Transitional Committee

TC4/2023/8

**Fourth meeting of the Transitional Committee**

15 October 2023

# Synthesis report on the outcomes of the activities and deliverables referred to in paragraphs 7(b), 11, 12 and 14 of decisions 2/CP.27 and 2/CMA.4

# I. Mandate and Background

1. To inform the recommendations of the Transitional Committee mandated with the operationalization of the new funding arrangements and fund for responding to loss and damage, the COP[1] and the CMA[2] requested the secretariat to prepare a synthesis report on the outcomes of the activities and deliverables referred to in paragraphs 7(b), 11, 12 and 14 of decisions 2/CP.27 and 2/CMA.4. These activities and deliverables are:

(a) A request to the secretariat to prepare a synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change;

(b) An invitation to the United Nations Secretary-General to convene the principals of international financial institutions and other relevant entities with a view to identifying the most effective ways to provide funding to respond to needs related to addressing loss and damage associated with the adverse effects of climate change;

(c) An invitation to international financial institutions to consider, at the 2023 Spring Meetings of the World Bank Group and the International Monetary Fund, the potential for such institutions to contribute to funding arrangements, including new and innovative approaches, responding to loss and damage associated with the adverse effects of climate change; and

(d) A request to the President of the Conference of the Parties at its twenty-seventh session, in collaboration with the incoming President of the Conference of the Parties at its twenty-eighth session, to convene ministerial consultations prior to the twenty-eighth session of the Conference of the Parties and the fifth session of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement to advance consideration and understanding of a possible outcome on this matter at that session.

## B. Overarching messages and insights

2. Across the activities and deliverables included in the scope of this synthesis report, some of the key insights and messages that have emerged include the following:

(a) The decisions taken at COP 27 and CMA 4 to establish new funding arrangements and a fund for addressing loss and damage represented an important breakthrough in providing support for vulnerable countries and communities grappling with the adverse effects of climate change. The timelines agreed to in those decisions are ambitious, but reflect the urgency of translating the funding arrangements and fund from paper to practice.

(b) While there are many institutions and actors providing support relevant to addressing loss and damage, there are nonetheless significant gaps and fragmentation in this landscape. For example, while the humanitarian system is well-established and well-coordinated, it faces a significant funding shortfall, and the transition from short-term humanitarian support to long-term recovery, reconstruction, and rehabilitation is often very difficult to finance, and is often financed in a manner that exacerbates debt burdens.

(c) Support for addressing loss and damage under the new fund and funding arrangements should therefore avoid exacerbating the debt burdens of developing countries in ways that further curtail their development efforts. Many developing countries are already grappling with significant debt loads that undermine their capacity to pursue ambitious climate action and sustainable development; when facing a climate-related event, countries are often forced to take on still more debt to finance the response, relief, recovery, and rehabilitation. In addition to prioritizing grant-based and highly concessional funding,

[1] Decision 2/CP.27, para. 15.
[2] Decision 2/CMA.4, para. 15.

instruments and initiatives that expand the fiscal space available to governments to address loss and damage – including debt clauses and debt swaps – have been highlighted as potentially important tools to leverage in this regard.

(d) Many international financial institutions and other relevant entities stand ready to expand and improve their support for addressing loss and damage. Specific opportunities identified range from expanding the use of climate resilient debt clauses within and across institutions, to scaling up the use of pre-arranged and trigger-based financing. To take advantage of these opportunities, however, these institutions require scaled-up resources and support from shareholders and other key actors.

(e) Support for addressing loss and damage must also be new and additional, and not come at the expense of resources allocated to other areas of climate action or to poverty eradication and other developmental needs. In this regard, transparency in the new funding arrangements and fund is key.

(f) Considering the scale of resources required to comprehensively and adequately address loss and damage, and the ability to attract and leverage the widest possible range of sources of finance, will be critical in ensuring that the fund and funding arrangements operate at an appropriate scale. This includes private and potentially innovative sources of finance, and de-risking provisions that can help attract private sources. At the same time, public funding is expected to represent a significant source of support.

