

20 October 2023

**Fourth meeting of the Transitional Committee
on the operationalization of the new funding arrangements for responding to loss and damage
and the fund established in paragraph 3 of decisions 2/CP.27 and 2/CMA.4**

**Aswan, Egypt
17 to 20 October 2023**

**Proposal by the Co-chairs of the Transitional Committee
on the Fund and the Funding Arrangements**

Part I: Matters related to the location of the Fund

Four options have been identified to address the question of the location of the Fund. Draft decision text to give effect to each of these options is set out below.

Option 1: The World Bank

1. *Invites* the International Bank for Reconstruction and Development (the World Bank) to establish the Fund as a Financial Intermediary Fund (FIF) , that shall be serviced by a new, dedicated and independent secretariat hosted by the World Bank;
2. *Invites* the World Bank to take the necessary steps for the prompt establishment of the Fund as a FIF based on consultations with, and guidance from, the preparatory committee referred to in **paragraph 3** below;
3. *Requests* the Transitional Committee, notwithstanding that it has completed its mandate as set out in in paragraph 4 of decisions 2/CP.27 and 2/CMA.4, to continue to meet as a preparatory committee until the Fund is formally established as a FIF for the purposes of providing guidance to the World Bank as it takes the necessary steps to establish the FIF, and to start consideration of the matters to be taken up by the Board of the Fund following the establishment of the FIF;

Option 2: The World Bank with conditions

4. *Invites* the International Bank for Reconstruction and Development (the World Bank) to establish the Fund, subject to **paragraph 6** below, as a FIF for an initial interim period of [3] years, which is to be serviced by a new, dedicated and independent secretariat hosted by the World Bank;
5. *Invites* the World Bank to take the necessary steps for the prompt establishment of the Fund as a FIF based on consultations with, and guidance from, the preparatory committee referred to in **paragraph 8** below;
6. *Decides* that the establishment of the Fund as a World Bank-hosted FIF shall be conditional upon the World Bank establishing the FIF in a manner which:
 - (a) Is fully consistent with the Governing Instrument;
 - (b) Ensures the full autonomy of the Board of the Fund to select the Executive Director of the Fund;
 - (c) Ensures that the World Bank operational policies and procedures, particularly as they relate to eligibility and income criteria, are not applicable to the Fund;

- (d) Enables developing countries to directly access resources from the Fund including the direct funding of beneficiaries;
- (e) Enables Parties to the Convention and Paris Agreement which are not members of the World Bank to access the Fund without requiring a decision from the World Bank Board of Directors;
- (f) Establishes interim arrangements for the Board to undertake work as mandated to further operationalise the Fund;
- (g) Enables the World Bank to invest the Fund's contributions on the capital markets to raise resources, including through the use of World Bank's callable capital and potential SDR issuance;
- (h) Recognises the host country and legal personality of the Board;

7. *Also decides* that if the conditions set out in **paragraph 6** above do not continue to be met throughout the interim initial period, the COP and CMA, on the recommendation of the Board of the Fund, shall take the necessary steps at COP31/CMA8 to select a new host institution for the Fund or to establish the Fund as an independent standalone organization with its own separate international legal personality and legal capacity;

8. *Requests* the Transitional Committee, notwithstanding that it has completed its mandate as set out in paragraph 4 of decisions 2/CP.27 and 2/CMA.4, to continue to meet as a preparatory committee until the Fund is formally established as a FIF for the purposes of providing guidance to the World Bank as it takes the necessary steps to establish the FIF, and to start consideration of the matters to be taken up by the Board of the Fund following the establishment of the FIF.

Option 3: New standalone institution

9. *Confirms* that the Fund established pursuant to decisions 2/CP.27 and 2/CMA.4 will be an independent international organization and that the Parties intend for it to have independent international legal personality and legal capacity as is necessary for the exercise of its functions and the protections of its *interests*;

10. *Requests* the Board to operationalize the Fund in an expedited manner, including by establishing the new, independent and dedicated Secretariat, and hiring the Executive Director of the Fund;

11. *Decides* that the selection of the host country of the Fund shall be decided through an open, transparent and competitive process;

12. *Decides* that the selection of the host country of the Fund is to be endorsed by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.

Option 4: Open process to select the Fund Host

13. *Decides* to launch an open, transparent and competitive process to select an appropriate international institution to serve as the host of the Fund's Secretariat;

14. *Decides* that the selection of the host institution of the Fund's Secretariat is to be endorsed by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;

15. *Decides* that the selection of the host country of the Board of the Fund shall be decided through an open, transparent and competitive process;

16. *Decides* that the selection of the host country of the Board of the Fund is to be endorsed by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.

