

OUTCOMES OF THE WORK OF THE TRANSITIONAL COMMITTEE:

**PROPOSAL FROM DEVELOPING COUNTRIES ON THE LAUNCH OF THE LOSS AND DAMAGE
FUND AND FUNDING ARRANGEMENTS¹**

¹ This submission is presented by the representatives of developing country Transitional Committee members representing Africa, Asia-Pacific, Latin America and Caribbean, Least Developed Countries, and Small Islands Developing States.

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**SECTION 1: COVER DECISION: THE LAUNCH OF THE LOSS AND DAMAGE FUND AND
FUNDING ARRANGEMENTS**

Having considered the report of the Transitional Committee, the COP/CMA:

1. *Welcomes* the report of the Transitional Committee and commends the work of the Transitional Committee in implementing its mandate provided for in decisions 2/CP.27 and 2/CMA.4;
2. *Approves* the Terms of Reference and Governing Instrument for the Loss and Damage Fund contained in Annex II;
3. *Approves* the new funding arrangements and recommendations as contained in Annex III;
4. *Decides* to designate the Loss and Damage Fund as an Operating Entity of the Financial Mechanism of the Convention, in accordance with Article 11 of the Convention, and that it shall also serve the Paris Agreement. The Fund shall function under the guidance of and be accountable to the COP/CMA, which shall decide on its policies, programme priorities, and eligibility criteria, and matters related thereto. The Fund shall receive guidance from the COP/CMA, and the Board will report annually on the actions taken to respond to such guidance. The COP/CMA and the Board of the Fund will enter into arrangements to be concluded at the twenty-ninth session of the Conference of the Parties to give effect to Article 11 of the Convention.
5. *Confirms* that the Loss and Damage Fund will be guided by the principles and provisions of the Convention and the Paris Agreement;
6. *Invites* developed country Parties to make pledges to the Loss and Damage Fund as a matter of priority;
7. *Invites* Parties, developed and developing country regional groupings and constituencies, via the appropriate regional group chairs, to urgently nominate Board members as follows:
 - a. X members from developed countries;
 - b. X members and alternate members from the Asia-Pacific States;
 - c. X members and alternate members from the African States;
 - d. X members and alternate members from the Latin American and the Caribbean States;
 - e. X members and alternate members from small island developing States;
 - f. X members and alternate members from least developed country Parties;

- g. X member from developing country Parties not included in the regional groups and constituencies above and one alternate member to rotate between developing country Parties included in the groups and constituencies listed above;
8. *Confirms* the international legal personality/legal capacity and privileges and immunities for the Fund;
9. *Requests* the Board to undertake an open, inclusive, and transparent process to select a host country, including issues regarding the legal and administrative arrangements for hosting the Fund;
10. *Decides* to establish an interim Loss and Damage Fund Secretariat to provide support to the Board, including administrative support, during the transitional period until the full operationalisation of the Fund's Secretariat;
11. *Also decides* that the interim Secretariat shall be fully accountable to the Board and shall function under its guidance and authority and that its Head shall report to the Board;
12. *Requests* the interim Secretariat to make arrangements for convening the first Board meeting by March 2024, subject to the agreed quorum for decision-making;
13. *Invites* the World Bank to act as the Trustee of the LD Fund on an interim basis until confirmed by the Board;
14. *Decides* that the interim arrangements should terminate no later than the thirtieth session of the Conference of the Parties; and
15. *Invites* Parties to make financial contributions for the start-up of the Loss and Damage Fund, including administrative costs of the Board and its interim Secretariat