(g) Ensuring that the new fund is promptly and adequately capitalized, with a view to initiating the disbursement of funds as soon as possible, is essential. A fundraising and/or resource mobilization strategy will be instrumental in attracting resources at the scale required.

(h) Funding provided for addressing loss and damage should, in some cases, be able to be disbursed rapidly in order to respond to urgent needs arising from extreme weather events. Adding layers of conditionality that unduly undermine timely access should be avoided. Learning from existing funds and funding arrangements about what has helped or hindered rapid disbursement in the past will be useful.

(i) In operationalizing the new funding arrangements and fund, meaningful inclusion of vulnerable communities, gender-responsiveness, and promotion of human rights are important facets to consider and mainstream. This includes consideration in aspects ranging from the governance of the fund to the ways in which actions supported through the funding arrangements and fund are selected and implemented.

(j) Avoiding duplication and fragmentation while maximizing complementarity and coherence in the landscape of support for addressing loss and damage will be fundamental to ensuring that support provided is comprehensive and efficient. To this end, a new process or entity that fosters continuous dialogue and exercises an overall oversight function may be worth pursuing.

## C. Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage

3. An initial version of the *Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage* was shared with the Transitional Committee ahead of its first meeting for review and comments on 25 March 2023.[3] Subsequently, an updated draft of the report was presented to the Transitional Committee through a virtual meeting on 16 May 2023. The final version was then published on 23 May 2023,[4] and presented to the Transitional Committee at its second meeting.[5]

4. The synthesis report explored the variety of existing funding arrangements, examining areas including adaptation and disaster risk management finance, fiscal and financial stability

3 Available at https://unfccc.int/sites/default/files/resource/Initial_SR_25%20March%2025%201500hrs.pdf.

4 Available at https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport23May23.pdf.

5 Presentation available at https://unfccc.int/sites/default/files/resource/Item5a_SynthesisReport.pdf.

support, insurance, and humanitarian aid. It further surveyed innovative sources and mechanisms with potential applicability to addressing loss and damage. These included debt swaps and debt buy-backs, debt securitization, and international solidarity levies.

5. Among its key findings, the report highlighted:

(a) Tracking loss and damage funding is complex given the absence of a singular (unique) loss and damage marker. Finance flows are not systematically reported in a loss and damage category by any UNFCCC reporting method or by the MDB common climate finance methodology.

(b) Exact disaggregation from overall development assistance is challenging, in particular for slow onset events and impacts, as most development projects today include screens and other "climate proofing" measures aimed at increasing resilience and minimizing future loss and damage.

(c) Some finance flows can be attributed to addressing loss and damage from ODA reporting using Rio markers, reporting within existing frameworks such as the Sendai Framework for Disaster Risk Reduction, or from earmarked funding windows, programmes and facilities addressing ex-ante, anticipatory actions and ex-post measures in context of disasters.

(d) Existing funding arrangements that facilitate cooperation between developed and developing countries in addressing loss and damage concern adaptation finance (27 per cent of all public climate finance), fiscal and financial stability, humanitarian aid, insurance, and domestic trusts. Within these general domains, funding institutions operate multiple funding windows, facilities and programmes, each with its own scope, eligibility criteria and disbursement policies.

(e) A range of financial instruments are used, including market-rate and concessional loans, lines of credit, guarantees, grants, insurance products, bonds, and to a minor extent domestic taxation. Frequently, two or more funding types or instruments are blended.

(f) The type of funding varies by institution. Overall, loans, both concessional and non-concessional, accounted for 72 per cent of public climate finance (mitigation, adaptation, crosscutting) between 2016 and 2020, with 26 per cent of financing provided through grants. MDBs as the predominant providers of concessional loans feature a greater proportion of loans in their portfolios, the multilateral climate funds under the UNFCCC provide mainly grants (that can leverage other funding such as private sector investment) while bilateral funders provide both loans and grants in nearly equal measure.

