

# Second meeting of the Transitional Committee

## Item 5a

**Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change**

25 May 2023

# Content of the report

## I. Background

## II. Mandate, scope and methodology

## III. Existing funding arrangements

- A. Current funding landscape
- B. Adaptation finance
- C. Fiscal/ financial stability support
- D. Insurance
- E. Humanitarian aid

## IV. Types of innovative sources

- A. Debt swaps/ debt-buy-backs
- B. Debt securitisation
- C. International solidarity levies

## V. Gaps in existing funding arrangements

# I. Background

- Decision 2/CP.27
- Decision 2/CMA.4

## II. Mandate, scope and methodology

### A. Mandate

- Decisions 2/C.27 and 2/CMA.4 paragraph 7 requested the secretariat to prepare a synthesis report on existing funding arrangements and innovative sources

## II. Mandate, scope and methodology

### B. Scope

- Identification and mapping of relevant existing funding arrangements and innovative sources includes:
  - description of overall loss and damage funding landscape and innovative sources
  - mapping of existing funding arrangements (Annex II)
- Focus on external multilateral and bilateral financing
- National funding was considered in an illustrative manner
- Discussion of innovative sources includes mechanisms in other sectors
- Expanded scope to include greater analysis, including gaps requested by TC members\*

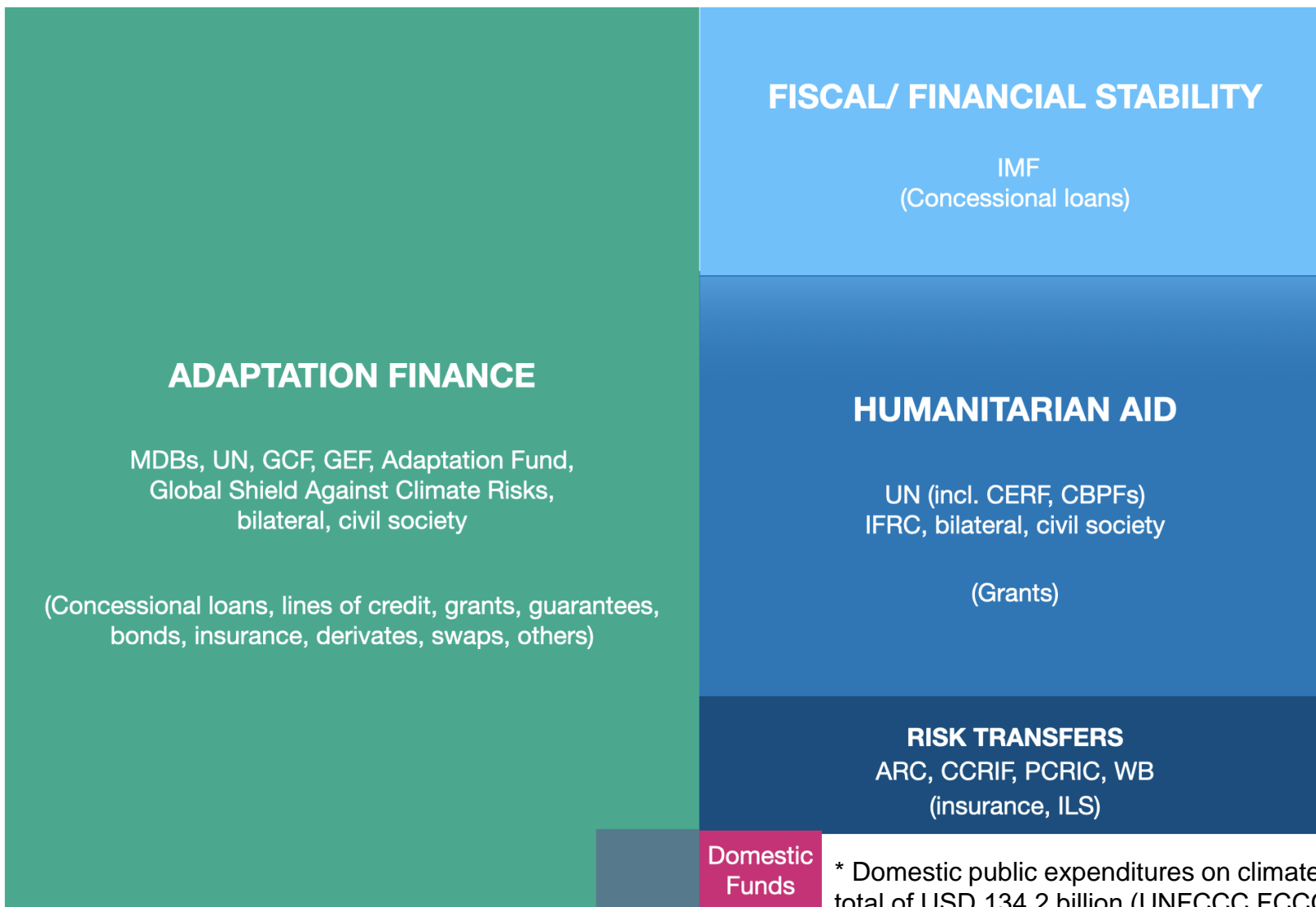
\* TC1 Co-Chair summary and TC member submissions

