital as part of package of coordinated response to countries.

21. Selection of options for setting up new funding arrangements for loss and damage, under or outside the UNFCCC and Paris Agreement, needs to take into account various accountability requirements under the COP and CMA (e.g., reporting, governance, coordination of processes, and timelines) while capitalizing on the independence and flexibility of funding arrangements outside of UN processes (e.g., leveraging on arrangements, building on funding windows of independent institutions, potential for deploying large scale solutions, and use of comprehensive set of blended instruments). Requirements for setting up new funding arrangements vary depending on use of options.

22. Yet regardless of the association with the UNFCCC and Paris Agreement, some form of interaction of the new funding arrangements with the UNFCCC is critical to ensure accountability and reporting. The accountability requirements are critical as information on monitoring progress provides opportunity for course correction as needed, however reporting should not be onerous, and a simple format should be considered.

¹¹ Decisions 2/CP.27 and 2/CMA.4, paragraphs 5d and 6a

23. None of the proposed options is effective if selected individually and there is a need for blending, matching and combining options and solutions. This would present challenges, and there are multiple limitations and elements that should be considered by the TC under each of the three categories of options, including among others, the timeline for setting up the fund, trustee arrangements (if required), accountability to UNFCCC and Paris Agreement (where applicable), and explicit mandates and decision of the COP and CMA.

III. Existing and new funding arrangements with a focus on addressing loss and damage

3.1 Review of existing funding arrangements related to loss and damage

24. Various processes and reports under the UNFCCC and Paris Agreement have explored the limitations of existing funding arrangements relevant to averting, minimizing, and addressing loss and damage. In a technical paper published by the secretariat, the various sources of and modalities for accessing financial support for addressing loss and damage were elaborated, including finance for adaptation, disaster risk reduction, development, and humanitarian assistance, noting that these are imperfect proxies for understanding the landscape of funding for addressing loss and damage.

25. Under the UNFCCC, the paper identified the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), the Green Climate Fund (GCF), and their relevance to financing actions to address loss and damage through adaptation finance. It is noted that while some of the activities supported by these funds – such as strengthening of climate services and early warning systems, and response systems – may be relevant to minimizing loss and damage, other aspects of addressing loss and damage – such as non-economic losses like loss of societal and cultural identities, territory, human mobility or rapid large-scale financing in the aftermath of extreme events – fall outside the scope of these funds.

26. Outside of the UNFCCC, the paper assessed multilateral climate funds and multilateral development banks, bilateral finance, domestic public climate and disaster expenditures, regional risk financing, thematic financing including disaster risk reduction finance, humanitarian assistance, and development finance, as well as private sector and philanthropic finance. It highlighted some opportunities within these external institutions and sources to support the financing of actions to address loss or damage. For example, it noted that multilateral development banks and development finance institutions can serve as intermediaries to support the implementation of risk transfer instruments; bilateral providers offer more opportunities for innovation in addressing loss and damage given their greater flexibility to work beyond established fund mandates and indicators; and in regional risk facilities, determining how contracts can be designed to meet the needs of very vulnerable groups.

27. The Synthesis Report mapped over seventy-five entries, highlighting existing funding arrangements under institutions ranging from the World Bank to regional risk facilities to bilateral agencies. Such funding arrangements vary widely in scope, scale and adequacy. The report

identified key gaps in funding arrangements, including data, knowledge, and capacity; policies to determine triggers and levels of funding to address loss and damage; financial resources across all domains; eligibility criteria; insurance; mechanisms to facilitate debt swaps; and policy coherence.

28. During the second Glasgow Dialogue, held from 8 to 10 June 2023, participants discussed the operationalization of the new funding arrangements established in decisions 2/CP.27 and 2/CMA.4, as well as maximizing support from existing funding arrangements relevant for, among other things, responding to economic and non-economic losses, slow onset events, and extreme weather events. The discussions during the dialogue highlighted a wide range of potential approaches to enhance support provided through existing funding arrangements. Examples included: for multilateral climate funds, facilitating pre-arranged finance and premium subsidies; for multilateral development banks, expanding eligibility for concessional resources and the use of climate resilient debt clauses; in the humanitarian system, establishing a dedicated climate window under relevant funds; and more.

