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## Conference of the Parties

### Twenty-eighth session

United Arab Emirates, 30 November to 12 December 2023

Item 8(g) of the provisional agenda

#### Matters relating to finance

**Operationalization of the funding arrangements for responding to loss and damage referred to in paragraph 2, including the fund referred to in paragraph 3, of decisions 2/CP.27 and 2/CMA.4**

## Conference of the Parties serving as the meeting of the Parties to the Paris Agreement

### Fifth session

United Arab Emirates, 30 November to 12 December 2023

Item 10(g) of the provisional agenda

#### Matters relating to finance

**Operationalization of the funding arrangements for responding to loss and damage referred to in paragraph 2, including the fund established in paragraph 3, of decisions 2/CP.27 and 2/CMA.4**

## 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

### Report by the Transitional Committee

#### *Summary*

By decisions 2/CP.27 and 2/CMA.4, the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement respectively decided to establish a transitional committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund established in those decisions (the Transitional Committee). The Committee was mandated to make recommendations on the operationalization of the new funding arrangements and the fund, including on establishing institutional arrangements, modalities, structure, governance and terms of reference for the fund; defining the elements of the new funding arrangements; identifying and expanding sources of funding; and ensuring coordination and complementarity with existing funding arrangements. The recommendations developed by the Transitional Committee, namely a draft decision, the Governing Instrument of the Fund and recommendations on the new funding arrangements, are included as annexes to the report. The report also contains information on the work of the Transitional Committee in 2023, including on its meetings and on activities that informed its work.



## Abbreviations and acronyms

CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
LDC	least developed country
SBI	Subsidiary Body for Implementation
SIDS	small island developing State(s)
Transitional Committee	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
WIM	Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts

## I. Introduction

### A. Mandate

1. COP 27 and CMA 4 decided to:

(a) 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;<sup>1</sup>

(b) Establish, in the context of establishing the new funding arrangements, a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage (hereinafter referred to as the Fund).<sup>2</sup>

2. COP 27 and CMA 4 also decided to establish a transitional committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund (hereinafter referred to as the Transitional Committee) to make recommendations (see para. 5 below) for consideration and adoption at COP 28 and CMA 5 with a view to operationalizing the funding arrangements, including the Fund.<sup>3</sup>

3. Furthermore, COP 27 and CMA 4 decided that the Transitional Committee, in conducting its work, would be informed by the current landscape of institutions that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced; the gaps within that current landscape; the priority gaps for which solutions should be explored; the most effective ways in which to address the gaps; and potential sources of funding.<sup>4</sup>

4. In accordance with the terms of reference for the Transitional Committee,<sup>5</sup> and further to the information note on the submission of nominations issued to Parties on 12 December 2022,<sup>6</sup> 10 representatives of developed country Parties and 14 representatives of developing country Parties were nominated to serve as members of the Transitional Committee, with some rotation.

5. The Transitional Committee was tasked by COP 27 and CMA 4 with developing recommendations based on, inter alia, the following elements for operationalization: establishing institutional arrangements, modalities, structure, governance and terms of reference for the Fund; defining the elements of the new funding arrangements; identifying and expanding sources of funding; and ensuring coordination and complementarity with existing funding arrangements.<sup>7</sup>

6. Further, the Transitional Committee served as a coordination mechanism, guiding and overseeing activities for informing the recommendations.<sup>8</sup> These activities included two workshops conducted by the secretariat in 2023 with the participation of diverse institutions relevant to addressing loss and damage associated with climate change impacts; and the preparation by the secretariat of a synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change.

<sup>1</sup> Decisions 2/CP.27, para. 2, and 2/CMA.4, para. 2.

<sup>2</sup> Decisions 2/CP.27, para. 3, and 2/CMA.4, para. 3.

<sup>3</sup> Decisions 2/CP.27, para. 4, and 2/CMA.4, para. 4.

<sup>4</sup> Decisions 2/CP.27, para. 6, and 2/CMA.4, para. 6.

<sup>5</sup> Set out in the annex to decision 2/CP.27 and the annex to decision 2/CMA.4.