## II. Mandate, scope and methodology

### C. Methodology

- Source data from UNFCCC technical papers/ WIM, UNFCCC Standing Committee on Finance, publicly available information, submissions by TSU
- Collection, aggregation and analysis of relevant finance flows limited as no singular (unique) loss and damage marker
- Attribution (risk of double counting) using Rio markers, Sendai Framework, earmarked funds
- Easier for sudden onsets, early warning, anticipatory measures, DRR & management, insurance
- Complex for slow onsets, general adaptation, NELD, other sectors
- G7 Climate Disaster Risk Reduction, Response and Recovery inventory ongoing
- E-wallets experimental

# III A. Existing funding arrangements landscape



\* Domestic public expenditures on climate change in 2019–2020 amounted to an estimated total of USD 134.2 billion (UNFCCC FCCC/CP/2022/8/ Add.1–FCCC/PA/CMA/2022/7/Add.1)

## III A. Type of funding instruments

- Market-rate loans\*
- Concessional loans (72% of all public climate finance)
- Lines of credit (in excess of USD 43 billion\*\*)
- Grants (27% of all public climate finance)
- Guarantees
- Insurance and micro-insurance (approx. 3% coverage)
- ILS: Catastrophe (cat) bonds
- Debt swaps/ debt buy-backs
- Domestic taxation