(g) Lending is dominant, posing risks to debt sustainability. Concessional and non-concessional loans accounted for 72 per cent of public climate finance (mitigation, adaptation, crosscutting) between 2016 and 2020, with grants providing 26 per cent of financing. Over 50 per cent of debt increase in vulnerable countries has been related to funding disaster recoveries and reconstruction. With increasing intensity and severity of hazards, a country's ability to access to financial markets and concessional loans may be compromised to the estimated USD 200 billion a year needed.

(h) Within the landscape, adaptation finance, at 27 per cent of total public climate finance, provides a broad, general measure of investment to avoid future loss and damage. Dominant finance providers are MDBs with multilateral climate funds and bilateral donors taking an important role in grant financing for adaptation.

(i) Despite increases in adaptation finance major funding gaps remain. Finance flows to developing countries are five to ten times below the annual needs estimated by UNEP of USD 160–340 billion by 2030 and USD 315–565 billion annually by 2050. Further, the Intergovernmental Panel on Climate Change estimated the annual costs of damages from sea level rise at USD 427 billion by 2100.

(j) Fiscal and financial stability support to address long-term fiscal, financial and balance of payments stability includes the USD 41.2 billion IMF Resilience and Sustainability Trust and the USD 1.4 billion Resilience and Sustainability Facility. Structural challenges with regard to outdated eligibility criteria vis-à-vis today's climate vulnerability exist, limiting access to concessional financing, hence leading to high-interest borrowing by vulnerable middle-income countries.

(k) Risk insurance coverage remains limited in developing countries with coverage gaps of up to 97 per cent. Risk pooling initiatives aim to increase uptake of climate risk insurance as well as of micro-insurance at household level. With the projected increase in the frequency and severity of hazards, insurance may face additional uptake barriers as premium costs are likely to rise while payouts are likely to shrink.

(l) Humanitarian aid is increasingly correlated with adverse effects of climate change, but at current levels cannot significantly address loss and damage. In 2020, the CERF and 18 Country-Based Pooled Funds combined provided more than USD 2.16 billion in assistance, with an average of 26 per cent for climate-related emergencies. Substantial financial gaps through the UN humanitarian system remain with respect to required new and additional funding.

(m) Domestic funds and trusts addressing loss and damage are currently small in number and size vis-à-vis the challenges at community level, but they are an important effort by countries and a potentially scalable model with international assistance.

(n) Innovative sources consist of a limited number of financial innovations such as debt swaps, cat bonds and large-scale innovative financing mechanisms successfully implemented outside the climate change arena.

(o) Debt swaps have considerable potential as innovative sources of funding, including relief of commercial debt, for vulnerable countries with limited access to debt relief. They currently lack mechanisms to brokers agreements at improved financial terms and with the participation of government donors, civil society and philanthropy within a loss and damage framework, in particular addressing recovery and reconstruction.

(p) Debt securitization, also known as “frontloading”, is the use of future public income streams such as ODA to issue bonds in the financial markets, but its potential in the context of addressing loss and damage is limited, except potentially in relation to initiatives such as Early Warning for All.

(q) Solidarity levies are government-imposed surcharges on specified transactions. The French air ticket levy introduced in 2006 generates approximately 210 million Euros a year. The levy is a tax imposed and collected at source by the state. If implemented by several countries individually, an air ticket climate levy could raise in excess of USD 1 billion a year (combined). Other solidarity levy proposals include a 0.001 per cent extractive industry levy by the Innovative Finance Foundation in 2014, which would generate approximately USD 1.64 billion a year. Other examples include the carbon shipping levy proposed at the IMO and other climate-related measures in the shipping industry.