Part II: Draft Terms of Reference/ Governing Instrument

Terms of Reference / Governing Instrument for the Fund

The Fund is hereby established and will operate in accordance with the following provisions:

I. Objectives and purpose

17. The purpose of the Fund is 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.

18. Acknowledging the urgent and immediate need for new, additional, predictable, adequate 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, the Fund aims to be a new channel for multilateral finance to assist those countries to respond to and address loss and damage associated with the adverse effects of climate change. The Fund will also 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.

19. The Fund should operate in a manner which promotes coherence and complementarity with new and existing financing measures to respond to loss and damage associated with the adverse effects of climate change across the international financial, climate, humanitarian, disaster risk reduction, and development architecture. The Fund will develop new coordination and cooperation mechanisms to help enhance complementarity and facilitate linkages between various funding sources and related vertical funds, as appropriate, including to promote access to available funding, avoid duplication, and reduce fragmentation.

20. The Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness and sound financial management. The Fund will pursue a country-owned programmatic approach, and seek to promote and strengthen national response systems, including through effective involvement of relevant institutions and stakeholders, including non-state actors. The Fund should be scalable and flexible and should be a continuously learning institution, guided by processes for monitoring and evaluation. The Fund should strive to maximize the impact of its funding for responding to loss and damage associated with the adverse effects of climate change, while promoting environmental, social, economic, and development co-benefits, and taking a culturally sensitive, human rights based and gender-responsive approach.

II. Scope

21. The Fund will 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. It will provide finance for addressing and supporting preparatory work for a variety of climate challenges such as climate-related emergencies, sea level rise, displacement, relocation, migration, insufficient climate information and data, and the need for climate-resilient reconstruction and recovery. In doing so, it will focus on the priority gaps within the current landscape of institutions, including global, regional and national that are funding activities related to addressing loss and damage, including in relation to speed and adequacy of, eligibility for and access to finance for addressing a variety of climate challenges. This may include funding for actions to address slow onset events,

recovery and reconstruction, and human mobility; and funding to address loss and damage that is accessible to countries with small markets, and to civil society and community-based organizations in developing countries that are particularly vulnerable to the adverse effects of climate change.

[The scope of the Fund shall be based on the mandate established by the Sharm El-Sheikh 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.

The financial resources provided by the Fund shall support addressing economic and/or non-economic loss and damage on any affected aspects of human and natural systems. These affected aspects include the broadest conceptualization of income, physical assets, individuals, society, and/or the environment within developing countries.

Such loss and damage in relation to affected aspects can be addressed in the context of ex-post and ongoing action which includes, among other things:

(a) Recovery, reconstruction, restoration, rehabilitation including to address system-wide and long-term needs, or ensuring equitable, safe and dignified mobility, particularly in cases of temporary loss and damage;

(b) Replacement, instituting alternatives, recognition, or ensuring equitable, safe and dignified mobility, particularly in cases of permanent loss.

The Board shall develop, approve and review periodically its results measurement framework. This framework shall be developed in accordance with aforementioned purpose and scope of the Fund.]

III. [Scale

22. The Fund should be able to programme at least USD 100 billion a year by 2030 as an initial commitment.]

IV. Governance and institutional arrangements

A. Legal Status

23. The Fund shall operate through appropriate international legal personality and pursuant to the appropriate legal capacity as is necessary for the exercise of its functions, the fulfilment 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 as are necessary for the independent fulfilment 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.¹

¹ If standalone, the cover decision should set out that it is important that the Fund have the appropriate legal personality and capacity to carry out its work, including relevant privileges and immunities. In this regard, the cover decision should set out that Parties and the Fund are encouraged to consider how privileges and immunities will be provided to the Fund, as appropriate. If hosted, the cover decision should set out that the World Bank is to be invited to serve as the trustee of and provide secretariat services to the Fund, and in this role is to serve in a fiduciary and administrative capacity, and is to perform that role in accordance with its Articles of Agreement, by-laws, rules and decisions. As a financial intermediary fund of the World Bank, the privileges and immunities accorded to the World Bank under its Articles of Agreement will apply to the official, property, assets, archives, income, operations and transactions of the Fund.

B. Relationship to the COP and CMA

24. [The Fund will be designated as an operating entity of the financial mechanism of the Convention that serves the Paris Agreement and will be accountable to and function under the guidance of the Conference of the Parties to the Convention (COP) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA).

25. Arrangements will be concluded between the COP, CMA and the Fund at the 29th session of the COP and the 6th session of the CMA, consistent with Article 11 of the Convention and this Governing Instrument, to ensure that the Fund is accountable to and functions under the guidance of the COP and CMA.² The Board may review the periodicity of the guidance received from the COP and CMA and make a recommendation for consideration by the COP and CMA.]