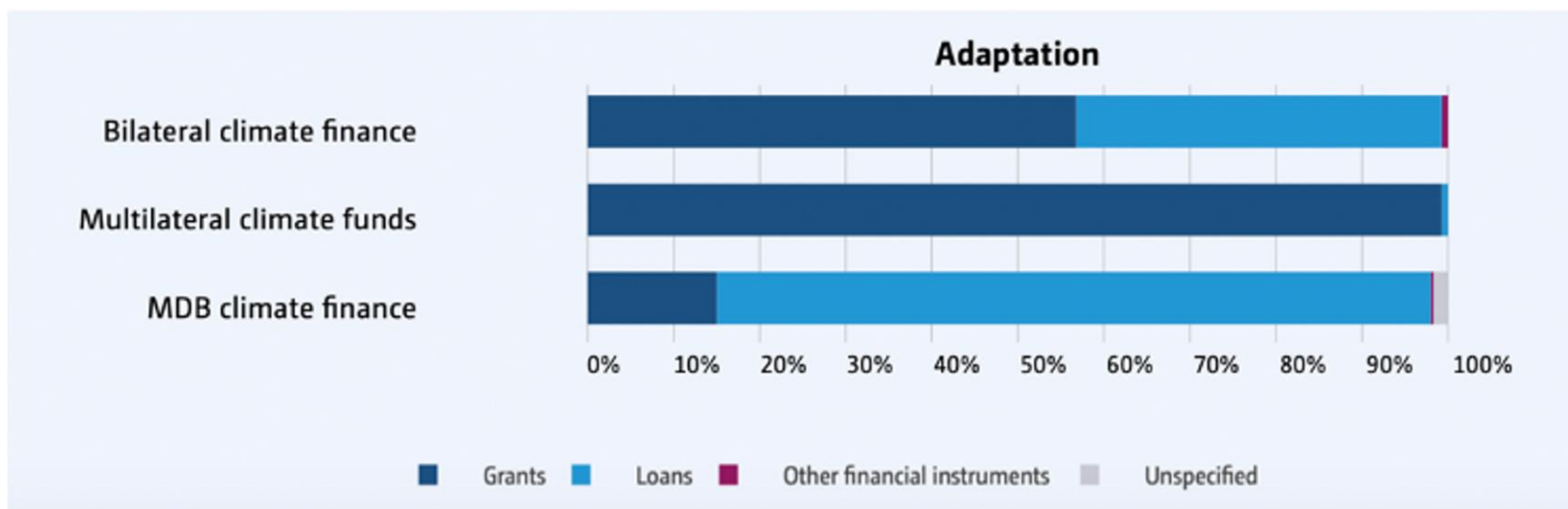
\* Not considered in the synthesis report

\*\* Includes IMF RST, World Bank Cat DDO, V20 Global Shield



# III A. Type of funding instruments

## Use of financial instruments in adaptation finance by funder group



Totals in USD (2019-2020)

57% grants/ USD 8.5 billion

99% grants/ USD 1.2 billion

15% grants/ USD 2.1 billion

Source: UNFCC Standing Committee on Finance, 2022

Source: FCCC/CP/2022/8/Add.1-FCCC/P  
A/CMA/2022/7/Add.1

## III A. Type of funding instruments

- Relatively high portion of loans within landscape (IMF, MDBs)
- Potential longer-term debt sustainability issue compounded by:
  - Increasing financial needs due to frequency and severity of slow/ sudden onset events and impacts and their compounding effects
  - Debt-overhang
  - Limited access to concessional loans for some vulnerable countries currently not qualified for debt relief and only for “small economy” IDA/IBRD terms pushing them to borrow at commercial terms in the financial markets; vicious cycle)

