



Standing Committee on Finance

23 May 2024

**Thirty-fourth meeting of the Standing Committee on Finance
29–31 May 2024
Bonn, Germany**

Background paper on draft arrangements between the Conference of the Parties to the UNFCCC, Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and the Board of the Fund for responding to loss and damage

Expected actions by the Standing Committee on Finance

The Standing Committee on Finance will be invited to consider the initial draft of the arrangements between the COP, CMA and the Board of the Fund for responding to loss and damage.

I. Possible actions for consideration by the Standing Committee on Finance

1. The Standing Committee on Finance (SCF) may wish to consider the initial draft of the arrangements between the Conference of the Parties to the UNFCCC, Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and the Board of the Fund for responding to loss and damage, as contained in the annex.
2. The SCF may wish to provide guidance to the co-facilitators on the intersessional work to be undertaken prior to transmitting the draft arrangements to the second meeting of the Board of the Fund for initial consideration and feedback.

II. Background

3. At the twenty-seventh session of the Conference of the Parties (COP) and fourth session of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), Parties decided to establish new funding arrangements for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage, including with a focus on addressing loss and damage by providing and assisting in mobilizing new and additional resources, and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.¹
4. Further, Parties decided, in the context of establishing the new funding arrangements, to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage.²

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

² Decisions 2/CP.27, paragraph 3 and 2/CMA. 4, paragraph 3.

5. At COP 28 and CMA 5, Parties approved the Governing Instrument of the Fund.³ At the same sessions, Parties decided to designate the Fund as an entity entrusted with the operation of the Financial Mechanism of the Convention, also serving the Paris Agreement, which will be accountable to and function under the guidance of the COP and the CMA.⁴

6. Parties also decided that arrangements with the Fund, consistent with the Governing Instrument of the Fund and to ensure that the Fund is accountable to and functions under the guidance of the COP and CMA, are to be approved by COP 29 and CMA 6 and requested the SCF to develop the arrangements to be concluded between the COP, CMA, and the Board of the Fund, consistent with the Governing Instrument of the Fund, for consideration and approval by the Board and subsequent consideration and approval by COP 29 and CMA 6.⁵

III. Approach taken to develop the draft arrangements

7. At SCF 33, the SCF agreed on the workplan for preparing the arrangements, including the timeline for developing the arrangements to be submitted to the Board for its consideration and approval before its third meeting in 2024, and to inform the Board regarding the initiation of the work by the Committee.⁶

8. On 30 April 2024, the co-chairs of the SCF sent a letter to the co-chairs of the Board informing on the workplan, timelines and co-facilitators leading the work. The letter was circulated to the members of the Board.

9. Since SCF 33, co-facilitators, with the support of the secretariat, have undertaken the work on the development of an initial draft of the arrangements, taking into account deliberations at SCF 33 and the mandate provided at COP 28 and CMA 5. In developing the arrangements, the co-facilitators have taken the following approach;

(a) Using the provisions in the arrangements between the COP and the Green Climate Fund (GCF) as a baseline and following the general structure and provisions therein, where it was appropriate to do so;

(b) Reflected appropriate provisions of the Governing Instrument of the Fund⁷ as they relate to arrangements between the COP, CMA and the Board;

(c) Reflected appropriate provisions of the Funding Arrangements⁸ containing cross references to the reporting of the Board to the COP and the CMA;

(d) Reflected appropriate mandates under Article 11 of the Convention and Article 9, paragraph 8 of the Paris Agreement;

10. Additionally, co-facilitators wish to draw the attention of the SCF and seek further guidance, on the following areas;

(a) Modalities for reconsideration of funding decisions are required under Article 11, paragraph 3(b) of the Convention. While the GCF was mandated to establish an independent redressal mechanism for funding decisions in its Governing

³ Decisions 1/CP.28, paragraph 2 and 5/CMA. 5, paragraph 2, and annex I of 1/CP.28 and 5/CMA.5.

⁴ Decisions 1/CP.28, paragraph 5 and 5/CMA. 5, paragraph 5.

⁵ Decisions 1/CP.28, paragraphs 6-7 and 5/CMA.5, paragraphs 6-7.

⁶ SCF/2024/33/11, paragraphs 59–62.