26. The Board will:

- (a) Submit annual reports to the COP and CMA for their consideration;
- (b) Receive guidance from the COP and CMA on its policies, programmatic priorities and eligibility criteria; and
- (c) Take appropriate action in response to the guidance received.

C. The Board

27. The Fund will be governed and supervised by a Board that is its decision-making body with responsibility for setting the strategic direction, governance and operational modalities, policies, frameworks and work programme, including relevant funding decisions.

28. The Board of the Fund will have an equitable and geographically balanced representation of all Parties within a transparent, inclusive, and efficient system of governance.

1. Size and composition of the Board

29. The Board will comprise [28] members as follows:

- (a) 12 members from developed countries;
- (b) 3 members from the Asia-Pacific States;
- (c) 3 members from the African States;
- (d) 3 members from the Latin American and the Caribbean States;
- (e) 2 members from small island developing States;
- (f) 2 members from the least developed countries;
- (g) 1 member from developing countries not included in the regional groups and constituencies above;
- (h) [2] non-voting members representing [indigenous peoples and climate induced migrants].

30. Board Members, including alternate members of the Board, with the appropriate technical, finance, loss and damage, and policy expertise, will be nominated by the relevant regional groups, and constituencies, with due consideration given to gender balance and balanced representation of United Nations geographic regions.

31. The Board will further consider means to enhance the engagement in Board proceedings stakeholders such as youth and women, including by inviting active observers.

² Cover decision to mandate the SCF for negotiations on the arrangements.

2. Alternate Board members

32. Each Board member will have an alternate member; and alternate members are 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.³ During the absence of a member from all or part of a meeting of the Board, its alternate will serve as the member.

3. Functions of the Board

33. The Board will serve the objectives and purpose of the Fund and is steer the Fund's operations so that they evolve with the Fund's scale and maturity. The Board will exercise flexibility to allow the Fund to evolve over time.

34. The Board will:

- (a) Oversee the operation of all relevant components of the Fund;
- (b) Develop and approve operational modalities, access modalities, financial instruments and funding structures;
- (c) [*If standalone*: Approve funding in line with the Fund's criteria, modalities, policies and programmes and may develop an accountability framework for funding approvals which may be delegated by the Board to the Executive Director;][*If hosted*: Approve funding in line with the Fund's criteria, modalities, policies and programmes and may develop an accountability framework for funding approvals which may be delegated by the Board to the Executive Director, subject to the relevant policies of the hosting institution.]
- (d) Approve a policy for the provision of grants, concessional resources and other financial instruments, modalities, facilities taking into account [vulnerability,] access to other financial contributions and debt sustainability;
- (e) [*If standalone*: Approve specific principle-based operational policies and frameworks, including for programming, project cycle, administration and financial management;][*If hosted*: Approve specific principle-based operational policies and frameworks, including for programming and project cycle;]
- (f) Develop a mechanism to help ensure the activities financed by the Fund are implemented based on high-integrity environmental and social safeguards and fiduciary principles and standards;
- (g) Establish subcommittees, panels, and expert bodies and define their terms of reference, as appropriate;
- (h) Establish a mechanism for the monitoring and evaluation of performance and the financial accountability of activities financed by the Fund and any necessary external audits;
- (i) Review and approve the administrative budget and work programme of the Fund and arrange for performance reviews and audits;
- (j) Oversee the operation of all relevant organs of the Fund, including the trustee, secretariat, sub-committees, and expert, advisory and evaluation panels, with respect to the Fund's activities;
- (k) Prepare a long-term fund raising and resource mobilization strategy and plan for the Fund to mobilize financial resources from the sources mentioned in paragraph 73;
- (l) Select the Executive Director of the Fund;
- (m) Prepare annual reports to the COP and CMA on its activities and take appropriate action in response to the guidance received from the COP and CMA;
- (n) Expeditiously disburse funds in line with the policies and procedures of the Fund;

³ Cover decision to clarify that the alternate member for the seat in paragraph 29(g) is to rotate between developing countries included in the groups and constituencies listed in paragraphs 29(b)-(f).

(o) [*For standalone only*: Appoint and enter into legal and administrative arrangements with the trustee, as appropriate;]

(p) Provide recommendations to the COP and CMA on means to enhance consistency, coordination and coherence with other sources, funds, initiatives and processes under and outside the Convention and the Paris Agreement;

(q) Provide strategic oversight to the Fund's Secretariat regarding the matter of enhancing consistency, coordination and coherence;

(r) Exercise strategic leadership to allow the Fund to evolve over time;

(s) Exercise such other functions as may be appropriate to fulfil the objectives of the Fund;

(t) Develop a system for allocation of resources [based on vulnerability];

(u) Establish additional thematic substructures to address specific activities, as appropriate.

4. Board Co-chairs

35. The Board will elect two Co-chairs from within its membership, with one from a developed country and one from a developing country, who will serve a term of one year. The Co-chairs may be re-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.