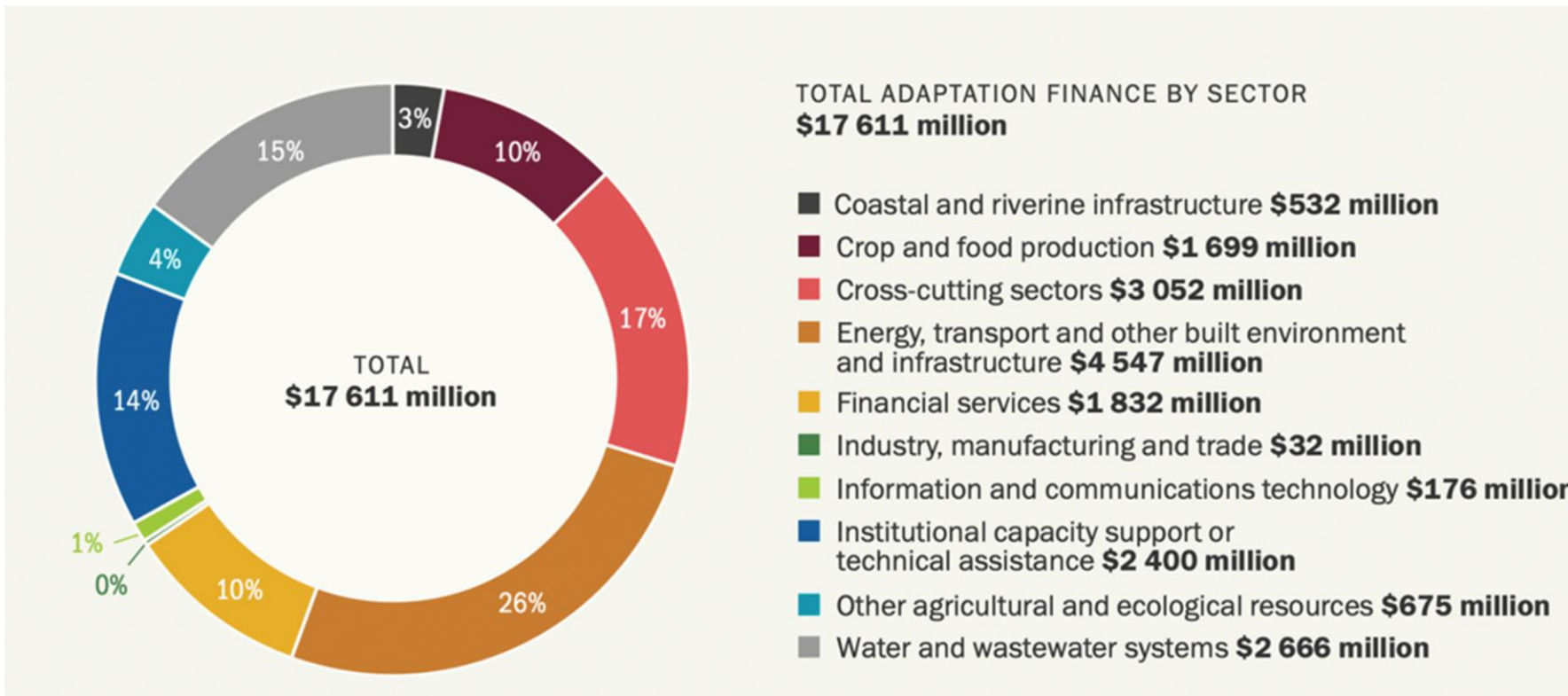
# III B. Adaptation/ DRR & management\*

Need Spectrum	Actions	Entries
Preparedness	<ul style="list-style-type: none"> <li>▪ disaster risk reduction (DRR)</li> <li>▪ disaster preparedness planning</li> <li>▪ early warning systems</li> <li>▪ personnel training</li> </ul>	45
Response	<ul style="list-style-type: none"> <li>▪ search and rescue</li> <li>▪ emergency relief (food, emergency shelter, medical care)</li> <li>▪ access control &amp; damage assessment</li> </ul>	13
Recovery	<ul style="list-style-type: none"> <li>▪ temporary shelter</li> <li>▪ debris removal and clean-up</li> <li>▪ restoration of vital infrastructure services</li> <li>▪ social protection/ livelihoods</li> </ul>	
Rehabilitation	<ul style="list-style-type: none"> <li>▪ management of injury/ trauma</li> <li>▪ prevention/ management of disability</li> <li>▪ restoration of functional capabilities</li> <li>▪ re-integration of survivors</li> </ul>	
Reconstruction (Build Back Better, Forward/ Resilient)	<ul style="list-style-type: none"> <li>▪ health care/ mental health support</li> <li>▪ resettlement</li> <li>▪ physical and social infrastructure</li> <li>▪ employment opportunities</li> </ul>	9

Potentially relevant considerations for L&D niche(s)

\* In context of disasters based on mapping exercise with 75 entries, of which 13 are outside sudden onset scope and 2 unclassified. May not be comprehensive or complete of all available funding.