(r) Identified gaps in existing funding arrangements include:

(i) Data, knowledge and capacity gaps related to tracking, aggregating, analysing, and calculating highly heterogenous data relevant to formulate responses for addressing loss and damage, including determining relevance of existing finance flows from climate and development finance;

(ii) A coherence gap related to the overall policy framework for addressing loss and damage, given that no single entity is dedicated specifically to loss and damage;

(iii) Policy gaps to effectively and consistently determine across domains, inter alia, triggers and levels of funding to address loss and damage, in particular for slow onset events, humanitarian aid and non-economic losses;

(iv) Significant financial gaps across all domains within the landscape of existing funding arrangements to address loss and damage;

(v) Insurance gaps in geographic and damage coverage, gaps in micro-insurance and the lack of a mechanism to assist in uninsurable scenarios;

(vi) Structural gaps related to:

a. Eligibility criteria that do not take into account sufficiently the adverse effects of climate change on vulnerable middle-income countries, thereby limiting their access to concessional lending, pushing countries to borrow at high rates from the financial markets;

b. Substantial grant financing for realized loss and damage in the context of disasters, in particular for recovery, social protection and reconstruction;

c. The absence of a mechanism that drives negotiations to realize the full potential of debt swaps (sovereign and commercial) at improved terms, working with creditors, government donors, the private and the philanthropic sectors.

## D. The United Nations Secretary-General's convening of the principals of international financial institutions and other relevant entities

6. In response to the invitation issued in decisions 2/CP.27 and 2/CMA.4, the United Nations Secretary-General convened the principals of international financial institutions and other relevant entities on 20 September 2023, in the context of the Climate Ambition Summit, in New York, United States of America.[6] The meeting sought to facilitate a meaningful discussion that is solution-oriented and forward-looking. More specifically, it aimed to:

(a) Identify the most effective ways to provide funding to respond to needs related to addressing loss and damage associated with the adverse effects of climate change.

(b) Spell out current financial outlays by each of the IFI/relevant entities for addressing loss and damage as well as potential actions they can undertake to fill gaps.

(c) Identify what is needed from shareholders, contributors, or the financial architecture to scale up loss and damage finance.

(d) Identify proposals on innovative sources of funding (levies, taxes, etc.).

7. To achieve these aims, it gathered the principals and other high-level representatives of institutions including multilateral development banks (MDBs), bilateral development finance institutions, global climate funds, the private sector and philanthropies, and civil society. Overall, these representatives made clear that they and their institutions stand ready to support efforts related to funding for addressing loss and damage. As the current chair of the MDB Working Group on Climate Change, a representative of the Islamic Development Bank emphasized the commitment of MDBs to collectively supporting this agenda.

8. While some speakers noted that their institutions are primarily focused on providing support for averting and minimizing loss and damage through mitigation and adaptation funding, several representatives speaking at the event offered several examples of how their programmes and instruments are supporting actions relevant to addressing loss and damage. This included:

(a) Providing small but critical grant-based resources for immediate relief of disasters and extreme events through an emergency response programme;

(b) Providing grant-based relief funding that can be disbursed within 72 hours of a disaster striking a country;

(c) Embedding anticipatory provisions for disaster risks in projects through contingencies for emergency relief;

(d) Repurposing and reprogramming existing financing for emergency response when the need arises;

[6] Concept note available at https://www.un.org/sites/un2.un.org/files/concept_note_unsg_convening_on_loss_and_damage.pdf and on-demand recording available at https://media.un.org/en/asset/k17/k17kggiyei?_gl=1*5kiurd*_ga*MTUzODc2NDY5Ni4xNjU3NjM5NDgx*_ga_TK9BQL5X7Z*MTY5NjU1MzE3OC40My4xLjE2OTY1NTMyODUuMC4wLjA.