5. Quorum

36. A three-fourths majority of [voting] Board members must be participating in a meeting to constitute a quorum.⁴

6. Additional rules of procedure

37. The Board will develop and adopt additional rules of procedure.

7. Decision making

38. Decisions of the Board will be taken by consensus. If all efforts at reaching consensus have been exhausted, and no consensus is reached, decisions will be taken by a four-fifth majority of the [voting] members present and voting. The Board will further develop procedures for determining when all efforts at reaching consensus have been exhausted. The Board will adopt procedures for taking decisions between meetings.

8. Term of membership

39. Members and alternate members shall serve for a term of three years and are eligible to serve additional terms, as determined by their constituency, with a maximum of two consecutive terms.

9. Observers

40. The Board will make arrangements, including developing an observer accreditation process, to allow for the effective participation of observers in its meetings.

10. Stakeholder input and participation

41. The Fund will establish consultative forums to engage, communicate and consult with stakeholders. The forums will be open to a wide range of representatives, including to representatives of civil society organizations, environmental and development NGOs, trade unions, and indigenous peoples, climate-induced migrants, representatives of impacted industries and sectors, community-based organizations, bilateral and multilateral

⁴ Cover decision may specify that the first meeting will only be convened once all [voting member] nominations have been submitted.

development cooperation agencies, technical and research agencies, the private sector, as well as of governments. Such representation should reflect a balance among United Nations geographic regions.

42. The Fund will develop mechanisms to promote the input and participation of stakeholders, including private-sector actors, civil society organizations, and groups most vulnerable to the adverse effects of climate change, including, women, youth and indigenous Peoples, in the design, development and implementation of the activities financed by the Fund.

11. Expert and technical advice

43. The Board may establish expert and technical panels, which may include representatives from relevant constituted bodies established under the Convention and the Paris Agreement, to draw on appropriate expert and technical advice, including from the Warsaw International Mechanism on Loss and Damage, the Santiago network and sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement, as appropriate, to support its work and to provide inputs for the Fund's activities.

D. Secretariat

1. Establishment of the secretariat

44. The Fund will have a new, dedicated, and independent Secretariat to service and be accountable to the Board. It will have effective management capabilities to execute the day-to-day operations of the Fund. The Secretariat will be staffed with professional staff with relevant experience, including on a range of issues relevant to responding to loss and damage and to financial institutions. The staff selection will be managed by the Executive Director and be open, transparent and based on merit, taking into account geographical and gender balance and cultural and linguistic diversity.

45. The Secretariat will be headed by an Executive Director with the necessary experiences and skills, who will be selected by the Board. The Board will approve the job description and qualifications for the Executive Director. The Executive Director will be selected through a merit-based, open and transparent process. [*If standalone:* The Board may delegate authority to the Executive Director to make urgent decisions, including funding approvals, on specific issues pursuant to the accountability framework in paragraph 34(c)] [*If hosted:* The Board may delegate authority to the Executive Director to make urgent decisions, including funding approvals, on specific issues pursuant to the accountability framework in paragraph 34(c), subject to the relevant policies of the host institution.] In exercising such authority, the Executive Director will promptly report and be accountable to the Board for such decisions.

46. The Secretariat staff will include regional desk officers for all relevant United Nations geographic regions, who will build and maintain relationships with relevant actors in their respective regions, to facilitate regionally informed decision-making, assessments and planning, as the Secretariat undertakes its functions. Regional desk officers may also support and facilitate access to the Fund, as appropriate. The Secretariat should also seek to enable multilingual engagement, as appropriate.

2. Secretariat functions

47. The Secretariat will be responsible for the day-to-day operations of the Fund and will:

- (a) Organize and execute all relevant operational and administrative duties;
- (b) Report information on the activities of the Fund to the Board;
- (c) Develop and implement working and coordination arrangements with sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement relevant to responding to loss and damage;

- (d) Prepare performance reports on the implementation of activities financed by the Fund;
- (e) Develop the work programme and administrative budget of the Secretariat and trustee and submit them for approval by the Board;
- (f) Operationalize the project and programme cycle processes, including developing a system for disbursement of resources in a time-sensitive manner;
- (g) Prepare financial agreements related to the specific financing instrument to be concluded with an implementing entity;
- (h) Monitor the financial risks of the Fund's portfolio;
- (i) Work with the trustee to support the Board to enable it to carry out its responsibilities;
- (j) Implement recommendations for enhancing consistency, coordination and coherence with other sources, funds, processes and initiatives under and outside the Convention and Paris Agreement;
- (k) [*If standalone*: Carry out monitoring and evaluation functions;][*If hosted*: Coordinate monitoring and evaluation;]
- (l) Establish and run effective knowledge management practices;
- (m) Establish modalities to allow recipients to use implementing entities, including international entities, regional organizations, national systems or local institutions as appropriate;
- (n) Assist countries to engage with the Fund processes and procedures;
- (o) [Coordinate with the Santiago network to support countries seeking to access the Fund through technical assistance;]
- (p) Take a regionally-informed approach in responding to context-specific operational needs, capabilities, and priorities of recipient countries; and
- (q) Perform any other functions assigned by the Board.

