

# Fund for responding to loss and damage

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FLD/B.1/5/Add.1

27 April 2024

## **First meeting of the Board**

30 April to 2 May 2024

Abu Dhabi, United Arab Emirates

Provisional agenda item 7

## **Addendum to the background paper on matters relating to the operationalization of the Fund as a World Bank-hosted financial intermediary fund**

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This document is an addendum to document FLD/B.1/5, *Background paper on matters relating to the operationalization of the Fund as a World Bank-hosted financial intermediary fund*, comprised of an annex containing the proposal as received from the World Bank on the 27<sup>th</sup> of April 2024 for the establishment of a financial intermediary fund to address loss and damage.

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**Annex**

**World Bank proposal for the establishment of a financial intermediary fund to address loss and damage**

**WORLD BANK PROPOSAL FOR THE ESTABLISHMENT OF A FINANCIAL  
INTERMEDIARY FUND TO ADDRESS LOSS AND DAMAGE**

April 20, 2024

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**ABBREVIATIONS AND ACRONYMS**

CIF	Climate Investment Funds
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
DA	Direct Access
FLD	Fund for Loss and Damage
FIF	Financial Intermediary Fund
GI	Governing Instrument
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IE	Implementing Entity
IMF	International Monetary Fund
L&D	Loss and Damage
MDB	Multilateral Development Bank
TC	Transitional Committee
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WBG	World Bank Group

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## PROPOSAL FOR ESTABLISHMENT OF A FINANCIAL INTERMEDIARY FUND TO ADDRESS LOSS AND DAMAGE

### I. Introduction

1. In the COP and CMA Decision (the “Decision”) to operationalize a fund to address loss and damage (FLD), the World Bank was invited to operationalize the FLD<sup>1</sup> as a World Bank hosted Financial Intermediary Fund (FIF) for an interim period of four years, with the Bank acting as interim trustee and host of the Fund’s secretariat. This document lays out a potential approach to respond to the invitation and highlights areas where further discussions with the Board of the FLD are required to finalize a structure that could be proposed to the Board of the World Bank for their approval.

2. Per the Decision, there are three key milestones for the Bank’s engagement:

- The Bank is asked to confirm, within six months after the conclusion of COP28 (i.e., by early June 2024) that it is willing and able to meet a set of conditions stipulated in paragraph 20 of the Decision.
- The Bank is asked to submit to the Board of the FLD by no later than eight months after COP28 (i.e., by early August 2024) the relevant FIF documentation, approved by the World Bank’s Board of Directors, including a hosting agreement between the Board of the FLD and the World Bank based on consultations with and guidance from the Board of the FLD.
- At the end of the interim period (four years), if the FLD’s Board, following an independent assessment of the performance of the World Bank as host of the Fund’s secretariat, determines that the conditions set out in the Decision:
  - o *have been met*, the COP/ CMA would take necessary steps to invite the Bank to continue operationalizing the Fund (FLD) as a FIF, with or without conditions, as appropriate;
  - o *have not been met*, the COP/CMA would take necessary steps to establish the Fund as an independent stand-alone institution, including with respect to any necessary amendments to the Governing Instrument of the FLD and providing guidance to the FLD’s Board with respect to the selection process for the host country of the Fund, or take any other course of action deemed appropriate.

### II. Approach to meeting the 11 conditions stipulated in the COP28 Decision

3. The Decision outlines 11 conditions for the Bank’s engagement, all of which are broadly in line with policies and practices related to the establishment and management of FIFs and are not expected to pose any prohibitive issues.

4. The approach envisioned by the Bank is based on its experience with other FIFs with similar structural and operational features and reflects the roles and responsibilities of the FLD Board, the secretariat, the trustee and implementing entities as set forth in the Governing Instrument. The Bank as trustee would establish and administer a trust fund to receive and hold funds contributed by donors and would manage these funds pending instructions from the FLD Board. The FLD Board would select the implementing entities that are eligible to receive funding from the trust fund on the basis of criteria set by the FLD Board. The FLD Board would decide on funding allocations and enter into financing agreements with recipients setting forth the terms and conditions under which the funds are provided to the recipient. The Bank as trustee would make direct transfers to recipient entities upon instructions from the FLD Board. In light of recent feedback from the FLD Board, it is clear some

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<sup>1</sup> The official name of the FIF has not yet been agreed.

discussions are still necessary to find an approach that fits best the Bank's policy framework and the needs of the FLD as determined by its Board. A final proposal will then need to be approved by the Board of the World Bank in order for the Bank to be able to confirm that is willing and able to meet the conditions.