29. Key considerations related to opportunities to maximize support from existing funding arrangements were also raised at the dialogue, including the importance of additionality of funding, ensuring that existing arrangements are adequately resourced to fulfill their mandates and take on any additional activities to address loss and damage, and recognizing the existing barriers to and challenges with accessing these existing arrangements faced by some countries.

3.2 Potential elements and options of new funding arrangements

30. While there are several gaps in current landscape of existing funding arrangements and related finance flows for addressing loss and damage associated with the adverse effects of climate change (discussed in section 3.1), new funding arrangements could be established to address the ‘key’ priority gaps that centers the new fund in the mosaic of funding arrangements and solutions.

31. The proposed category of options to consider focuses on leveraging various innovative sources, financial instruments, knowledge and coordination, which are potential ways to explore addressing of the priority gaps in the most effective ways, especially for the most vulnerable populations and the ecosystems on which they depend¹². They cover, build on and scale-up a range of new arrangements from within existing climate finance, disaster risk reduction, development and humanitarian sectors, to leverage innovative solutions and initiatives (such as the Santiago Network on loss and damage, Global Shield against Climate Risks) for vulnerable countries.

32. With regards to the TC recommendations, the proposed options for new funding arrangements are grouped into three categories (ref. Annex 1 for further details):

- a) New funding arrangements within existing climate funds under the UNFCCC;
 - b) New funding arrangements between fund and processes outside of the UNFCCC;
- and

¹² Decisions 2/CP.27 and 2/CMA.4, paragraphs 6c and 6d

- c) Hybrid options with multiple funding arrangements with funds from under and outside of UNFCCC processes

33. Options under new funding arrangements with existing climate funds under the UNFCCC would be quick gains via expanding of mandates from the COP and CMA and ensuring coordination and complementarity with existing funding arrangements, including:

- a) Enhancing complementing though existing portfolio of responses and incentivizing transformational adaptation through the operating entities of the financial mechanisms of the UNFCCC and Paris Agreement e.g., early warning, capacity building, institutional and readiness support, restoration and protection of critical ecosystems;
- b) Creating new windows to cover funding gaps e.g., new result areas and windows for NELs, SOEs and mobility; and
- c) Establishment or scale-up of micro and small grants windows to ensure speedy, direct access to local actors and at-risk communities.

34. In terms of new funding arrangements outside of the UNFCCC, there are multiple options for funding arrangements for responding to loss and damage. Elements of 'new' funding arrangements could include:

- a) Partnership and cooperative arrangements in the form of MOUs to strengthen responses to address key gaps where the L&D fund would play a significant role in the mosaic of solutions;
- b) Incorporating in the governing instrument of the funds options to receive contributions from innovative finance solutions e.g., levies, philanthropy and businesses, and leveraging private finance;
- c) Contributory arrangements with national funds for implementation of solutions and regional risk financing mechanisms to increase coverage of insurance;
- d) Fund-to-fund agreements to scale-up responses to mobility, NELs and SOEs;
- e) Strengthened collaborations with existing platforms, initiatives and bodies (e.g., Taskforce on Displacement, Early Warning for All, Global Shield, MDB Coordination Platform on Economic Migration and Forced Displacement, Humanitarian partnerships and finance mechanisms);
- f) Guidance through the COP/CMA to create new, specialized windows to address NELs, SOEs and mobility in funds outside of the UNFCCC and Paris Agreement;
- g) Pooling of recovery and reconstruction funds and blending finance with MDBs, including COP guidance on use of disaster and climate-related clauses in lending operations Identification of options to maximize the use of low concessional financial instruments to address loss and damage; and
- h) Coordination with funds, initiatives, platforms and agencies to ensure sharing information on new, innovative instruments and experiences to address loss and damage.