E. Trustee

48. [*For standalone only*: The Board will consider the confirmation of the trustee appointed by the COP and CMA on an interim basis, and enter into legal and administrative arrangements with the trustee, as appropriate.]

49. The trustee will administer the assets of the Fund only for the purpose of, and in accordance with, the relevant decisions of the Board. The trustee will hold the assets of the Fund separate and apart from the assets of the trustee, but may commingle them for administrative and investment purposes with other assets maintained by the trustee. The trustee will establish and maintain separate records and accounts in order to identify the assets of the Fund.

50. The roles and responsibilities of the trustee include the receipt of contributions, implementing the terms of contribution arrangements, holding and investing of funds, transfer of funds to implementing entities and/or other relevant recipients as well as accounting, reporting, financial and fiduciary management, and ensuring compliance with established procedures and internal controls. The trustee will maintain appropriate financial records and prepare financial statements and other reports required by the Board, in accordance with internationally accepted fiduciary standards.

51. The trustee will be accountable to the Board for the performance of its responsibilities as trustee for the Fund.

52. The trustee should ensure that the Fund can receive financial inputs from philanthropic foundations and other non-public and alternative sources, including new and innovative sources of finance.

53. The trustee will arrange for the Secretariat or another appropriate mechanism to undertake due diligence to allow for the receipt of non-sovereign contributions.

V. Eligibility, country ownership and access

A. Eligibility

54. Developing countries that are particularly vulnerable to the adverse effects of climate change are eligible to receive resources from the Fund.

B. Country Ownership and Access Mechanisms

55. The Fund will be responsive to country priorities and circumstances. The Fund will seek to utilise, where appropriate, existing national and regional systems and financial mechanisms. 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.

56. The Fund will involve developing country Parties that are particularly vulnerable to the adverse effects of climate change during the identification, definition, and implementation at all stages of the Fund's programming cycle.

57. To facilitate country programming and ownership, support may be provided to respond to or address loss and damage, including from slow onset events and for transformative recovery, rehabilitation, and reconstruction after extreme weather events.

58. The Fund may also provide support to activities relevant to preparing and strengthening a country's national processes and support systems and proposed activities and programmes, including by providing support to loss and damage planning activities, estimating financial requirements for implementing loss and damage activities, preparing proposals, and establishing national loss and damage finance system.

59. The Fund will develop procedures and criteria for simplified and fast-tracked screening to determine the functional equivalency of national and/or regional funding entities' safeguards and standards to manage funded programmes and projects in-country, as appropriate.

60. Developing countries that are particularly vulnerable to the adverse effects of climate change may designate a national authority or ministry responsible for the overall management and implementation of projects and programmes supported by the Fund.

61. The Board may also develop various modalities to facilitate access to the Fund's resources. These may include:

(a) Direct budget support through national governments, or in partnership with entities that have been accredited to other funds, or otherwise through domestic executing partners;

(b) Developing countries may engage the services of multilateral or regional/sub-regional implementing entities accredited to other funds, such as the GCF, GEF and the Adaptation Fund.

(c) 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; and

(d) Access to small grants to support communities, indigenous peoples and vulnerable groups and their livelihoods, including with respect to recovery after climate-related events.

62. The Fund's policies and procedures will be simple, clear, and effective. The Fund will avoid disproportionate bureaucratic obstacles to the access of resources while ensuring that high fiduciary standards, environmental and social safeguards and financial transparency

standards are applied to activities financed by the Fund, and that they are subject to its accountability mechanisms.

63. The Fund will have a streamlined and rapid approval process with simplified criteria and procedures to enable effective disbursement, while also maintaining high fiduciary standards, environmental and social safeguards, financial transparency standards, and accountability mechanisms.

64. [The Fund will comprise three sub-funds, each with fit-for-purpose operational and access modalities. These are:

(a) Slow Onset Events (SOE): To support activities related to slow onset events, including economic and non-economic loss and damage, by utilizing a programmatic approach through the submission of SOE Plans, where eligible developing countries are invited to submit such plans to the Board for consideration and approval, and work with the Secretariat of the Fund to pursue the implementation of activities identified within such plans, in line with Board policies and a Secretariat screening of such plans for appropriate safeguards, standards, and fiduciary considerations and selection of the components for the sub-fund to finance.