ANNEX II: THE LOSS AND DAMAGE FUND

Purpose

1. Strong recognition within the international community of the urgent need for a new multilateral fund, designated as an Operating Entity of the financial mechanism of the Convention, dedicated to providing financial resources to address loss and damage associated with the adverse effects of climate change in developing countries.
2. The need for collective action to augment the relevant arrangements on loss and damage with a focus on responding to loss and damage (i.e., the mosaic) and to provide and assist in mobilizing new, additional, adequate, and predictable resources to build national systems and strengthen capacities for loss and damage, as well as relief, recovery, rehabilitation, reconstruction, and other actions focused on addressing loss and damage.
3. The Fund is the main channel for new multilateral finance to address loss and damage associated with the adverse effects of climate change. The Fund will endeavor to assist in the mobilisation of external financing to strengthen efforts to respond to loss and damage while supporting the achievement of international goals on sustainable development and efforts to eradicate poverty.
4. The Fund shall improve the overall coherence of new and existing financing measures to address loss and damage associated with the adverse effects of climate change across the international financial, climate, humanitarian, disaster risk reduction, and development architecture.
5. The Fund shall develop new coordination and cooperation mechanisms to ensure complementarity and facilitate linkages between various funding sources and related vertical funds to promote access to available funding, avoid duplication, and reduce fragmentation.
6. The Fund shall manage a large volume of financial resources and deliver through various financial instruments, programming approaches, and access modalities, including direct budget support, to provide adequate, sufficient, and predictable financial resources to developing countries for their loss and damage-related policy measures, activities, and actions.

Principles

7. The Fund shall operate under the principles of the Convention and its Paris Agreement.
8. The Fund will be responsive to country needs and circumstances and be driven by the needs of developing countries.
9. The Fund will seek to utilise, where appropriate, existing national and regional systems and financial mechanisms.

10. The Fund's financial resources should be predictable, new, additional, adequate, and significant.
11. The Fund will operate in a transparent and accountable manner through effective and efficient arrangements, seeking to minimize transaction costs.
12. The Fund will be primarily sourced through grant-based public financing in a predictable and additional manner.
13. In the aftermath of climate-related events, the Fund will act as an available safety net when impacts overburden national capacities. In the longer term, it will meet programmatically defined needs for addressing loss and damage from extreme weather and slow-onset events.
14. The Fund will need to be open, flexible, responsive, and innovative and increase the scale of its financial resources over time:
 - a. to facilitate and maximise finance from a range of sources, including the private sector as a secondary source;
 - b. to allow for the scaling up of finance to address loss and damage;
 - c. to adapt dynamically to changing drivers of demand and evolving needs;
 - d. to urgently and adequately respond to the needs and priorities of developing countries; and
 - e. be able to utilise a range of financing options.
15. The Fund will adopt a partnership model to be operationalized through identifying potential programming partners and/or recognized accredited entities, including at the regional, national, and local levels.
16. The Fund will promote, in all its operations, direct engagement with the national and, where appropriate, with local levels to facilitate efficiency and concrete results.
17. The Fund's administrative and financial procedures will be simple, clear, and effective. The Fund will aim to minimize bureaucratic obstacles to the access of resources and avoid excessive burdens on developing countries.
18. The Fund's eligibility and access requirements or conditions will not act as barriers to access in countries with limited data or capacity.
19. The Fund shall promote coherence and complementarity between the Fund and other national, regional, bilateral, and multilateral funding mechanisms and institutions, particularly those related to addressing loss and damage.
20. The Fund will ensure the application of environmental and social safeguards, internationally accepted fiduciary standards, and sound financial management.

Scope and Scale

21. The Fund's scope and programmatic areas shall be based on the mandate established by the Sharm El-Sheik decision (i.e., Decision 2/CP.27 and Decision 2/CMA.4) and comply with existing principles and provisions under the Convention and its Paris Agreement.²
22. The Fund shall provide urgent and immediate new, additional, predictable, adequate, and significant financial resources to assist developing countries that are particularly vulnerable to the adverse effects of climate change in responding to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, especially in the context of ongoing and ex-post (including rehabilitation, recovery, and reconstruction) action.
23. The Fund should be able to programme at least USD 100 billion a year by 2030³. It would have to potentially scale up because this amount is not meant as a ceiling but rather as a minimum commitment. The Fund should be prepared to adapt to new climate change realities with the rising trajectory of losses and damages.
24. The Board will initiate replenishment processes to phase in the volume of resources in accordance with the assessment of the loss and damage needs of the developing countries.

