

# Fund for responding to Loss and Damage

FRLD/B.4/13/Add.1

5 December 2024

## Fourth meeting of the Board

2–5 December 2024

Manila, Philippines

Agenda item 10

### **Status of resources – Addendum 1: Payments of contributions to the Trustee by means of promissory notes as an alternative to cash**

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#### *Expected actions of the Board*

The Board will be invited to:

- (a) Consider document FRLD/B.4/13/Add.1 and draft decision on the payments of contributions to the Trustee by means of promissory notes as an alternative to cash, as contained in the annex.
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## **I. Background**

1. The Trustee Agreement on the Terms and Conditions for the Administration of the Trust Fund for the Fund for responding to Loss and Damage states (article III, paragraph 3.04) states that “Unless otherwise agreed with the Fund Board and the Trustee, Contributions shall be made by means of payment in cash, or if so agreed with the Fund Board and the Trustee, by the delivery to the Trustee of promissory notes, in a form and substance acceptable to the Trustee”.
2. For some contributors, treasury rules may prohibit the issue of cash to a fund when there is no pipeline of fundable projects.
3. A promissory note is a formal promise (usually underwritten by a national bank) issued by the contributor to make payments to the fund upon receipt of a request for funding. The delivery of a promissory note provides a fund trustee with the assurance that funds will be made available promptly once the trustee issues a letter of encashment to the contributor to advise that funds are needed. Promissory notes are typically encashed within 30 days of issue of the letter of encashment.
4. Promissory notes are used across a range of climate and non-climate funds including the Green Climate Fund, Adaptation Fund, Global Environment Facility, and the Global Fund to Fight AIDS, Tuberculosis and Malaria .
5. It should be noted that foreign currency exchange fluctuations could result in a higher or lower rate of conversion into USD at the time of encashment. The Trustee will need to manage this accordingly. In practice, this means reducing the amount of funds available for allocation by the Board by a certain percentage of the prevailing USD value of the unencashed non-USD promissory notes balances to manage the risk of over-allocation. This will be based on the Trustee’s policy for Basis of Commitment for Trust Funds.

## Annex

### **DRAFT DECISION B.4/D.X: Payments of contributions to the Trustee by means of promissory notes as an alternative to cash**

The Board, having considered document FRLD/B.4/13/Add.1 titled “Payments of contributions to the Trustee by means of promissory notes as an alternative to cash”:

- (a) Endorses the use of payments of contributions delivered to the Trustee by means of promissory notes as an alternative to cash, in accordance with article III, paragraph 3.04. of the Trustee Agreement;
  - (b) Notes the agreement of the Trustee to accept payments of contributions by means of promissory notes on the basis set forth in this decision and the Trustee Agreement;
  - (c) Mandates the Trustee to reduce the amount of funds available for allocation by a certain percentage of the prevailing USD value of the unencashed non-USD promissory notes balances, according to its own policies and procedures, to avoid over-allocation of funds due to currency volatility.
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