# III B. Adaptation finance\*



Potentially relevant considerations for L&D niche(s)

← 1

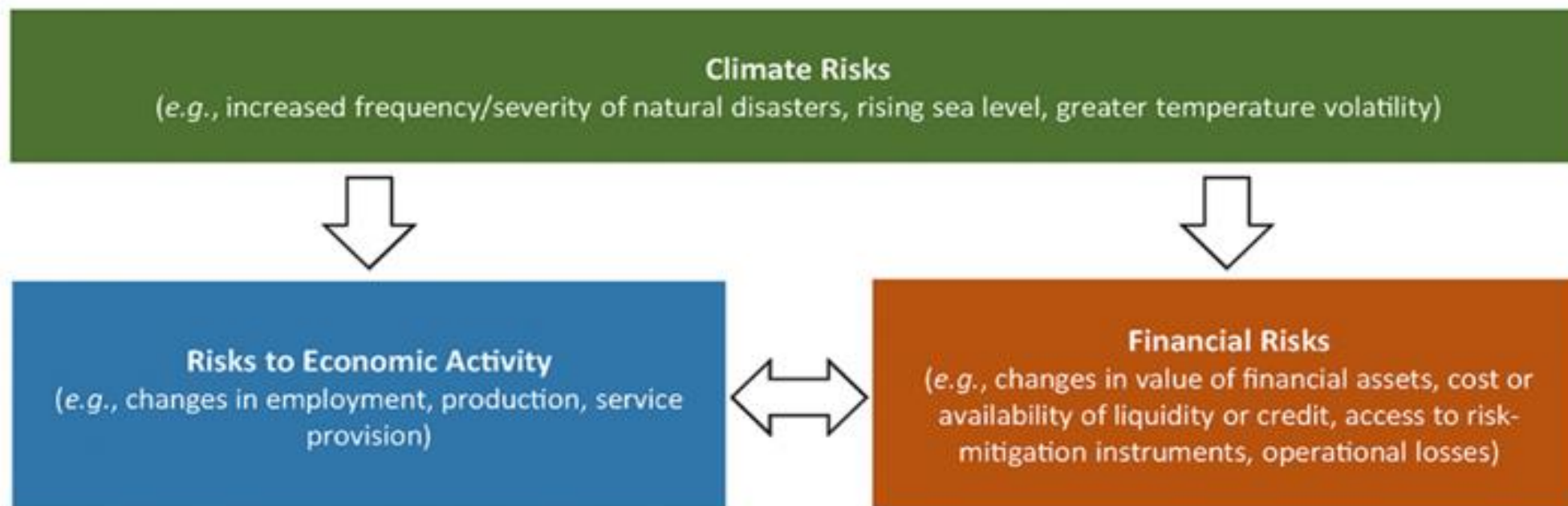
← 3

← 2

Source: 2021 Joint Report on MDB's Climate Finance

\* Adaptation finance by MDBs only. Does not include UNFCCC funds and others.