Complementarity and Coherence

25. The Fund is part of a broader global financial architecture on loss and damage, populated with many different actors, both public and private, that provide international financing for measures to address loss and damage, as well as those institutions that support, inter alia, humanitarian and disaster risk management. These existing institutions are already playing an important role. Some offer a range of financing mechanisms/modalities that support loss and damage while focusing on disaster risk management and humanitarian responses more broadly. While existing institutions, platforms, and efforts must be reinforced and better coordinated to provide the necessary support to strengthen the financing for addressing loss and damage, there is broad consensus about the existing gaps of scale, access, effectiveness, and coherence.
26. Building on the institutional knowledge of loss and damage from the UNFCCC and the Paris Agreement, the Fund should therefore play the central role in a systemic global response to loss and damage by supporting developing countries in their respective responses. The Fund shall organise and lead a central platform for exchanging information, good practices, and consultations between existing mechanisms. It shall act as a leader in charge of ensuring coherence, cohesion, complementarity, and synergies on responsiveness and relevance of activities with the decisions of the UNFCCC Parties, on good practices and consultations between the different existing mechanisms,

² A more detailed note on the scope of the Fund will be presented during TC-3.

³ According to the Independent High-Level Expert Group on Climate Finance, "estimates for future loss and damage are subject to great uncertainty, but recent events suggest they could be as high as \$150–300 billion by 2030 to cope with immediate impacts and for subsequent reconstruction."

including tracking and developing country needs and related projections based on the best available science.

27. The Board of the Fund shall provide recommendations to the COP/CMA on means to enhance the consistency of activities undertaken outside the Fund's programmatic activities framework of the financial mechanism with the policies, programme priorities, and eligibility criteria established by the COP/CMA.
28. The Fund shall play a central role in a high-level advisory council to ensure coordination and complimentary amongst itself and other funding arrangements focussed on responding to loss and damage (*For further details, Annex III on Funding Arrangements*).

Programming and Support

29. The Fund shall allocate resources in response to climate-related emergency declarations and needs assessments through national, sub-national, or regional programmes for developing countries. The Fund's resource allocation system shall also pay attention to, among other things, loss and damage associated with slow onset events, responding to non-economic loss and damage, support for anticipatory action, pre-arranged finance approaches, and other matters as the Board may decide. In addition, to direct budget support, there will be arrangements to provide direct access, including through national, sub-national, and regional entities, or in partnership with entities accredited to other financing vehicles, or otherwise through implementing partners appointed by the Board.
30. The Fund shall have a streamlined and rapid approval process to enable effective disbursement, with simplified criteria and procedures for all activities under its scope.
31. The Fund shall be based on holistic programming, in addition to specific projects or activities, encompassing a wide range of activities that help restore the sustainability of the affected communities. Nevertheless, the Fund will allow for special projects, where appropriate.
32. The Board will formulate detailed operational guidelines for plans, programmes, projects and needs assessments and declarations of emergency that are eligible for funding in each of the thematic areas covered by the Fund, taking into account the recommendations of relevant thematic bodies under the Convention as well as the policies, programme priorities and eligibility criteria decided by the COP/CMA.

Eligibility

33. In accordance with the Convention, including Article 4.3, all developing countries that have suffered climate-related loss and damage, without discrimination or any form of exclusion, are eligible to receive financial resources from the Fund.
34. The Board will also consider the specific priorities and needs of developing countries in accordance with the provisions of Article 4 of the Convention and Article 9.4 of the Paris Agreement.

35. The Board shall strive to ensure a fair balance between the abovementioned considerations through Fund guidelines and other modalities while ensuring a geographical and thematic balance.
36. The Board will implement measures to ensure that no unrealistic data burdens are placed on developing countries that hinder eligibility and access.

Country Ownership and Access Mechanisms

37. The Fund shall respond to country-driven needs and circumstances of developing countries, with developing countries involved during the identification, definition, and implementation stages at all stages of the programme/project cycle.
38. To facilitate ownership by developing countries, finance shall be provided based on national-level processes that determine the national programmes and strategies to address loss and damage, including from slow onset events and for long-term recovery, rehabilitation, and reconstruction after extreme weather events. Direct budget support shall be provided to designated national authorities who may make such requests or coordinate with international or regional implementation partners. The Fund will support countries undertaking national processes and support systems as appropriate.
39. The Fund will develop procedures and criteria for simplified and fast-tracked recognition and endorsement of national and/or regional funding entities to manage funded projects in-country if chosen as the route by the countries.
40. Developing country Parties may designate a national authority or Ministry responsible for the overall management and implementation of projects and programmes financed by the Fund.
41. The country-driven approach would have the functions of planning activities, estimating financial requirements for implementing loss and damage activities, preparing proposals, and establishing the receiving, allocating, and managing loss and damage finance system.