35. The final category of options under hybrid, multiple options for funding arrangements from under and outside of UNFCCC processes, includes combination of options under the first two categories. They mix funds, funding instruments, pool diverse sources and various response types for anticipatory, rehabilitation and reconstruction etc. solutions. A key limitation of the hybrid arrangement is that they require time for coordination, and new and expanded mandate, arrangements, and access modalities under the COP/CMA. It is recommended that the hybrid modality of options is considered as an appropriate category from the onset of the development of fund in determining the suitability of ‘new’ funding arrangements such as partnerships and provide/receive contributions from a range of sources.

36. For each category of options, elements for TC consideration are presented that could be factored in the design, operations and performance of the loss and damage fund to ensure scale, adequacy, speed, accessibility, and flexibility to engage in future arrangements. Examples from relevant funds, initiatives and partnerships and platforms are provided that can be used to further elaborate on the design of new funding arrangements.

IV. Interaction of new funding arrangements under and outside of the UNFCCC and Paris Agreement

37. Considering the coherence, policy, structural and financial gaps in the landscape of existing funding arrangements to address loss and damage, the category of proposed options for new funding arrangements and the new fund for loss and damage (ref. TSU working paper under 5a) should be undertaken alongside establishing the coordination function of the fund to ensure enhanced partnership, collaboration for implementation, streamlined reporting and accountability at global, national and local levels (ref. TSU paper under 5d).

38. As such, in addition to financing solutions, the new fund is expected to ensure a catalytic and coordination role of the funding arrangements for loss and damage. This role would help promote, coordinate and ensure collaboration between the fund and the new funding arrangements that could be structured under the UNFCCC and the Paris Agreement. Based on the existing mechanism for support for climate change adaptation and mitigation under and outside the UNFCCC, the proposed options below are outlined for consideration by the TC that can ensure accountability and reporting.

Option 1: Accountability and reporting mechanism under the UNFCCC and Paris agreement

39. This option applies to new funding arrangements if setup under the UNFCCC and Paris Agreement with direct accountability mechanisms – the current model of GEF and GCF serving as operating entities of the financial mechanism of the UNFCCC, and AF as serving the UNFCCC and Paris Agreement are relevant examples.

40. Under this option, the new funding arrangements under the operating entities of the financial mechanism of the UNFCCC will interact with the new loss and damage fund, and ensure

accountability and reporting to the UNFCCC through the COP/CMA. As a COP/CMA decision might be required for scaling up the funding for loss and damage activities, a process of interaction with the UNFCCC will follow guidance and reporting during each COP/CMA. An interinstitutional coordination could be setup using the current arrangements between the AF, GEF, GCF and CIF (ref. TSU paper under 5d for further details).

41. This option also applies for cases where the new funding arrangements are set up as a new window to scale up existing loss and damage of climate funds under the UNFCCC. The current model of LDCF and SCCF under the GEF allows such interaction with the other climate funds and a direct reporting and accountability to the convention and Paris Agreement.

42. While this option allows for direct reporting and accountability to the Convention, it does not enhance effective coordination with new funding arrangements set up outside the UNFCCC (e.g., CIF's model). It also limits the effective coordination with other key actors supporting loss and damage including humanitarian, MDBs and other non-UNFCCC actors (e.g., various insurance schemes).

Option 2: Accountability and reporting mechanism outside the UNFCCC and Paris Agreement

43. Considering the diversity of institutions and initiatives proposed as options for new funding arrangements (see Annex 1) of which many operate outside the UNFCCC and Paris Agreement, a process of interactions and accountability under the UNFCCC would be challenging and ineffective. This applies to new funding arrangements described under categories 2 and 3 above.

44. Recognizing the different governance structures of funding arrangements (climate funds, MDBs, Insurance, IMF, national funds, multi-donor trusts etc.), a single approach or mechanism is not realistic and could create additional challenges in terms of addressing the coherence, policy and structural gaps in the current landscape of funding arrangements for loss and damage.