(b) Recovery and Reconstruction (R&R): To support activities related to recovery and reconstruction, including economic and non-economic loss and damage, by increasing the amount and concessionality of financing made available through other relevant channels, where eligible developing countries, MDBs, or UN Agencies are invited to submit to the Board for consideration and approval financing packages that enable a reduction in the terms of recovery and reconstruction financing, or an increase in grant or other concessional resources.

(c) Small Markets: To support eligible developing countries in activities related to slow onset events and/or recovery and reconstruction, including economic and non-economic loss and damage, in line with the operational modalities of the relevant sub-fund as described in paragraphs 64(a) and (b) respectively, supplemented by further technical assistance, readiness support, and other services where the eligible developing country may have limited capacities to pursue efforts to respond to loss and damage.

65. The Board will establish modalities for the provision of small grants to support communities and their livelihoods, such as through the UNDP-GEF Small Grants Programme.

66. The Board may consider the need for additional sub-funds or modalities. The Board may add, modify, and remove sub-funds or modalities, as appropriate.

67. Contributions may be provided to the Fund for the Board to allocate among the sub-funds, or they may be directed to any of the sub-funds. The Board may set limits on contributions to individual sub-funds, including based on factors such as demand.

68. The Board will allocate contributions to the Fund to individual sub-funds in a balanced manner and may take into account factors such as demand, vulnerability, and further relevant aspects referenced in sub-section K.]

VI. Complementarity and coherence

69. The Fund will play a key role in coordinating a coherent global response to loss and damage, including between funding arrangements. The Fund should promote efforts which enhance complementarity and coherence, including exchanging information, good practices, and consultations between existing mechanisms.

70. In performing its work, the Fund will coordinate with and take into account sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement relevant to responding to loss and damage. The Fund will 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.

71. The Fund will develop methods to enhance complementarity between the work of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities.

72. The Fund will promote coherence in programming at the national level. The Fund will engage in partnerships with other funding arrangements to address priority gaps in their activities, with the aim of reinforcing these activities and leveraging their resources, and as appropriate to provide additional and complementary sources of finance.

VII. Financial inputs

73. The Fund is able to receive contributions from, inter alia:

- (a) Parties to the Convention and the Paris Agreement;
- (b) Regional economic integration organizations;
- (c) Sub-national governments;
- (d) Private sector;
- (e) Philanthropies;
- (f) Non-governmental organizations;

(g) Innovative sources[, such as the voluntary carbon market or international pricing mechanisms, that may be established or agreed].

74. The Fund may have a periodic replenishment and maintain the flexibility to receive financial inputs on an ongoing basis and receive grants from public and private sources and 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.

75. The Board will prepare a long-term fund raising and resource mobilisation strategy and plan for the Fund to mobilise new, additional, predictable and adequate financial resources from all the sources mentioned in paragraph 73 above.

76. The Fund is based on cooperation and facilitation and does not involve liability or compensation.⁵

VIII. Financial instrument

77. The Fund will provide financing in the form of grants and concessional lending, based on the Board's policy on the provision of grants, concessional resources, and other financial instruments, modalities, facilities[, which should take into account vulnerability], access to other financial contributions and debt sustainability.

78. The Fund may deploy a range of additional financial instruments that limit the financial burden on countries suffering loss and damage (grants, highly concessional loans, guarantees, direct budget support and policy-based finance, equity, insurance mechanisms, risk sharing mechanisms, pre-arranged finance, performance-based programmes, and other financial products where appropriate), in particular, to augment and complement national resources provided for addressing loss and damage.

79. The Fund should also be able to facilitate a blending of different financial tools to optimize the use of public funding, especially for ensuring effective results in vulnerable populations and ecosystems on which they depend.

⁵ FCCC/CP/2022/10, para. 7(b) and FCCC/PA/CMA/2022/10, para. 71.

IX. Allocation

80. [For the Fund and its sub-funds, the Board will develop a system for the allocation of resources based on vulnerability and other relevant considerations for eligible developing countries. This resource allocation system should be approved by the Board within a year after the first Board meeting.]

81. The resource allocation system will be based on vulnerability, and should take into account considerations including, inter alia:

- (a) Exposure to climate hazards;
- (b) Sensitivity to climate hazards;
- (c) The needs and priorities of developing countries especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, especially LDCs and SIDS;
- (d) The needs and priorities of vulnerable populations within developing countries and the ecosystems on which they depend;
- (e) Considerations of proportionality of the impact of particular climate events to country capacities;
- (f) GDP per capita;
- (g) Fiscal space and debt sustainability.

82. The resource allocation system will have a minimum percentage allocation floor for LDCs and SIDS, comprising the majority of the Fund's resources, recognizing their significant capacity constraints.