Access

42. The Board will develop various modalities for accessing the Fund's resources. These may include:
 - a. Direct budget support through national entities, or in partnership with entities that have been accredited to other funds, or otherwise through implementing partners;
 - b. Enhanced access for communities and other groups; and
 - c. Developing country Parties may engage the services of multilateral or regional implementing entities accredited to other funds.

43. Regional groupings of developing country Parties may also nominate regional and sub-regional entities as implementing agencies.

Financial Instruments

44. The Fund shall primarily provide grants (full costs and incremental costs) and non-debt finance to developing countries to address loss and damage.
45. The Fund should also be able to facilitate a blending of different financial tools to optimize the use of scarce public funding, especially for ensuring effective results in vulnerable populations and ecosystems on which they depend, and play a catalytic role, especially for the private sector, in particular local actors, including micro-, small- and medium-sized enterprises and local financial institutions.
46. The Board will ensure that the levels of indebtedness capacity of the recipient are taken into account in the allocation of instruments in order to combat further indebtedness.
47. The Board of the Fund will develop and deploy a range of additional financial instruments that limit the financial burden on countries suffering climate loss and damage (highly concessional loans, guarantees, direct budget support and policy-based finance, equity, insurance mechanisms, risk sharing mechanisms, performance-based programmes, and other financial products where appropriate), in particular, to augment and complement national resources provided for addressing loss and damage.

Financial Inputs

48. The Fund will accept financial inputs from various sources, and the Trustee will ensure that the Trust Fund can receive all such financial inputs.
49. The Fund shall receive financial inputs from developed countries (UNFCCC Article 4, & Paris Agreement Article 9.1).
50. The Fund may also receive voluntary financial contributions from other Parties of the Convention and its Paris Agreement (Paris Agreement Article 9.2).
51. The Fund may also receive complementary financial inputs from other sources, including private and public.
52. Contributors may only pledge and/or make payments directly to the LDF General Trust Fund.
53. The Fund will maintain the flexibility to receive financial inputs on an ongoing basis and receive grants from public and private sources and paid-in capital contributions and concessional loans from public sources and may receive additional types of financial inputs at a later stage to be decided by the Board.

54. The Board will ensure that the Trustee can receive additional financial inputs from philanthropic foundations and other non-public and alternative sources, including new and innovative sources of finance that meet the principles and purposes of the Convention and the Agreement.

Safeguards

55. The Board will draw on best international practices to ensure a streamlined and efficient operating structure and processes, as well as transparency and accountability, with a clear results framework.

56. The operating modalities will be set out in the Fund's Operations Manual to be adopted by the Board. This document would set out, among other things, the Fund's operating principles, including resource allocation systems, relevant criteria and processes, and a common approach for implementing entities to submit funding requests, reporting, disclosure, and conflict of interest.

Governance and Institutional Arrangements

57. The Fund shall be designated as an Operating Entity of the Financial Mechanism of the Convention and also serve the Paris Agreement. The Fund shall function under the guidance of and be accountable to the COP/CMA, which shall decide on its policies, programme priorities, and eligibility criteria. The Fund shall receive guidance from the COP/CMA, and the Board will report annually on the actions taken to respond to such guidance. The COP/CMA and the Board of the Fund will enter into arrangements to be concluded at the twenty-ninth session of the Conference of the Parties to give effect to Article 11 of the Convention.

58. The Board of the Fund will have an equitable and geographically balanced representation of all Parties with a transparent, inclusive, and efficient system of governance (Article 11.2 of the Convention). The Board will comprise an equitable number of members from developing and developed country Parties; representation from developing country Parties shall include representatives of relevant United Nations regional groupings and representatives of small island developing States and the least developed countries. The Board shall comprise [XXXX] members.

59. Each Board member shall have an alternate member; and alternate members shall be entitled to participate in the meetings of the Board only through the principal member, without the right to vote; unless they are serving as the member; during the absence of the member from all or part of a meeting of the Board, their alternate shall serve as the member.