<sup>6</sup> Available at

[https://unfccc.int/sites/default/files/resource/2022.12.12\\_Information%20note%20to%20Parties%20on%20nominations.pdf](https://unfccc.int/sites/default/files/resource/2022.12.12_Information%20note%20to%20Parties%20on%20nominations.pdf).

<sup>7</sup> Decisions 2/CP.27, paras. 4–5, and 2/CMA.4, paras. 4–5.

<sup>8</sup> The activities are listed in decisions 2/CP.27, para. 7, and 2/CMA.4, para. 7.

7. The activities also included calls for submissions. Parties and relevant organizations were invited to submit their views on topics for and the structure of the second Glasgow Dialogue and the two mandated workshops referred to in paragraph 6 above. United Nations agencies, intergovernmental organizations, and bilateral, multilateral and international financial institutions were invited to submit inputs on how they might enhance access to and/or the speed, scope and scale of availability of finance for activities relevant to addressing loss and damage, including potential limitations and barriers and options for addressing them.

## **B. Scope of the report**

8. This report presents the work of the Transitional Committee conducted in 2023, including information on its five meetings held in that year. Annexes I–III to the report contain the recommendations of the Transitional Committee developed in accordance with its mandate, namely a draft decision for consideration and adoption by the COP and the CMA (annex I), the Governing Instrument of the Fund (annex II) and recommendations relating to the funding arrangements (annex III). The report also includes information on the membership of the Committee (annex IV) and a list of organizations represented in the Technical Support Unit of the secretariat (annex V).

## **C. Possible action by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement**

9. The COP and the CMA may wish to consider the recommendations of the Transitional Committee on the operationalization of the new funding arrangements, including the Fund, for responding to loss and damage.

## **II. Work of the Transitional Committee**

10. The Transitional Committee met five times between March and November 2023. Each meeting was preceded by meetings of the developing and developed countries constituencies. The dates and locations of the meetings were as follows:

- (a) 1<sup>st</sup> (inaugural) meeting: held from 27 to 29 March in Luxor, Egypt;
- (b) 2<sup>nd</sup> meeting: held from 25 to 27 May in Bonn, Germany;
- (c) 3<sup>rd</sup> meeting: held from 29 August to 1 September in Santo Domingo, Dominican Republic;
- (d) 4<sup>th</sup> meeting: held from 17 to 20 October in Aswan, Egypt;
- (e) 5<sup>th</sup> meeting: held from 3 to 4 November in Abu Dhabi, United Arab Emirates.

11. A Technical Support Unit was convened by the UNFCCC Executive Secretary through invitation to relevant United Nations agencies, multilateral climate funds and multilateral development banks to support the secretariat through the secondment of staff. Representatives of 12 institutions have served in the Technical Support Unit. The Unit provided substantive technical input to the work of the Transitional Committee, including by preparing a number of working papers<sup>9</sup> on the four elements of the recommendations the Committee was mandated to develop (see para. 5 above). These papers informed and supported discussions at the meetings of the Committee.

12. Financial support for conducting the Transitional Committee's mandated activities was provided by the Governments of Australia, Germany, Norway and the United States of America. In addition, support was provided by the Government of Egypt for convening the 1<sup>st</sup> and 4<sup>th</sup> meetings of the Committee, the Government of the Dominican Republic for convening the 3<sup>rd</sup> meeting and the Government of the United Arab Emirates for convening

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<sup>9</sup> Available at <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/transitional-committee/technical-support-unit>.

the 5<sup>th</sup> meeting. The Government of Thailand hosted and provided support for the second workshop on addressing loss and damage.

## A. Workshops

13. The Transitional Committee considered inputs from a wide range of stakeholders at the two mandated workshops conducted by the secretariat during 2023. Both workshops were held in hybrid format, and each was attended by over 250 participants, representing Parties, admitted observer organizations (intergovernmental and non-governmental organizations), constituted bodies under the Convention and other stakeholders.