83. The resource allocation system may also include country caps to promote balance and prevent over-concentration.

84. The resource allocation system will be informed by the best available and accessible data on vulnerability, including from the Intergovernmental Panel on Climate Change, relevant United Nations agencies and bodies, as well as relevant traditional, local, and indigenous knowledge and practices.]

85. [The Board shall develop and apply an allocation system for the determination of the level of resources to be allocated to, inter alia, programmatic support and/or trigger-based support. This system shall take into account:

- (a) the need to safeguard against the overconcentration of support provided by the Fund in any given country;
- (b) the priorities and needs of developing countries, including through using minimum national allocation floors, as appropriate, especially for those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, while taking into consideration the needs of climate vulnerable communities;
- (c) the best available data and information from entities such as the Intergovernmental Panel on Climate Change, and/or pertinent knowledge from indigenous peoples and local communities on loss and damage, recognizing that such data, information or knowledge may be limited for specific countries and regions;
- (d) estimates of recovery and reconstruction costs based on data and information from relevant entities, in particular from national and/or regional entities, recognizing that such data or information may be limited for specific countries and regions.]

X. Programming procedures

86. The recipient country in the development of its national programme should take into account needs of the segments of their population, as per national circumstances, that are

already vulnerable owing to, among other things, geography, socioeconomic status, livelihood, gender, age, indigenous or minority status, or disability, as well as the ecosystems they depend on, or other segments as the Board may determine, as appropriate.

XI. Monitoring

87. Programmes, projects and other activities financed by the Fund will be regularly monitored for impact, efficiency and effectiveness. The use of participatory monitoring involving stakeholders is encouraged.

88. A results measurement framework with guidelines and appropriate performance indicators will be approved by the Board. Performance against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.

XII. Evaluation

89. There will be periodic, independent evaluations of the performance of the Fund in order to provide an objective assessment of the results of the Fund, including of the activities financed by the Fund, and its effectiveness and efficiency. The purpose of these independent evaluations is to inform decision-making by the Board, to identify and disseminate lessons learned, and to support the accountability of the Fund. The results of the periodic evaluations will be published by the Secretariat.

90. The results of these evaluations will be provided as part of the annual report of the Board to the COP and CMA.

91. The Fund will be subject to periodic reviews performed by the COP and CMA. The periodic review will be informed, among others, by the results of the independent evaluation, and reports by the Board.

XIII. Fiduciary standards

92. The Fund will apply high-integrity fiduciary principles and standards to its work, including all its operations and activities financed by the Fund in line with international best practices.

93. The Secretariat will support the strengthening of capacities in recipient countries, where needed, to enable those countries and any relevant implementing entities to meet the Fund's fiduciary principles and standards.

XIV. Environmental and social safeguards

94. [*If standalone*: The Board will agree on and adopt best practice environmental and social safeguards, which all activities financed by the Fund will meet.][*If hosted*: The Secretariat will work towards ensuring that each implementing entity applies its own best practice environmental and social safeguards policies, which will be applied to all activities financed by the Fund.] The Secretariat will support the strengthening of capacities in recipient countries, where needed, to enable them to [*if standalone*: meet the Fund's environmental and social safeguards][*if hosted*: attain functional equivalency with the World Bank's environmental and social safeguards], based on modalities that will be developed by the Board.

XV. Accountability and Independent mechanisms

[*If standalone*:

95. The Fund's operations will subject to an information disclosure policy that will be developed by the Board.

96. The Board will establish an operationally independent integrity unit, to work with the Secretariat and report to the Board, to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities.

97. The Board will establish an operationally independent redress mechanism that will report to the Board. The mechanism will receive complaints related to the operation of the Fund and will evaluate and make recommendations.]

[If hosted:

74. Activities financed by the Fund will be subject to the implementing entity's independent integrity unit or functional equivalent, which will work with the Secretariat to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities, and report to the Board on any such investigations.

75. The Fund's operations, including with respect to activities financed by the Fund, will be subject to the host institution's policy on access to information. The activities financed by the Fund will also be subjected by each implementing entity's policy on access to information.

76. Activities financed by the Fund will use the implementing entity's independent grievance regress mechanism to address complaints related to activities financed by the Fund and take appropriate actions based on any agreements, findings and/or recommendations, and report to the Board on any such actions.]

XVI. Amendment of the Governing Instrument

98. The Board may recommend amendments to this Governing Instrument for approval and adoption by the COP and CMA.

XVII. Termination of the Fund

99. The Board may recommend to the COP and the CMA the termination of the Fund and it will become effective after approval by both the COP and CMA.

Part III: Draft recommendations of the Transitional Committee in Relation to the New Funding Arrangements

100. Funding arrangements include various channels to finance measures to respond to loss and damage with a clear purpose, considering coordination and complementarity, maximizing and leveraging comparative advantages, sharing best practices, and promoting synergies across communities of practice related to loss and damage, thus strengthening the architecture for responding to loss and damage.

