

Submission by the Asia-Pacific Constituency Member

I. Principles of the Fund

Accountability and Transparency: The Loss and Damage Fund's operations must align with the mandates of COP and CMA. Efficiency and transparency should guide its functioning, adhering to the guidance of the Conference of the Parties.

Principled Establishment: The Fund's creation and its arrangements should adhere to the principles outlined in the Convention and the Paris Agreement. These include principles of equity, common but differentiated responsibilities, and respective capabilities.

Inclusive Eligibility: The Fund should be accessible to all developing nations. The eligibility criteria should be rooted in the principles of the Convention and the Paris Agreement. By focusing on the fund's objectives, we can cater to the needs of countries already grappling with vulnerability to climate change impacts. Notably, Article 4(COMMITMENT) 4.8 and 4.9 of the Convention deem all developing nations vulnerable. Consequently, all such nations should be eligible to draw resources from the Fund.

Innovation for Financing: We should explore innovative sources and instruments for financing that align with the UNFCCC mandate.

II. Funding Arrangements

Criteria on funding arrangements: The criteria on funding arrangements for the Loss and Damage Fund bear paramount importance, particularly concerning their effects on developing countries. These criteria are pivotal in ensuring fair and just assistance to nations disproportionately burdened by climate change. The principle of Common but Differentiated Responsibilities (CBDR) forms the bedrock of our climate initiatives, recognizing the varying capacities and historical responsibilities of nations. Thus, these funding criteria must embody this principle, distributing the responsibility of addressing loss and damage equitably.

Distinguishing Debt and Climate Finance: It's crucial to understand that debt (swap, relief, etc) and climate finance are intricate issues, each with its nature, principles, frameworks, and approaches. Addressing debt, be it multilateral, bilateral, or commercial, necessitates adhering to the principle of "joint action and fair burden-sharing." In the realm of climate finance, the Convention and its Paris Agreement dictates that developed nations hold the historical responsibility to provide public finance, mobilizing resources to developing countries to tackle climate change.

Appropriate Framework: Debt is a nuanced domain, demanding specialized attention. Within the Convention's framework, parties require the mandate, expertise, and capacity to manage debt-related matters. When contemplating debt negotiations as part of the loss and damage fund's

establishment, we must ensure consistency with the mandate to prevent potential disputes that could impede the Fund's timely inception and operation.

Challenges of Debt-Climate Swaps: Debt-climate swaps, or debt-nature swaps, don't inherently generate fresh cash flows. These transactions hinge on parties' specific needs and multifaceted considerations, unlike regular debt processing or climate finance. Developing a standardized model is intricate, making it an unreliable source of significant climate finance.

Credit Rating Concerns: Countries enjoying debt treatment or relief face challenges in sourcing financing from the market due to credit rating problems. Seeking new sources, often laden with political conditions, such as increased interest costs.

Streamlined Resource Utilization (sub-fund): We reiterate our stance on resource utilization. We are proponents of a streamlined approach. The proposed sub-fund model has the potential to introduce unnecessary complexity and administrative overhead. This could divert both resources and focus away from our primary objective of supporting developing countries in addressing loss and damage associated with climate change. Instead of creating multiple sub-funds, we propose that resources be channeled directly into the main fund. This approach ensures efficient and flexible utilization that can respond dynamically to the evolving needs and priorities of developing countries.

III. Concerns about other Submission

UNFCCC and G20: We must express our concerns regarding the US's submission, specifically its implications concerning the Common Framework issues (P26) as reflected in the Co-Chair's note on Funding Arrangements (Annex 1: Recommendations to Funding Arrangements - Recovery and Reconstruction). We argue that the TC's mandate does not include recommending that the UNFCCC instruct the G20 to enforce such requirements. Moreover, the G20 may independently explore its mandate concerning the debt issue related to Loss and Damage.

Furthermore, this approach prematurely assumes several things: 1) What actions the G20 will take and the method it will employ, as it remains uncertain whether the G20 will utilize the Common Framework or create a new one for this purpose; 2) How the G20 will address this matter without any prior discussions or consensus among G20 members; 3) The G20 is not officially recognized as a classification of countries within the UNFCCC process. We are cautious about introducing classifications that do not align with the annexes outlined in the Convention.

Therefore, we recommend employing a more general expression for this purpose, such as "Increasing countries' fiscal space through appropriate channels, such as the G20 financial channel for eligible parties or other debt treatment processes." This approach maintains flexibility and adheres to the principles of the Convention.

LDF and MDBs: We have concerns regarding the recommendation presented as follows: "c) Development by Multilateral Development Banks of a method to integrate vulnerability into

allocation decisions to allow for some allocation decisions to be based on vulnerability, not just income." This recommendation was mentioned in the Co-Chair's note on funding arrangements, as stated above. We contend that Multilateral Development Banks (MDBs) have their own distinct visions and missions, while the Loss and Damage (L&D) Fund has its own unique purpose. The allocation mechanisms and structures of MDBs, in general, are unrelated to the L&D Fund. While we can encourage MDBs to place more emphasis on the area of Loss and Damage, it does not seem reasonable for UNFCCC to instruct MDBs to integrate vulnerability into their allocation decisions.

Clarity in Terminology: It is imperative that we maintain clarity in terminology. The phrase "in position to do so" proposed by US lacks established consensus within the UNFCCC and the Paris Agreement. Our agreements rely on precise language to ensure consistent implementation and accountability. The introduction of ambiguous language may lead to misunderstandings and hinder effective collaboration.

IV. Sources of Funding for the Fund

We reaffirm the joint developing country proposal that developed countries have an obligation, in line with principles and provisions of the Convention and Paris Agreement, to provide financial inputs into the Fund.

The Fund may also receive financial inputs from all other possible sources. We oppose the identification of such sources at this stage due to the following reasons:

1. There have been suggestions of listing sources that do not yet exist, such as international taxes and levies that have not been agreed, which we are not in favor of doing.
2. The identification of sources is a matter for the board to decide in a policy for contributions policy paper, rather than a decision that should be made through the transitional committee. We propose delegating this matter to the board, which is the appropriate level to discuss this issue.
3. With a wide range established, namely all other possible sources, relevant sources will be dynamic and the transitional committee is not in a position to make an indication of which sources to list and which sources to exclude.
4. The issue of sources and instruments have been conflated in these discussions, demonstrating further, that such discussions are better placed in a board informed by a technical secretariat to make relevant decisions on both topics.