⁷ Decisions 1/CP.28 and 5/CMA.5, annex I.

⁸ Decisions 1/CP.28 and 5/CMA.5, annex II.

Instrument⁹, there is no similar provision in the Governing Instrument of the new Fund, therefore the provisions from the arrangements between the COP and the GCF could not be applied, as is. Instead, the Convention requirement has been anchored in the relevant section in paragraph 11.

(b) As the nature of the new Fund is different from existing climate funds, reflecting provisions on determination and periodic review of funding necessary and available, as mandated under Article 11, paragraph 3(d) of the Convention, prove to be challenging. Co-facilitators have inserted a temporary placeholder in the relevant section and seek guidance from the SCF on reflecting the Convention mandate;

(c) Elements on the review and evaluation of the financial mechanism as contained in the arrangements between the COP and the GCF have been removed noting that the SCF may not be in a position to decide on the review of the financial mechanism as it relates to the COP and the CMA. Instead, elements of reporting of the periodic independent evaluations of the performance of the Board, as per paragraphs 64 and 65 of the Governing Instrument, has been introduced in the section on reports from the Board to the COP and the CMA.

(d) Noting the different and unique nature of the Fund from existing climate funds, different elements may need to be considered that are specific to the arrangements between the COP, CMA and the Board. Moreover, taking into account the joint roles of the COP and the CMA with respect to the Fund, and relevant provisions of the Governing Instrument, Funding Arrangements, Convention and the Paris Agreement, there may be new dynamics and relationships to consider in developing the arrangements between the COP, CMA and the Board.

11. For ease of reference, temporary footnotes have been introduced in the annex to guide the reader to the relevant provisions of the Governing Instrument, the Funding Arrangements and the Convention, where these are not explicitly mentioned in the body of the draft arrangements itself.

⁹ Decision 3/CP.17, annex.

Initial draft of the arrangements between the Conference of the Parties to the UNFCCC, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and the Board of the Fund for responding to loss and damage

General suggestion:

Preamble

Recalling Article 11 of the Convention and Article 9.8 of the Paris Agreement.

Further recalling decisions 2/CP.27 and 2/CMA.4, paragraphs 2–3, decisions 1/CP.28 and 5/CMA.5, as well as the governing instrument contained in annex I of decisions 1/CP.28 and 5/CMA.5 (the ‘Governing Instrument’) for the Fund referred to in Paragraph 3 of decisions 2/CP.27 and 2 CMA.4 (the “Fund”).

Recognizing that the Fund is designated as an entity entrusted with the operation of the Financial Mechanism of the Convention, which also serves the Paris Agreement, and will be accountable to and function under the guidance of the COP and the CMA, as per decisions 1/CP.28 and 5/CMA.5, paragraph 5.

Further recognizing, pursuant to paragraph 6 of decisions 1/CP.28 and 5/CMA.5, the arrangements between the COP, CMA and the Board of the Fund, are to be consistent with decisions 1/CP.28 and 5/CMA.5 and the Governing Instrument.

The Conference of the Parties (“the COP”) to the United Nations Framework Convention on Climate Change (“the Convention”), the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (“the CMA”) and the Board of the Fund hereby reach the following arrangements:

Purpose of these arrangements

1. The purpose of these arrangements is to set out the working relationship between the COP, the CMA and the Board of the Fund to ensure that the Fund is accountable to and functions under the guidance of the COP and the CMA, consistent with the Governing Instrument, and receives guidance from the COP and the CMA on its policies, programme priorities and eligibility criteria.

Determination and communication of guidance from the COP and the CMA

2. The Board will receive guidance from the COP and the CMA, including on matters related to its policies, programme priorities and eligibility criteria.¹

3. The Board will submit annual reports to the COP and the CMA for their consideration.²

¹ Governing Instrument, paragraph 13(a).

² Governing Instrument, paragraph 13(c).

4. The COP and the CMA will, after each of their sessions, communicate guidance to the Board, unless otherwise decided by the COP and the CMA.
5. The COP and the CMA will provide guidance based, inter alia, upon a thorough consideration of the annual reports of the Fund.
6. The Board may review the periodicity of the guidance from the COP and the CMA and make a recommendation thereon for consideration by the COP and the CMA.³

Conformity with guidance of the COP and the CMA

7. The Board will take appropriate action in response to the guidance received from the COP and the CMA and will report on such action taken.