45. Further, the universal participation in the Enhanced Transparency Framework (ETF) under the Paris Agreement could also be explored for accountability and support to countries on loss and damage finance and technical support. Led by the principles of collaboration, mobilization and action, the Universal Participation in the ETF initiative¹³ strives to engage and unite countries, support organizations, the business community, non-governmental organizations and other stakeholders who share a common interest in realizing the benefits of transparent climate-relevant data and information.

46. Since most of the funding arrangements proposed under categories 2 and 3 are hosted in institutions outside of the UNFCCC, the interaction process with the Convention can be envisaged at two levels : (1) a set of guidance can be issued by the COP/CMA for consideration by the funding arrangements including options for voluntary reporting and (2) a generic, template MoU

¹³ <https://unfccc.int/universal-participation-ETF>

or partnership agreement between the UNFCCC through its Secretariat and the new funding arrangements, that outlines the interaction and tracking of activities addressing the gaps for addressing loss and damage, that represent the broader ‘mosaic’ of solutions/funds/funding arrangements.

Option 3: Accountability and reporting mechanism under a third-party body (e.g., the UNGA)

47. To ensure a comprehensive tracking, reporting and accountability to Parties in relation to financing efforts to address loss and damage, and considering the gaps and challenges above, a third option could be envisaged, involving a third-party body that has the mandate and/or ability to serve as convening actor for all stakeholders involves.

48. The United Nations General Assembly through its secretariat could play such catalyzer role considering its significant role in the tracking and monitoring of SDGs, UNFCCC and Paris Agreement, Sendai Framework including their relationship of financing of loss and damage. Such an approach is also feasible considering that most institutions serving as funding arrangements have a relationship to or reporting mechanism with the UNGA in one form or another.

Annex 1. Potential options for new funding arrangements from under and outside the UNFCCC

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
Category 1 – New funding arrangements with existing climate funds under the UNFCCC					
1. <i>Strengthen existing windows of Climate Funds under UNFCCC</i> <i>[Link to parra 5d, Decisions 2/CP.27 and 2/CMA.4]</i>	Complement existing portfolio of responses and incentivise transformational adaptation under climate funds to scale-up existing L&D responses (e.g., EWS, ecosystem degradation and loss)	Pr, Re, Rh	<p><u>Pros</u></p> <ul style="list-style-type: none"> - Quick setup - Track record on capacity building and preparedness - Adaptation result areas can cover EWS, some NELs and SOEs - Alignment with UNFCCC and PA principles - Accountability and reporting to CMA <p><u>Cons</u></p> <ul style="list-style-type: none"> - Limited scale - Limited reach – IAs, Accredited entities - Limited scope (not all 5R) - Limited coverage of SOE and NELS - Inadequate or slow disbursement speed for Rs - Transitional option 	<p>Guidance through COP and CMA to existing Funds to expand scope of funding to scale-up loss and damage in existing operational and programming policies</p> <p>Arrangements that extend L&D programming authority to existing climate funds, including simplified approval processes/access and fast-tracking applications from countries for Rs, Re, Rh and Rc support</p> <p>In some cases, further guidance from the COP and CMA would be required to clarify that the relevant loss and damage activities fall within their respective mandates.</p>	<p>GEF LDCF and SSCF Theme Early Warning and Climate Information Systems, GEF Small Grants</p> <p>GCF Adaptation Result Areas (EWS, Ecosystems etc), Readiness and Preparatory Support and Enhanced Direct Access, Simplified Approval processes</p> <p>AF single country and regional windows for EWS/DRR and Ecosystems, Enhanced Direct Access, Innovation facility and readiness support</p>

¹⁴ Coverage of scope of funding arrangements: Pr – Preparedness; Rs – Response; Re – Recovery; Rh – Rehabilitation; Rc - Reconstruction