(e) Setting aside funding to support poor and vulnerable countries;

(f) Supporting countries and communities to scale up investments in adaptation, particularly at the community level, through a partnership programme;

(g) Developing institutional and financial capacity for disaster risk reduction at the community level;

(h) Including clauses in financing contracts to postpone payment in the event of hurricane, piloting the use of climate-resilient debt clauses for LDCs and SIDS, or more generally deferring debt servicing;

(i) Supporting post-disaster relief through regular financing instruments;

(j) Extending policy-based loans and co-financing, including for natural disasters, through a standing crisis response facility;

(k) Advocating for the rechannelling of special drawing rights to MDBs at a transformational scale;

(l) Incorporating loss and damage in climate policy dialogues and activities, including assistance with nationally determined contributions, long-term strategies, and climate resilient pathways;

(m) Assisting with balance sheet restructuring;

(n) Supporting access to parametric insurance coverage;

(o) Supporting innovative and gender-sensitive disaster risk financing diagnostics;

(p) Piloting debt-for-nature restructuring transactions; and

(q) Providing support for implementing early warning systems and safe haven shelter systems.

9. Examples of programmes and instruments being developed that can further support efforts to address loss and damage, including:

(a) Developing a disaster risk financing instrument designed to lower disaster risk through leveraging risk pooling mechanisms;

(b) Examining options for expanding disaster clauses beyond hurricanes or more broadly introducing climate resilient debt clauses in sovereign lending operations;

(c) Developing a contingent asset clause asset liability framework;

(d) Scaling up the use of tools such as political risk insurance; and

(e) Providing pre-arranged and trigger-based financing to ensure automatic protection in the case of climate-related loss and damage.

10. Additionally, some representatives participating in the meeting offered suggestions for how to best operationalize the funding arrangements and fund. These included:

(a) Avoiding fragmentation of the aid architecture or duplication of existing funds or initiatives and channelling funding through existing infrastructure;

(b) Aiming for a simple and quick set up of the new fund and considering a phased approach to operationalization, with expansion over time;

(c) Featuring inclusive and effective governance, including both contributors and recipients of support;

(d) Allowing priority needs in the most vulnerable countries to be targeted for funding first;

(e) Deploying an effective fundraising campaign so that funding available is credible in size and not merely symbolic. The resource mobilization strategy should clearly identify responsibilities and associated timelines;

(f) Ensuring that funding provided does not increase the debt burden of countries;

(g) Considering a uniform and transparent fund allocation approach similar to those typically used by MDBs and funds, potentially using a combination of needs-based criteria (e.g. vulnerability to climate change and economic status) and performance-based criteria (e.g. performance in utilizing allocated proceeds);

(h) Enabling more private capital mobilization by, e.g., providing more concessional finance for risk sharing and making available adequate de-risking provisions such as de-risking guarantees and first-loss cover of private capital;

(i) Providing definitional clarity on what risks are covered and on vulnerability;

(j) Ensuring complementarity and coherence with existing institutions, initiatives, and instruments providing support relevant to addressing loss and damage to address gaps and amplify support;

(k) Considering existing fund models wherein the fund plays multiple roles, including as convenor of partners from different segments of society, provider of highly competitive concessional financing, and provider of incentives for creating sustainable markets and mobilizing private sector capital;

(l) Mainstreaming contingency planning; and

(m) Prioritizing availability, accessibility, and affordability of resources, including through insurance.

## E. The 2023 Spring Meetings of the World Bank Group and the International Monetary Fund

11. The 2023 Spring Meetings of the World Bank Group and the International Monetary Fund took place from 10 to 16 April 2023 in Washington, DC, United States of America. The consideration of the potential for these institutions to contribute to funding arrangements responding to loss and damage did not explicitly appear on the programme of the 2023 Spring Meetings. An informal dialogue between members of the Transitional Committee and representatives of multilateral development banks was nonetheless held on the margins of the Spring Meetings on 11 April.

## F. Ministerial Consultations on Funding Arrangements for Responding to Loss and Damage

12. In response to the request by COP 27 and CMA 4, the COP 27 President and COP 28 President-Designate convened ministerial consultations on 22 September 2023, on the margins of the high-level meetings of the 78th session of the United Nations General Assembly in New York, United States of America.[7]

13. Over 50 ministers and other Party representatives intervened during the consultations, in addition to high-level representatives of two intergovernmental organizations (UNEP and UNDP) and two representatives of non-governmental organization constituencies under the UNFCCC (a representative of environmental NGOs and a representative of the children and youth constituency).