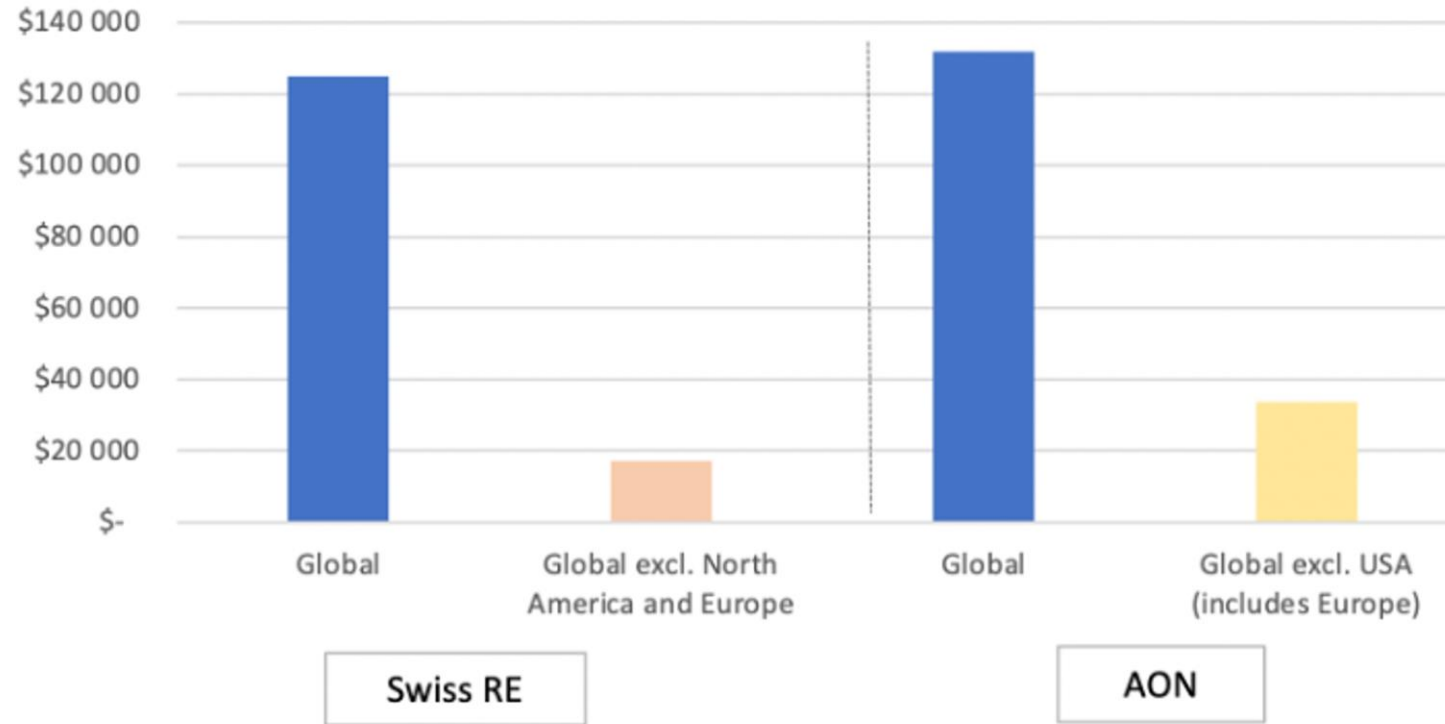
## III C. Fiscal/ financial stability support



Source: U.S. Federal Reserve System, 2021

- USD 41.2 billion IMF Resilience and Sustainability Trust (RST) with 20-year maturity and a 10½ -year grace period/ interest rate based on groups; wide eligibility including SDS;
- Some MDB facilities (CRW, IRM, Cat DDO, others) contribute to fiscal/financial stability but have other mandates.

# III D. Insurance



- 90%+ coverage gap in developing countries
- Risk pooling not yielding desired results (yet)
- Extent of loss coverage lower due to premium
- Destabilisation of industry in light of frequency and severity of L&D
- No mechanism to address uninsurable scenarios

Sources: SwissRe Institute. 2023. Sigma. Natural catastrophes and inflation in 2022; AON. 2023. 2023 Weather, climate and catastrophe insight report.

## III E. Humanitarian aid

- CERF and CBPFs provided USD 2.16 billion in 2020 in humanitarian aid
- Average 26.5% for climate related emergencies
- Growing needs (USD 25 billion in 2022/ 160 million people reached to est. 54 billion in 2023)