14. The first workshop took place from 29 to 30 April 2023 in Bonn. The first day of the workshop focused on current actions undertaken by institutions providing support for addressing loss and damage, as well as the associated gaps and challenges. It comprised two thematic sessions, with one focused on addressing extreme weather events and the other on addressing slow onset events. Day two focused on sources of funding and financial instruments for addressing loss and damage. The workshop concluded with a discussion in which participants were invited to share their thoughts on the key takeaways for the Transitional Committee to consider as it continued its work. These takeaways related to sources of funding, financial instruments, operational modalities for the Fund, operational principles of the new funding arrangements and the Fund, complementarity and coherence with existing funding arrangements, and the recommendations to be developed by the Committee.<sup>10</sup>

15. The second workshop took place from 15 to 16 July 2023, in Bangkok, Thailand. In this workshop, participants provided their insights on and suggestions for operationalizing the new funding arrangements and the Fund. They discussed aspects of operationalization such as governance arrangements, including the advantages and disadvantages associated with different options; good practices of, models presented by and lessons learned from existing funds that may inform the development of institutional arrangements and modalities for and the structure and governance of the Fund; and examples of implementing a programmatic approach to funding actions to respond to and address loss and damage and priorities that could guide such an approach. A few institutions providing support relevant to addressing loss and damage presented examples of support delivered through a programmatic approach, highlighting key considerations, challenges and constraints related to applying a programmatic approach.<sup>11</sup>

## B. Synthesis reports

16. The synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change<sup>12</sup> prepared by the secretariat in May 2023 provided the Transitional Committee with insights that informed its work. The report mapped existing funding arrangements, examining areas such as adaptation finance, disaster risk management finance, fiscal and financial stability support, insurance and humanitarian aid. It identified innovative sources and mechanisms with potential applicability to addressing loss and damage.

17. Among its key findings, the synthesis report highlighted challenges with respect to tracking and loss and damage finance and separating it from other forms of finance, in particular adaptation finance. In the present landscape, concerning financial instruments, the report found a prevalence of lending instruments and a substantial gap in grant financing, especially in the context of disaster recovery and reconstruction, and social protection. The report underscored gaps in funding, noting that finance flows to developing countries are currently 5 to 10 times below estimated annual needs. The relevance of fiscal and financial stability support to addressing long-term fiscal stability was also highlighted. The limited coverage of climate risk insurance in developing countries and the inadequacy of

<sup>10</sup> The summary report on the workshop is contained in Transitional Committee document TC2/2023/4.

<sup>11</sup> The summary report on the workshop is contained in Transitional Committee document TC3/2023/4.

<sup>12</sup> Transitional Committee document TC2/2023/3.

international humanitarian aid as well as domestic funds and trusts was noted, while the potential of innovative sources in scaling up finance for loss and damage was emphasized.

18. Other challenges identified by the report related to data, knowledge and capacity gaps, coherence gaps and policy gaps. Furthermore, the report identified structural gaps in the provision of relevant financing, including those related to eligibility criteria that do not adequately take into account the adverse effects of climate change on vulnerable middle-income countries.

19. COP 27 and CMA 4 requested the secretariat to prepare a synthesis report<sup>13</sup> on the outcomes of several activities and deliverables to inform the recommendations to be developed by the Transitional Committee.<sup>14</sup> From these activities, some key insights emerged, as identified in the synthesis report and outlined in paragraphs 20–21 below.

20. The significance of the decisions of COP 27 and CMA 4 to establish new funding arrangements and the Fund for addressing loss and damage was highlighted as a pivotal moment in recognizing the urgency of the need for supporting vulnerable countries and communities grappling with the adverse effects of climate change. The presence of significant gaps and fragmentation in current loss and damage financing was noted, while recognizing that many institutions and actors are providing relevant support. The willingness of many international financial institutions and other relevant entities to expand and improve their support for addressing loss and damage was recognized, as was the fact that doing so will require scaled-up resources and support from the shareholders of these institutions and other key actors.