101. The new funding arrangements include scaling-up, reforming or improving existing, and initiating new funding arrangements for responding to loss and damage.

102. The funding arrangements should also ensure coordination on a national and regional level, while ensuring coherence at operational level and in programmatic approaches.

103. The funding arrangements will work in coherence and complementarity to the fund. This will be enabled through the best use of existing mechanisms, such as the Warsaw International Mechanism and the Santiago network.

104. The Funding arrangements may also include the convening of a biennial coordination and complementarity dialogue (the dialogue) of the funding arrangement partners, whereby a biennial meeting of the funding arrangements with the participation of high-level representatives from institutions engaged in responding to loss and damage, shall be organized in order to:

(a) Facilitate a structured and timely exchange of relevant knowledge and information, including between the funding arrangements and the fund;

(b) Strengthen capacity and synergies to enhance the integration of measures to respond to loss and damage into sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement by drawing on the experiences of others, exchanging good policy and practice and leveraging research and data systems;

(c) Promote exchange of experiences from countries' and communities' perspectives on actions undertaken to respond to loss and damage;

(d) Identify new opportunities for cooperation, coordination and complementarity; and,

(e) Report to the Parties, through the WIM, on the dialogue, including on the follow-up of the implementation of the recommendations on to the funding arrangements and suggesting new ones.

105. The dialogue may consist of high-level representatives from institutions engaged in responding to loss and damage, including, inter alia:

(a) Representatives of the Fund;

(b) The World Bank and Regional Development Banks;

(c) The International Monetary Fund;

(d) Relevant United Nations Agencies, such as the United Nations Office for the Coordination of Humanitarian Affairs, United Nations Office for Disaster Risk Reduction, United Nations Development Programme, United Nations Environment Programme, United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization of the United Nations, World Food Programme, and World Health Organization;

(e) Relevant multilateral climate funds, such as the Fund, the Green Climate Fund, the Global Environment Facility, Adaptation Fund, and Climate Investment Funds; and

(f) The International Organization for Migration;

(g) Representatives of the WIM ExCom, the Santiago network;

(h) Experts on Loss and Damage chosen on the basis of their expertise as well as their representation of different regions and perspectives.

106. Parties and relevant institutions should consider developing and implementing additional funding arrangements for improvement in such sources, funds, processes and initiatives inside and outside the Convention and the Paris Agreement to address gaps in speed, eligibility, adequacy and access to finance, especially pre-arranged finance across a variety of challenges, such as climate-related emergencies, slow onset events, displacement, relocation, migration, insufficient climate information and data and the need for climate-resilient reconstruction and recovery.

107. A wide variety of sources, including innovative sources of finance, should be made available to support the new and existing arrangements that complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement; in ways to ensure that the new and existing funding arrangements target particularly vulnerable people and communities (including women, children, youth, indigenous peoples and marginalized groups in developing countries that are particularly vulnerable to the adverse impacts of climate change).

108. The Santiago network and its members should contribute to the coherence by aligning technical assistance it catalyzes to build capacity and support programmatic approaches of the fund and the funding arrangements.

109. The entities that constitute the funding arrangements should explore ways for better coordination among all channels, bilateral, regional, and multilateral channels with the aim to improve synergies and coherence among the existing and new arrangements.

110. The United Nations agencies and the multilateral development banks and, bilateral agencies, are invited to include in their annual reports funding for loss and damage starting from 2024.

111. Multilateral development banks and relevant organizations such as the World Bank and International Labour Organization are called on to scale up support for social and adaptive protection mechanisms.

112. Relevant governing bodies are called on to give guidance to the Green Climate Fund, Global Environment Facility, Least Developed Country Fund, Special Climate Change Fund and Adaptation Fund and encourage the multilateral development banks to strengthen their work related to preparing for, and responding to, slow onset events, as well as the United Nations Office for Disaster Risk Reduction, disaster risk management initiatives such as Global Risk Financing Facility, national and local stakeholders as well as the private sector to include impacts from slow onset events (SOEs) into their risk analyses and preventative measures.

113. The WIM ExCom is called upon to support this via its technical work, including by building upon local and indigenous knowledge to assess impacts and finding solutions for impacts from slow onset events.

114. Countries are urged to include non-economic losses in their National Adaptation Plans and Nationally Determined Contributions and request donors, relevant funds and organizations to take them into account in their response plans.

115. [Placeholder for recommendations emerging from TC-4 and proposals contained in the Informal note by the Co-chairs of the Transitional Committee on the proposals by Transitional Committee members in relation to the identified outstanding issues as contained in document TC4/2023/5.]