## IV. Types of innovative sources

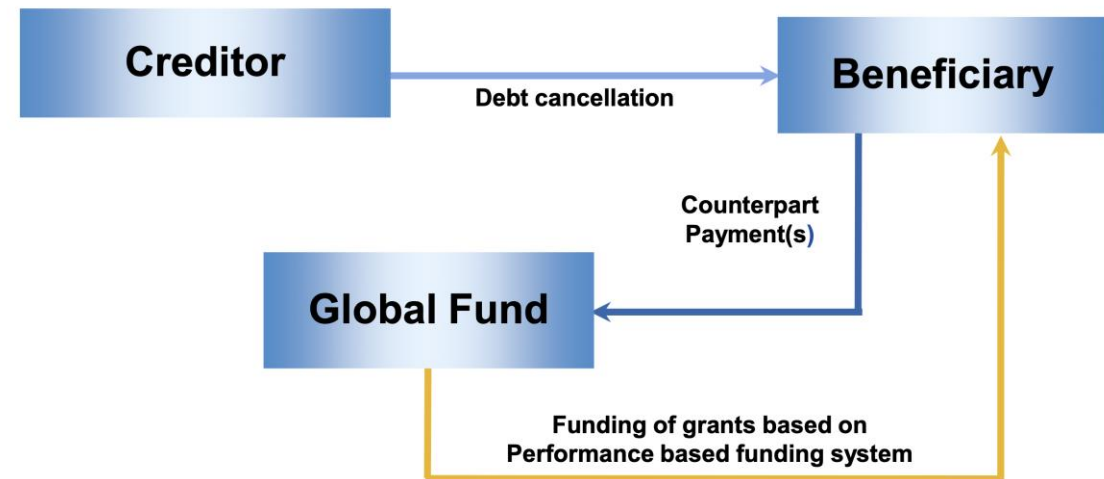
- Debt swaps and debt buy-backs
- Debt securitisation
- Solidarity levies



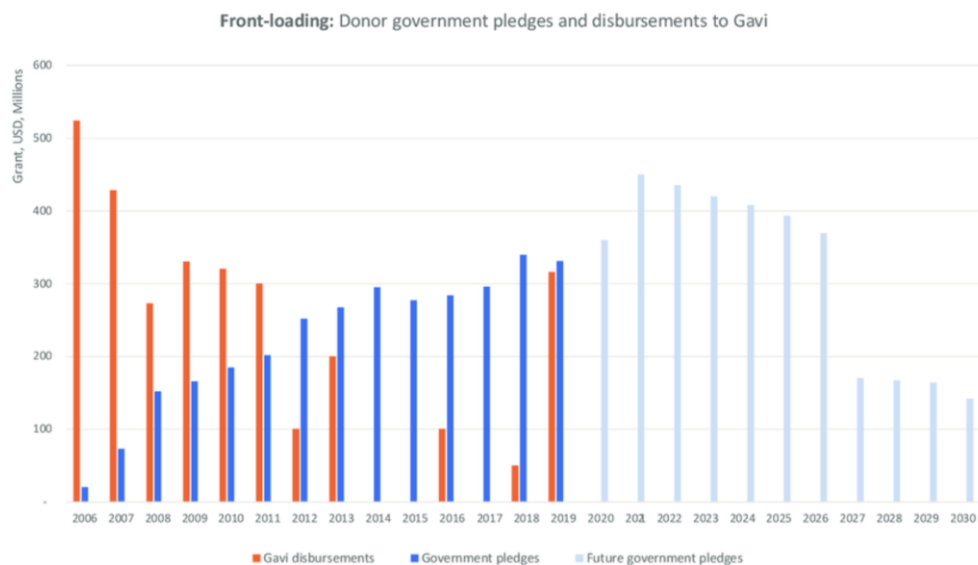
## IV A. Debt swaps

- Debt for nature swaps potential for countries with limited access to debt relief
- Traditionally counterpart in local currency
- Requires creditor donors/philanthropic donors and solvent beneficiaries
- Small scale (3 out of 140 were greater than USD 250m); scale-up to make dent in debt levels
- New models with supported negotiation mechanism