14. The discussions at the ministerial consultations were divided into two segments. Of these, the first focused on *Delivering on the Sharm El-Sheikh Loss & Damage mandate*. Contributors to this segment were asked to focus their interventions on the following:

(a) Objectives: How can we define success in addressing loss and damage at COP 28?

(b) Gaps: What are the priority gaps and needs that the new fund for loss and damage should address?

[7] Further information on the ministerial consultations, including the concept note and the link to the on-demand recording, is available at https://unfccc.int/event/LandDministerial.

(c) Addressing needs: How can the fund and funding arrangements effectively meet the needs of vulnerable communities in developing countries, while maintaining the Convention and Paris Agreement principles?

15. Interventions during this segment touched on a wide variety of elements, with ministers and other participants:

(a) Emphasizing the need to operationalize the new funding arrangements and fund at COP 28 as envisioned in the decisions from COP 27 and CMA 4, while ensuring that these address identified gaps in the existing support architecture;

(b) Ensuring that the new fund is needs-based and sensitive to national contexts, and that the scope of the fund includes support for addressing slow onset events and extreme weather events, and economic and non-economic loss and damage. In relation to addressing extreme weather events, the importance of rapid disbursements was also noted;

(c) Discussing vulnerability to climate change and whether or not this should be a basis for targeting support through the fund, with some representatives speaking in favour of such an approach and others instead speaking in favour of ensuring access to all developing countries;

(d) Debating the value of designating the fund as an operating entity of the financial mechanism of the UNFCCC, and the appropriateness of striving for consistency with the principles and provisions of the Convention and the Paris Agreement;

(e) Noting the other principles which may guide overall operationalization of the funding arrangements and fund, from gender-responsiveness and human rights to solidarity and climate justice;

(f) Highlighting their preferences for the institutional location of the fund between a new, standalone institution and a financial intermediary fund housed in the World Bank;

(g) Emphasizing the importance of both learning from existing funds and funding arrangements and building something that is unique and fit-for-purpose in relation to comprehensively addressing loss and damage; and

(h) Identifying various components of a successful outcome on the fund at COP 28, ranging from prioritizing non-debt financing and ensuring that the fund is easily accessible, to ensuring representation and inclusivity of vulnerable groups and nations on the Board and designing a fund that is agile and adaptable over time.

16. The second segment was dedicated to the theme *of Ensuring Impact of the Loss & Damage Fund and Funding Arrangements*. Participants intervening on this topic were asked to address the following:

(a) Objectives: How can we define success in delivering on the loss and damage mandate at COP 28?

(b) Ensuring Complementarity and Coordination: What is the best format or platform to ensure seamless collaboration between the new fund and funding arrangements, both within and outside the UNFCCC?

(c) Fund operationalization, and resource mobilization: A meaningful outcome will depend on early activation of the new fund and funding arrangements. What broad sources may be considered to provide and mobilize new resources to address the needs?

17. Under this segment, ministers and other participants raised points such as:

(a) The importance of avoiding duplication and ensuring complementarity and coherence towards a coherent global response to address loss and damage. In this regard, the potential establishment of a high-level council or other entity to foster political dialogue and facilitate coordination and complementarity among the new fund and new and existing funding arrangements was put forward.

(b) The need to attract the widest possible range of sources of finance in order to secure resources at a scale commensurate with the challenge of addressing loss and damage.

In addition to public finance, this includes private, philanthropic, and innovative sources of funding.

(c) Reflecting more concretely on the scale of resources needed, a few participants put forward specific proposals, with an initial annual programming amount ranging from USD 100 billion to USD 200 billion.

(d) The full operationalization of the Santiago network at COP 28 is expected to also represent an important component of the outcome on loss and damage.