60. The Fund may further consider means to enhance engagement with observer organisations.

61. Members, including alternate members of the Board with the appropriate technical, loss and damage, and/or policy expertise, shall be nominated by the relevant UNFCCC regional groups.
62. Members and alternate members shall serve for a term of four years and shall be eligible to serve a maximum of two consecutive terms.
63. The Board will elect two Co-Chairs from developed/developing countries who will serve a term of one year. They shall continue their functions until the term of their successors has commenced or, if later, once they have been elected. If a Board member is elected as Co-Chair, that member may request their alternate member to express the respective constituency's or regional group's viewpoint in the Board deliberations. However, the Board member retains the right to vote.
64. At least two-thirds of the members of the Board representing a two-thirds majority of members from developed country Parties and a two-thirds majority of members from developing country Parties must be present to constitute a quorum.
65. The Board will develop and agree additional Rules of Procedures.
66. Decisions of the Board shall be taken by consensus. If all efforts at reaching a consensus have been exhausted, and no agreement is reached, decisions shall be taken by a two-thirds majority of the Parties present and voting, representing a majority of each group (developed and developing countries).
67. The Board may establish expert and technical panels, including for relevant thematic bodies established under the Convention, to support its work and to provide inputs for the Fund's activities. The Board will develop an institutional linkage with the Warsaw International Mechanism on Loss and Damage and its Santiago Network on Loss and Damage concerning how to support the Fund in addressing loss and damage.
68. The Fund, as a body under international law, shall possess international legal personality. The Fund shall enjoy such legal capacity as is necessary for the exercise of its functions, the fulfillment of its objective, and the protection of its interests, in particular, the capacity to enter into contracts, to acquire and dispose of movable and immovable property, and to institute legal proceedings in defence of its interests. The Fund shall enjoy such privileges and immunities, including in the host country's territory, as are necessary for the independent fulfillment of its purposes. The officials of the Fund Secretariat shall similarly enjoy such privileges and immunities as are necessary for the independent exercise of their official duties.
69. The Board will establish the position of Executive Director of the Fund. The Executive Director shall head the staff and, under the control and direction of the Board, shall be responsible for conducting the business of the Fund. Subject to the general rule of the Board, certain delegated authorities may be granted to the Executive Director by the Board to make urgent decisions on specific issues. In exercising said authority, the

Executive Director shall promptly report and be accountable to the Board for said decisions.

70. An independent Secretariat shall be established to support the operation of the Fund. The office of the Head of the Secretariat shall be filled by a senior person with an understanding of the needs and challenges of developing countries and extensive experience related to loss and damage, development challenges, environment issues, finance, and international affairs. The Secretariat shall be staffed with professionals with experience in management, administration, finance, development, climate change, and other relevant fields, taking into account equitable geographical distribution and gender balance. The Secretariat operating under its Head shall assist the Board in discharging its functions.
71. The Board may establish consultative forums to engage, communicate and consult with stakeholders. The panels will be open to representatives of civil society organizations, environment and development NGOs, trade unions, indigenous peoples', farmers' organizations and community-based organizations, bilateral and multilateral development cooperation agencies, technical and research agencies, the private sector and its organizations, as well as to governments. Such representation should ensure balance among geographic regions and developed and developing countries.

ANNEX III: FUNDING ARRANGEMENTS

Purpose and Goals

1. The purpose of the new funding arrangements is to mobilize significant additional, grant-based and non-debt financing for addressing loss and damage by increasing country investments in loss and damage; promoting a more coordinated approach to loss and damage investments; and convening key stakeholders and serving as a platform for discussion and advocacy around strengthening loss and damage responses that complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.
2. The activities and support provided under the new funding arrangements should remain consistent with the principles and purposes of the Convention and its Paris Agreement.
3. The funding arrangements aim to advance the goal of coherent and well-coordinated loss and damage finance as part of the overall climate finance architecture in light of the principles and provisions of the Convention and the Paris Agreement. The various channels to finance measures to address loss and damage should have clear roles, avoid duplication of efforts, share best practices, and promote synergies.
4. Under the leadership of the LDF Board and Executive Director of the Fund, and under the guidance of the COP/CMA, entities that constitute the funding arrangement shall explore ways to promote better coordination among bilateral and multilateral channels to get these institutions working better together and interacting more frequently. Coordination should also occur at the operational, national, and programmatic levels.
5. The TC may wish to recommend that the COP/CMA establish a high-level advisory council on the new funding arrangements. The Council shall be mandated to ensure greater coordination and coherence amongst designated funding arrangements to better respond at scale to the growing impacts of loss and damage of today and the future. This should be done through, among other things, supporting the Fund and working with the different funding arrangements to achieve complementary and coherence.