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
<p>2. <i>Create new windows in existing Climate Funds under UNFCCC</i></p> <p><i>[Link to parra 5d, Decisions 2/CP.27 and 2/CMA.4]</i></p>	<p>Create new dedicated L&D funding areas and windows to cover SOE, NELS and mobility options (e.g., displacement, relocation, resettlement)</p>	Pr, Re, Rh	<p>Pros</p> <ul style="list-style-type: none"> - As above - Programmatic approaches of some funds could favour long-term funding for Re, Rh, Rc <p>Cons</p> <ul style="list-style-type: none"> - Need for new mandate by CMA and alignment with institution - Limited reach – IAs, Accredited entities. - Requires governing body approvals. - High risk investment areas require adequate strengthening of safeguard standards. - Project-based funding - Set-up of new result areas, guidance and changes to governing instruments - Potentially lengthy setup process 	<p>Mandate through COP and CMA to existing FMs to create new funding windows, instruments and strategy funding priorities on NELS, SOE, NELS</p> <p>Cooperative arrangements or agreements for exchange of information on creation of new windows to address L&D</p> <p>In some cases, further guidance from the COP and CMA would be required to clarify that the relevant loss and damage activities fall within their respective mandates.</p>	<p>GEF Impact Programmes, Small Grants</p> <p>Existing GCF windows for readiness, mitigation, adaptation and private sector</p> <p>AF single country and regional windows, Enhanced Direct Access, Innovation facility and readiness support</p>
<p>3. <i>Scale-up or create new micro-small grants windows</i></p>	<p>Simplified, quick and direct access to at-risk communities, micro-small enterprises and civil societies</p>	All	<p>Pros</p> <ul style="list-style-type: none"> - Targets CSOs, communities and NGOs - Can build on country-specific execution arrangements established by funds (e.g. GEF, UNEP) for cost-efficiency <p>Cons</p> <ul style="list-style-type: none"> - Project-based and varying capacity for execution by CSOs, community-based organisations - Areas to be identified in respective country programmes implemented by GEF and GCF – takes time 	<p>Mandate through COP to FMs to establish small and micro-grant windows for direct access to communities for L&D, or expand current small grant windows to cover L&D</p> <p>Mandate to GEF and GCF agencies for technical programme identification and development of L&D initiatives</p>	<p>GEF Small Grants Programme</p> <p>UNEP-IUCN Global EbA Funds</p> <p>AF Climate Innovation Accelerator (AFCIA)</p> <p>AF Enhanced Direct Access window</p>

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
4. <i>Scale-up anticipatory response through Early Warnings for All Initiative</i>	Funding to direct early warning and other ex-ante and anticipatory measures to all at-risk and vulnerable countries	Pr	<p>Pros</p> <ul style="list-style-type: none"> - Established partnership and advisory panel of leaders of UN agencies, MBD, humanitarian organisations, civil society, insurance and IT companies - Alignment with UNFCCC principles <p>Cons</p> <ul style="list-style-type: none"> - Limited accountability to UNFCCC 	<p>Mandate through COP to direct funding and support for EWS and Climate Services through the Early Warnings for All Initiative</p> <p>Synergies with related process, new fund and SNLD.</p>	<p>Climate Risk Early Warning Systems (CREWS)</p> <p>UN Early Warning for All</p> <p>WMO Systematic Observation Financing Facility (SOFF)</p> <p>GCF Strategic Plan 2024-2027, which highlights expansion of climate information and early warning systems in line with the Early Warning for All initiative</p>
Category 2 – New funding arrangements b/w fund and processes and funds outside of the UNFCCC					
5. <i>Invite additional contributions and resources from innovative sources to the fund</i> <i>[Link to para 5c, Decisions 2/CP.27 and 2/CMA.4]</i>	Broaden the scope of current funding contributions for L&D, including innovative solutions for prearranged grant financing and innovative sources – multilateral, bilateral, private sector and levels	All	<p>Pros</p> <ul style="list-style-type: none"> - New, innovative sources of finance e.g., Air passenger levy - Sustainable finance <p>Cons</p> <ul style="list-style-type: none"> - No accountability to UNFCCC - Limited sphere of influence of COP mandates on outside processes - Need for new mandate by CMA on sources of funds 	<p>Governance arrangements to allow for the L&D Fund to receive financing from all sources, in addition to ODA, based on Principles of the Convention</p> <p>Investment strategy on ways to maximise non-donor-based contributions to UN funds</p> <p>Fiduciary principles and standards of (initial) contributions to the Fund</p>	<p>Global Fund to Fight AIDS, Tuberculosis and Malaria - Private sector, nongovernment and foundation contributions.</p> <p>COP 15 decision on Global Biodiversity Framework Fund</p>