Reconsideration of funding decisions

8. These arrangements reaffirm that the Board has responsibility for setting the strategic direction of the Fund and for the Fund's governance and operational modalities, policies, frameworks and work programme, including relevant funding decisions.⁴
9. The COP and the CMA may provide additional guidance to clarify policies, programme priorities and eligibility criteria as they impact funding decisions.
10. In accordance with paragraph 71 of the Governing Instrument, activities financed by the Fund will use the implementing entity's independent grievance redress mechanism to address complaints related to activities financed by the Fund, which will take appropriate action based on any agreements, findings and/or recommendations and report to the Board on any such action.
11. Further modalities by which a particular funding decision may be reconsidered as per Article 11, paragraph 3(b) of the Convention, will be developed by the Fund, as appropriate.⁵

Financial Instruments

12. In its provision of finance, the Fund will take into account guidance from the COP and the CMA, pursuant to paragraphs 57-59 of the Governing Instrument.⁶

Reports from the Board to the COP and the CMA

13. The Board's annual reports to the COP and the CMA are to include information on the implementation of policies, programme priorities and eligibility criteria, including information on the action taken by the Board in response to guidance provided by the COP and the CMA.

³ Governing Instrument, paragraph 14.

⁴ Governing Instrument, paragraph 15.

⁵ With reference to Article 11, paragraph 3(b) of Convention.

⁶ Governing Instrument, section VIII.

14. The Board will include in its annual reports a synthesis of the different activities under implementation and a list of the activities approved, as well as a financial report.
15. The Board will also include in its annual reports information on all activities financed by the Fund.
16. The Board will indicate in its annual reports actions it has undertaken to develop, operate and review a resource allocation system in accordance with paragraphs 60-61 of the Governing Instrument.
17. The reports of the Board should include any reports of the independent evaluations of the performance of the Board, as per paragraphs 64 and 65 of the Governing Instrument.
18. The Board will also include information in its annual reports on how it has drawn on appropriate expert and technical advice, including from the relevant bodies established under the Convention and Paris Agreement, as appropriate.
19. The Board will report on the high-level dialogue referred to in paragraph 11, Annex II to decisions 1/CP.28 and 1/CMA.5, through its annual reports to the COP and the CMA as described in paragraph 12 of Annex II to decisions 1/CP.28 and 1/CMA.5.
20. The Board of the Fund will provide information in its annual reports on action taken to enhance coordination and complementarity pursuant to paragraphs 51-53 of the Governing Instrument, including any recommendations as described in paragraph 22(s) of the Governing Instrument.
21. The COP and the CMA may request additional information from the Board via its guidance.

Amendments to the Governing Instrument

22. The Board may recommend amendments to this Governing Instrument for consideration by the COP and the CMA.⁷

Termination of the Fund

23. The Board may recommend the termination of the Fund for consideration by the COP and the CMA.⁸

Determination and periodic review of funding necessary and available

Placeholder for SCF to provide guidance on reflecting Article 11, paragraph 3(d) of the Convention.

Cooperation between secretariats and representation in sessions of the COP and the CMA

24. The secretariat of the Fund and the secretariat of the Convention and the Paris Agreement may, as necessary and subject to the direction of the Board of the Fund and

⁷ Governing Instrument, section XV.

⁸ Governing Instrument, section XVI.

the COP and the CMA, respectively, cooperate and exchange views on matters relevant to the operation of the financial mechanism of the Convention and the Paris Agreement, including implementation of these arrangements between the COP, the CMA and the Board, coordination with other international financing channels and funding arrangements, and participation of representatives at relevant sessions of the COP and the CMA.

25. The participation of representatives of the secretariat of the Convention and Paris Agreement in the meetings of the Board, and of the secretariat of the Fund in the sessions of the COP and the CMA, is to be governed by the rules of procedure of the Fund and the draft rules of procedure of the COP, respectively.

Final clauses

26. These arrangements can only be modified by mutual written consent between the COP, the CMA and the Board.

27. These arrangements are effective upon approval by the Board and subsequent approval by the COP and the CMA.

28. These arrangements may only be terminated by mutual written consent between the COP, the CMA and the Board.