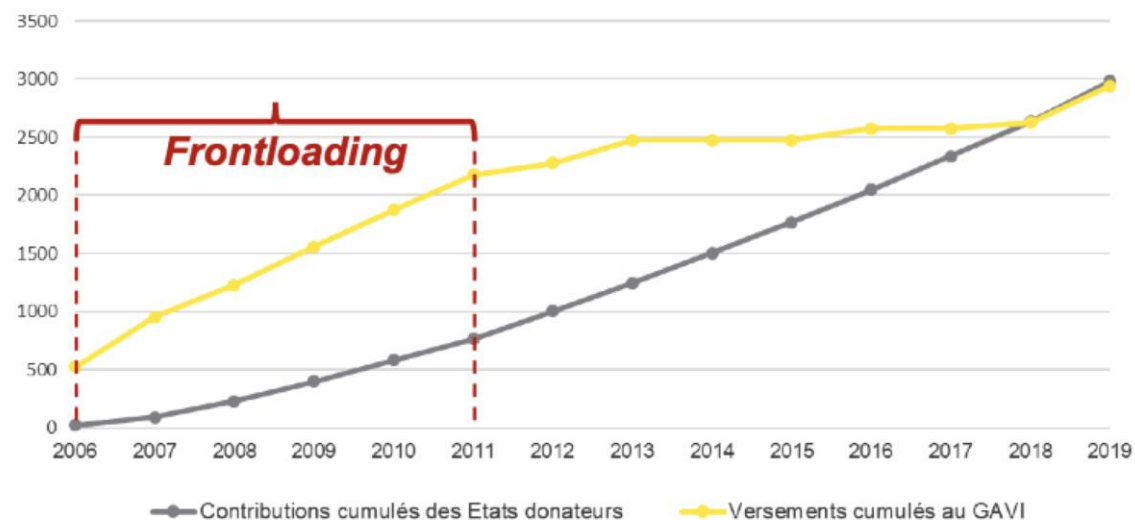
Debt2Health (USD 367 million converted)



# IV B. Debt securitisation



IFFIm's front-loading effect. Source: Researchgate



Source: Government of France. Evaluation of French Contribution to IFFIm, 2020.

- “Frontloading” means to use future revenue streams (ODA) to issue bonds in the capital markets;
- Securitised by government guarantees hence highly rated: IFFIm AA-
- Rationale is to achieve important social impacts now and thereby create long-term savings

## IV C. Solidarity levies

- Government-imposed surcharges/ taxes
- Exist for mitigation measures
- French air ticket levy only example for social developmental purpose in EU (average 210 million Euros a year)
- 11 countries implement air ticket lev
- Coordinated but sovereign decision
- IFF proposal/ extractive industry levy (USD 1.64 billion)
- IMO Climate Fund shipping levy (original purpose decarbonisation of shipping industry)

Solidarity tax on airplane tickets amounts since its inception

Starting on	Destination within EEA or Switzerland		Destination outside EEA		Reference
	Economy Class	Business or First Class	Economy Class	Business or First Class	
1 July 2006	€1	€4	€10	€40	[4]
1 April 2014	€1.13	€4.51	€11.27	€45.07	[5]
1 January 2020	€2.63	€7.51	€20.27	€63.07	[6]

## V. Some gaps in existing funding arrangements

- Financial gaps across relevant landscape domains
- Grant financing gap to address debt sustainability, esp. recovery/ resilient reconstruction
- Structural gaps limiting some countries to access finance
- Uptake of risk insurance/ micro-insurance limited; no mechanism for insurable scenarios
- Domestic funds/ trusts are country needs-driven; potential for scale-up and faster access
- Data, knowledge, capacity and technology gaps in addressing loss and damage
- Innovation gap in the management of assets/ donor contributions
- Coherence/ coordination with consistent L&D policy framework
- Inclusive governance gap compared to newer models/ institutions
- Innovative sources potential includes debt swaps (may require negotiation mechanism) and solidarity levies (requires strong political will)



**United Nations**  
Framework Convention on  
Climate Change

# Thank you!

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