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
6. <i>Collaborate on enhancing knowledge management and addressing NELs</i>	Strengthen responses to loss of societal identity, cultural heritage protection and biodiversity and ecosystem loss	All	<p>Pros</p> <ul style="list-style-type: none"> - Existing funds/facilities/platforms can mobilise finance through variety of delivery channels - Most are grant based - No requirements for co-contributions/co-finance <p>Cons</p> <ul style="list-style-type: none"> - New guidance on L&D windows subject to individual fund institutional and governance arrangements 	Guidance through COP on creation of dedicated funding windows or special calls for funding to address NELs	UNESCO Heritage Emergency Fund UNEP-IUCN Global EbA Funds UN Decade on Restoration AF Innovation Facility Global Biodiversity Framework Fund CIF Nature, People & Climate Program Community Resilience Partnership Program Trust Fund WIM Excom NELDs Expert Group
7. <i>New Resolution through the UN Environment Assembly and Environment Trust Fund on large scale loss of global common resources</i>	Scale-up efforts to restore, protect and monitor large scale loss of ecosystems, ecosystem services, irrecoverable scenarios, including directing Environment Trust fund to address losses uninsurable global common resources	All	<p>Pros</p> <ul style="list-style-type: none"> - Capitalise on the UNEA and UNGA to bring focus on NEL especially loss of global common resources e.g., cryosphere, glaciers and collapse of ocean currents - UNEA resolutions implicate UNGA resolutions <p>Cons</p> <ul style="list-style-type: none"> - COP/CMA arrangements to work with UNEA - Environment Trust fund contributions are generally by member states, and would compete with L&D fund contributions 	Guidance through COP on cooperation with UNEA and UNGA on protection of loss of global common resources and critical ecosystem services	UN Trust Fund in support of activities for glaciers' preservation Environment Fund , established by the UN General Assembly (Managed by UNEP)
8. <i>MOUs, cooperative arrangements and partnerships</i>	Scale-up insurance coverage in geographical and damage coverage through risk pooling,	Pr, Re, Rh and RC	<p>Pros</p> <ul style="list-style-type: none"> - Quick partnerships with established regionally driven risk transfer and risk sharing mechanisms 	Mandate on improved and scaled-up effectiveness of Insurance in LDCs and	InsuResilience Solutions Fund (ISF)

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
<i>with global and regional risk financing facilities</i>	micro-insurance and investment in catastrophe bonds/resilience bonds + explore instruments for SOEs		<ul style="list-style-type: none"> - Governments can use these schemes to eliminate delays in disaster response - Link early warning to early response for the quick mobilization of funds to implement pre-planned response activities <p>Cons</p> <ul style="list-style-type: none"> - Unlikely to work in areas facing escalating and frequent extreme events - Lengthy start-up phase for new instruments for SOEs + readiness investments - Limited coverage of insurance in at-risk countries 	SIDs to address coverage gaps, esp. risks of SOEs Identify opportunities to advance knowledge on new products, reporting, and coordinate outreach to insurance industry on products to address L&D	Global Shield Against Climate Risks , Solutions Platform and Finance Facility African Risk Capacity, Caribbean Catastrophe Risk Insurance Facility, Pacific Catastrophe Risk Insurance Company UNEP FI Principles for Sustainable Insurance Various partnership arrangements: Multilateral Investment Guarantee Agency partnership with the private insurance industry and Insurance Development Forum; UNDP and BMZ partnership on inclusive insurance; Insurance Development Forum
9. <i>Contribution agreements and partnerships to address different types of migration and displacement in relation to climate change, including planned relocation</i>	Strengthen the response including national planning that is inclusive of migrants, displaced people and refugees and to ensure access to relevant funding mechanisms for countries and communities that host refugees/displaced populations	All	<p>Pros</p> <ul style="list-style-type: none"> - Leverages safeguard standards of existing agencies - Leverages experience and knowledge/expertise of UNFCCC Taskforce on Displacement - Can address multiple drivers of mobility - Rapid financing through dedicated financial instruments or sources of coordinated platforms <p>Cons</p>	<p>Guidance through the Taskforce on Displacement on funding arrangements to address different forms of mobility</p> <p>Fund to fund arrangements on deploying better-targeted instruments and resourced to address climate-induced mobility.</p>	<p>Migration Multi-Partner Trust Fund</p> <p>MDB Coordination Platform on Economic Migration and Forced Displacement</p> <p>ABD Expanded Disaster and Pandemic Response Facility</p> <p>Taskforce on Displacement and LDC Expert group – NAP</p>