21. The need to ensure that support provided for addressing loss and damage under the new funding arrangements and Fund avoids exacerbating the debt burden of developing countries was highlighted. It was also highlighted as crucial that new and additional support is not provided at the expense of resources allocated to other areas of climate action or to poverty eradication and other development needs. While public funding is expected to represent the predominant source of finance for the Fund, the ability to attract and leverage the widest possible range of sources will be critical to ensuring that the Fund and funding arrangements operate at an appropriate scale. Ensuring that the Fund is promptly and adequately capitalized with a view to initiating the disbursement of funds as soon as possible is essential. It was noted that funding provided for addressing loss and damage should be able to be disbursed rapidly so as to respond to urgent needs arising from extreme weather events. Adding layers of conditionality that unduly undermine timely access should be avoided. The meaningful inclusion of vulnerable communities, gender-responsiveness and the promotion of human rights are important facets to consider and mainstream in the new funding arrangements and the Fund. Avoiding duplication and fragmentation, while maximizing complementarity and coherence, of the efforts of all entities providing support for addressing loss and damage will be fundamental to ensuring that the support provided is comprehensive and efficient.

## **C. Proceedings of the meetings**

### **1. First meeting**

22. Mohamed Nasr, the Committee member representing the President of COP 27, presided over the meeting until Co-Chairs were elected. At the meeting, the Transitional Committee, *inter alia*:<sup>15</sup>

(a) Elected Outi Honkatukia (Finland) and Richard Sherman (South Africa) as its Co-Chairs for the duration of its mandate;

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<sup>13</sup> Transitional Committee document TC4/2023/8.

<sup>14</sup> Decisions 2/CP.27, para. 15, and 2/CMA.4, para. 15. The relevant activities and deliverables are described in paras. 7(b), 11, 12 and 14 of those decisions.

<sup>15</sup> The Co-Chairs' summary of the 1<sup>st</sup> meeting is available at [https://unfccc.int/sites/default/files/resource/TC1\\_CoChairsSummary.pdf](https://unfccc.int/sites/default/files/resource/TC1_CoChairsSummary.pdf).

(b) Agreed on arrangements for organizing its work, including during and between meetings and in preparing for meetings. It also agreed on provisions relating to the roles and responsibilities of the Co-Chairs; modalities for the participation of advisers in meetings and the engagement of observers; procedures for decision-making; principles guiding its work, including effectiveness, inclusiveness and transparency and the overriding authority of the Convention and the Paris Agreement; procedures for the dissemination of public information and for outreach; and its working language;

(c) Agreed on its workplan, which outlined a schedule for its work that would allow it to fulfil its mandate to provide recommendations for consideration and adoption at COP 28 and CMA 5;

(d) Decided to conduct a 4<sup>th</sup> meeting (the terms of reference for the Transitional Committee specified that at least three meetings will be held).

23. At the meeting, to inform a discussion on the purpose and scope of the new funding arrangements and the Fund, 10 presentations were made by organizations undertaking work related to funding for addressing loss and damage.

24. Under its agenda sub-item on the exchange of views with non-Party observers, representatives of each of the constituencies of non-governmental organizations present at the meeting were invited to deliver a 10-minute intervention.

25. As part of its workplan, the Committee invited submissions and case studies from its members, as well as from Parties and observers, to inform its deliberations. A large number of written responses were received by the Committee from its members, observer Parties, intergovernmental organizations and civil society organizations. The submissions<sup>16</sup> and case studies<sup>17</sup> are available on the web pages of the Transitional Committee

## 2. Second meeting

26. At the meeting, the Transitional Committee, *inter alia*:<sup>18</sup>

(a) Reflected on the findings of the synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change prepared by the secretariat (see chap. II.C above) and the outcomes of the first workshop on addressing loss and damage (see para. 14 above). Drawing on these findings and on an informal compilation of gaps in the landscape of institutions funding activities related to addressing loss and damage prepared by the secretariat, the Committee initiated a broad discussion on gaps in finance for addressing loss and damage;

(b) Exchanged ideas and thoughts, on the basis of the guiding questions of the Co-Chairs, on the four elements of operationalizing the new funding arrangements and the Fund to be considered in the mandated recommendations (see para. 5 above);

(c) Invited, under its agenda item<sup>19</sup> on the exchange of views with non-Party observers, representatives of each of the constituencies of non-governmental organizations present at the meeting to participate in a substantive discussion on various matters related to the new funding arrangements and the Fund.