5. The table below describes how the potential approach enables each condition to be met:

	<b>Conditions</b>	<b>Assessment and approach to meeting the conditions</b>
a)	Is fully consistent with the Governing Instrument of the Fund.	Based on its proposal, the World Bank expects to be able to confirm that it can host the Fund as a FIF in a manner that is fully consistent with the Governing Instrument of the Fund.
b)	Ensures the full autonomy of the Board of the Fund to select the Executive Director of the Fund at a level of seniority set by the Board, in line with relevant World Bank human resources policies.	This can be met through an approach similar to the one followed for the recent appointments of the CEOs for the Climate Investment Funds and the Global Partnership for Education. These involved a coordinated process between the World Bank and the FIFs' Boards.
c)	Enables the Fund to establish and apply its own eligibility criteria, including on the basis of guidance from the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.	This condition would be met in the World Bank proposed approach. <i>However, final confirmation rests on the structure of the FLD, which will be dependent on the outcome of the discussion related to the role of the World Bank in concluding financing agreements.</i>
d)	Ensures that the Governing Instrument of the Fund supersedes, where appropriate, the policies of the World Bank in instances where they differ.	The proposed approach would be consistent with the Governing Instrument, and the Bank does not currently foresee conflicts with applicable World Bank policies.
e)	Allows all developing countries to directly access resources from the Fund, including through subnational, national and regional entities and through small grant funding for communities, consistent with the policies and procedures to be established by the Board of the Fund and applicable safeguards and fiduciary standards.	This condition would be met in the World Bank proposed approach. The World Bank's FIF Directive (2022) provides for World Bank-hosted FIFs to allow the Direct Access (DA) modality when a FIF has independent legal personality and enters into the financing agreements with recipients. <i>However, final confirmation rests on the structure of the FLD, which will be dependent on the outcome of the discussion related to the role of the World Bank in concluding financing agreements.</i>
f)	Allows for the use of implementing entities other than multilateral development banks, the International Monetary Fund and United Nations agencies, consistent with the policies and procedures to be established by the Board of the Fund and applicable safeguards and fiduciary standards.	This condition would be met in the World Bank proposed approach. The FIF Directive (2022) does allow for the use of Implementing Entities (IEs) beyond Multilateral Development Banks (MDBs), International Monetary Fund (IMF) and United Nations (UN) agencies when the FIF has independent legal personality and enters into the financing agreements with recipients. <i>However, final confirmation rests on the structure of the FLD, which will be dependent on the outcome of the discussion related to the role of the World Bank in concluding financing agreements.</i>
g)	Ensures that Parties to the Convention and the Paris Agreement that are not member countries of the World Bank are able to access the Fund without requiring decisions or waivers from the World Bank Board of Directors on individual funding requests.	Based on its proposal the Bank expects to be able to confirm that this condition can be met by the Board of the World Bank determining that the use of the resources and facilities of the World Bank in connection with the World Bank's performance of its trustee and secretariat roles for a FIF that provides assistance to non-members would be for the benefit of the membership and approve the establishment of the FIF on those terms. There are precedents with both World Bank

		trust funds and FIFs for the provision of assistance to non-members.
h)	Permits the World Bank, in its role as trustee, to invest contributions to the Fund on the capital markets to preserve capital and general investment income, in line with due diligence considerations.	This condition is consistent with standard practice.
i)	Ensures that the Fund can receive contributions from a wide variety of sources, in line with due diligence considerations.	This condition can be met through the World Bank carrying out such due diligence in the execution of its trustee role.
j)	Confirms that the Fund's assets and its secretariat have the necessary privileges and immunities.	Based on its proposal the Bank expects to be able to confirm that the Bank's privileges and immunities will apply to the staff of the secretariat (and trustee) and the assets of the Fund when they are held by the trustee.
k)	Ensure a cost recovery methodology that is reasonable and appropriate.	This condition can be met through the application of the World Bank's cost recovery methodology for FIFs, which was discussed at the TC meetings.

### III. Conclusion and Next Steps

In order to ensure an operational structure for the FIF that is acceptable to all parties, it would be helpful for the World Bank to receive further clarity on the expectations of the FLD Board regarding the nature and extent of the direct access modalities foreseen for the fund and the role of the World Bank in concluding financing agreements.