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
			<ul style="list-style-type: none"> - Require adequate strengthening of safeguard standards. - Finance may need changes to regional and domestic policies change addressing internal displacements - Lack of financial instruments in support of countries hosting refugees and displaced populations - Limited private sector engagement 		
10. <i>Contribution agreements and topping-up National Funds and Direct Budget Support</i>	Maximising support to countries from mosaic of funds and funding arrangements relevant for responding to economic and non-economic losses, slow onset events and extreme weather events	Pr, Re, Rh and RC	<p>Pros</p> <ul style="list-style-type: none"> - Existing trust fund and public-private partnership agreements established in countries - Quick wins in terms of working at sub-national levels - Can target social protection schemes (social funds and reserve funds from national budget) and invite ‘national level’ contributors - Work with national L&D focal points <p>Cons</p> <ul style="list-style-type: none"> - Existing trust fund and public-private partnership agreements established in countries - Accountability of national funds to UNFCCC is limited 	<p>Mechanism for contributions to national level funds, direct budget support and ways to process support requests from countries on SOES, NELS</p> <p>Collaboration with national L&D focal points and UNFCCC FPs on country-specific L&D priorities to enhance coordination on funding pipelines</p>	Existing national disaster funds (see examples in synthesis paper) or national accredited entities of the GCF
11. <i>Guidance on debt swap mechanism</i>	Promote and broker debt conversions with improved financial terms for recovery and reconstruction	Re, Rh and RC	<p>Pros</p> <p>Increased impact of innovative instruments for addressing L&D</p> <p>Cons</p>	Framework and guidance for brokering debt conversions with improved financial terms for recovery and	Debt2Health initiative of the Global Fund to Fight AIDS, Tuberculosis and Malaria

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
			<ul style="list-style-type: none"> - No accountability of creditors to UNFCCC - Limited sphere of influence of COP mandates on outside processes - Unpredictable financing 	<p>reconstruction, addressing NELS</p> <p>Partnerships arrangements for participation of government donors, civil society and philanthropy</p>	
12. <i>Pooled funds with multi-donor humanitarian financing mechanisms</i>	Harmonise where funding/policies related to addressing climate related L&D, including greater investment shift to more anticipatory humanitarian action addressing drivers of loss and damage	Re, Rh and RC	<p>Pros</p> <ul style="list-style-type: none"> - Complementary to National Emergency Plan of Action budgets - Targets CSOs and NELS e.g., psychological support <p>Cons</p> <ul style="list-style-type: none"> - Funding tied to specific emergencies - Need to develop windows for SOEs 	<p>Partnership agreement to allow co-contributions and scaling of anticipatory action and localisation</p> <p>Coordinate and exchange experiences with humanitarian sector</p>	<p>IFRC Disaster Response Emergency Fund</p> <p>UN Central Emergency Response Fund (CERF) and Country-Based Pooled Funds (CBPFs)</p> <p>WFP Immediate Response Account (IRA), Anticipatory Action (AA) Trust Fund</p> <p>Coordinate with World Bank in the roll-out of the pause in debt repayments and Comprehensive Toolkit to support countries after natural disasters</p>
13. <i>Pooling of recovery and reconstruction funds + blended finance with MDBs</i>	<p>Scale up L+D related support through existing funds, instruments, and programs of the MDBs.</p> <p>Introduce new instruments and programs to support L+D related activities within MDB operations.</p>	Pr, Re, Rh and RC	<p>Pros</p> <ul style="list-style-type: none"> - Established systems with proven track record - Recipient governments familiar with processes - Predictable source of financing - Allows MDBs to strengthen existing instruments from an angle of anticipatory actions and to scale up support for SOE (linked to adaptation) - All MDB operations are aligned with the goals of the Paris Agreement <p>Cons</p> <ul style="list-style-type: none"> - Limited accountability to UNFCCC 	<p>Fund's framework and guidance for grant and low concessional finance facility</p> <p>Guidance through the COP on use of disaster and climate-related clauses in lending operations</p> <p>Identification of options to maximise the use of low concessional financial instruments to address L&D</p>	<p>Scale up support through Asia Pacific Disaster Response Fund of the Asian Development Bank (ADB), which provides immediate grant assistance in the aftermath of a disaster in form of budget support.</p>