## 3. Third meeting

27. At the meeting, the Transitional Committee, *inter alia*:<sup>20</sup>

<sup>16</sup> <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/transitional-committee/submissions-to-the-transitional-committee>.

<sup>17</sup> <https://unfccc.int/case-studies>.

<sup>18</sup> The Co-Chairs' summary of the 2<sup>nd</sup> meeting is available at [https://unfccc.int/sites/default/files/resource/TC2\\_CoChairsSummary.pdf](https://unfccc.int/sites/default/files/resource/TC2_CoChairsSummary.pdf).

<sup>19</sup> While this item was taken up as a sub-item of the "Other matters" agenda item at the first meeting, it was made a formal agenda item at the second and third meetings.

<sup>20</sup> The Co-Chairs' summary of the 3<sup>rd</sup> meeting is available at [https://unfccc.int/sites/default/files/resource/TC3\\_CoChairsSummary-final.pdf](https://unfccc.int/sites/default/files/resource/TC3_CoChairsSummary-final.pdf).

(a) Briefly discussed the outcomes of the second Glasgow Dialogue and the second workshop on addressing loss and damage (see para. 15 above);

(b) Significantly advanced its work on developing the mandated recommendations through consideration of their four elements (see para. 5 above), constructively engaging in deliberations, providing written inputs, elaborating views and identifying issues requiring further consideration, including matters on which significant differences in position were expressed. On the basis of the discussions, and under their own responsibility, the Co-Chairs prepared a set of summary notes containing non-exhaustive lists of the views and issues captured during the rich discussions at the meeting;<sup>21</sup>

(c) Provided, in a dedicated session for exchanging views with non-Party observers, an update on the discussions of the first two days of the meeting. The Committee also invited representatives of each of the constituencies of non-governmental organizations present to provide focused comments on the purpose and scope of the new funding arrangements for responding to loss and damage and the Fund and engage in an interactive dialogue with Committee members on this topic in response to their questions and reflections.

#### 4. Fourth meeting

28. The first day of the meeting was focused on discussing outstanding core issues relating to the operationalization of the new funding arrangements and the Fund, including the location of the new, dedicated, independent secretariat; whether to designate the Fund as an entity entrusted with the operation of the Financial Mechanism; the governing body or bodies; the composition of the Board; the scope of the Fund and its structure and access mechanisms; sources of finance, financial inputs and scale of funding; eligibility to access the fund and potential linkages of eligibility with vulnerability to climate change; allocation of funding; coordination and coherence with funding arrangements; the recommendations relating to the new funding arrangements; and the name of the Fund. Committee members outlined their priorities with respect to the recommendations of the Committee and positions on the key outstanding issues, the assurances they would require in order to take informed decisions, the proposals they could not accept, and areas in which they could be flexible.

29. Subsequently, the Transitional Committee, *inter alia*:<sup>22</sup>

(a) Considered its draft report to the COP and the CMA, informed by a series of papers prepared by the Co-Chairs both prior to and during the 4<sup>th</sup> meeting;

(b) Conducted an information session with representatives of the World Bank, as potential host and interim trustee of the Fund, who provided clarification on concerns that arose during the first day of the meeting and responses to questions put forward by Committee members during the session;

(c) Continued its work – in various formats, including bilateral meetings, meetings of constituencies, breakout group discussions and plenary sessions – on outstanding contentious issues, identifying options and proposals and with the intention of producing agreed text;

(d) Concluded, in the early hours of 21 October 2023, that despite its significant efforts throughout the week, the conclusion of the work of the Committee at the meeting was not in sight. The Committee could not reach a consensus on the location of the Fund's secretariat and sources of funding and financial inputs. Given the lack of consensus, the Committee, at the closing plenary session, accepted an offer from the incoming President of COP 28 to host a 5<sup>th</sup> meeting of the Committee in conjunction with Pre-COP 28 in Abu Dhabi. Despite difficulties arising from the short notice, the Committee agreed to this proposal and members reaffirmed their commitment to working towards consensus in the recommendations of the Committee.

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<sup>21</sup> Available at <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/transitional-committee/transitional-committee-other-meeting-documents>.