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
			- Limited availability of grant financing	Sharing information on new, innovative instruments and experiences	<p>Scale up support for contingent disaster financing which is an example of a policy loan with payments linked to triggers associated with disaster events and attainment of pre-agreed policy actions (example, Cat DDO of World Bank and Contingent Disaster Financing of ADB)</p> <p>Scale up support of disaster risk insurance such as through support for regional catastrophe risk pool.</p> <p>Introduce new instruments such as climate resilient debt clauses (example, hurricane clause of IADB)</p> <p>Explore support for SOE under existing grant windows of MDBs (example Asian Development Fund of the ADB)</p> <p>Scale-up support for compounding effects of SOEs and sudden onset events through Global Bank Disaster Risk Reduction and Reconstruction Fund - Multi-donor Umbrella Trust Fund</p>

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
Category 3 – Hybrid options with multiple funding arrangements with funds from under and outside of UNFCCC processes					
14. <i>Options 1 and 2 + pre-arranged finance + Fiscal Space for LDCs and SIDS + Humanitarian Assistance) under UNFCCC</i>	Combination of Options 1 and 2 + pre-arranged finance + Fiscal Space for LDCs and SIDS + Humanitarian Assistance) Option 1 and 2 + pre-arranged (e.g., Global Shield model) + Humanitarian Assistance (e.g., CERF) + IMF/WB fiscal space	Pr, Rs, Re, Rh, Rc	<p>Pro</p> <ul style="list-style-type: none"> - New and expanded mandate, arrangements, and access modalities <p>Con</p> <ul style="list-style-type: none"> - MoU with UNFCCC/CMA for reporting - Lengthy time for coordination across agencies, funds - Global coordination platform to be setup for coordinated response and reporting 	<p>Build on existing arrangements and track record</p> <p>Comprehensive scope for L&D</p> <p>Possible fragmented response</p> <p>Fill priority and additive gaps Relative speed of disbursement</p> <p>Complex or inexistant reporting to CMA</p> <p>Challenging coordination arrangement</p>	N/A

Options for new L&D funding arrangements	Purpose	Scope of arrangement ¹⁴	Pros and Cons	Elements for TC, COP and CMA consideration	Relevant Examples
15. <i>Options 1 and 2 + pre-arranged finance + Fiscal Space for LDCs and SIDS + Humanitarian Assistance) outside of UNFCCC</i>	Options 1 and 2 + pre-arranged (e.g., Global Shield model) + Humanitarian Assistance (e.g., CERF) + IMF/WB fiscal space	Pr, Rs, Re, Rh, Rc	As above	<p>Build on existing arrangements and track record</p> <p>Comprehensive scope for L&D</p> <p>Possible fragmented response</p> <p>Fill priority and additive gaps</p> <p>Relative speed</p> <p>Complex coordination</p> <p>No or fragmented reporting to CMA</p>	N/A