<sup>22</sup> The Co-Chairs' summary of the 4<sup>th</sup> meeting is available at [https://unfccc.int/sites/default/files/resource/TC4\\_CoChairsSummary.pdf](https://unfccc.int/sites/default/files/resource/TC4_CoChairsSummary.pdf).



## 5. Fifth meeting

30. At the meeting, the Transitional Committee, *inter alia*,<sup>23</sup> concluded its work and agreed on the recommendations to forward for consideration and adoption at COP 28 and CMA 5.<sup>24</sup> Following the meeting, the Co-Chairs finalized the draft report of the Transitional Committee to the COP and the CMA, earlier drafts of which had been circulated during the 4<sup>th</sup> and 5<sup>th</sup> meetings, taking into account the discussions that took place at the meetings.

## D. Outreach activities

31. The Transitional Committee agreed at its 1<sup>st</sup> meeting to open its meetings to observers unless one or more members present at the meeting formally request a closed meeting and there is agreement to close the meeting by the Committee members present at the meeting. The Committee also agreed to webcast the open parts of its meetings, with links to be made available on the respective meeting's web page.

32. Dedicated sessions to exchange views with admitted observer organizations and UNFCCC constituencies on the various issues discussed by the Transitional Committee were held at three of its meetings.

33. To enhance the transparency of its work, the Transitional Committee agreed to make its decisions and outputs publicly available on the UNFCCC website, unless decided otherwise.<sup>25</sup>

34. Upon the invitation of the SBI Chair, the Transitional Committee Co-Chairs co-facilitated the second Glasgow Dialogue, which was held in Bonn from 8 to 10 June 2023, during SBI 58.<sup>26</sup> The Co-Chairs provided an update of the Committee's work, and several Committee members also took the opportunity to engage in and moderate discussions throughout the three days of the Dialogue.

35. The Transitional Committee Co-Chairs also provided an update on the Committee's work at:

(a) The Ministerial Consultations on Funding Arrangements for Responding to Loss and Damage held on 22 September 2023 on the margins of the United Nations General Assembly;<sup>27</sup>

(b) The round table on "Building global solidarity: operationalizing loss and damage fund and funding arrangements" held during the Pre-COP 28 preparatory meeting convened by the incoming COP 28 Presidency in Abu Dhabi from 30 to 31 October 2023.

<sup>23</sup> The Co-Chairs' summary of the 5<sup>th</sup> meeting is available at [https://unfccc.int/sites/default/files/resource/TC5\\_CoChairsSummary.pdf](https://unfccc.int/sites/default/files/resource/TC5_CoChairsSummary.pdf).

<sup>24</sup> Following adoption of the recommendations, the Transitional Committee member from the United States expressed the view that the agreed recommendations do not reflect consensus owing to it not being sufficiently clear what the Committee members were being asked to decide on the issue of sources of funding. The United States subsequently withdrew this view through a written communication to the Co-Chairs of the Transitional Committee and the secretariat.

<sup>25</sup> The Transitional Committee's web pages can be found at <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/transitional-committee>.

<sup>26</sup> Further information is available at <https://unfccc.int/event/gd2>.

<sup>27</sup> Further information is available at <https://unfccc.int/event/LandDministerial>.

## Annex I

### **Draft decision on the operationalization of the new funding arrangements, including the fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4**

*The Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement,*

*Recalling* decisions 2/CP.27 and 2/CMA.4,

*Also recalling* decisions 2/CP.27, paragraph 2, and 2/CMA.4, paragraph 2, by which new funding arrangements were established 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 which specify that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement,

*Further recalling* decisions 2/CP.27, paragraphs 1 and 3, and 2/CMA.4, paragraphs 1 and 3, by which, in the context of establishing the new funding arrangements, a fund was established for responding to loss and damage whose mandate includes a focus on addressing loss and damage 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,

*Acknowledging* that climate change is a common concern of humankind and that Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to a clean, healthy and sustainable environment, the right to health, the rights of Indigenous Peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity,<sup>1</sup>

*Recalling* the understanding of the COP and the CMA that funding arrangements, including a fund, for responding to loss and damage are based on cooperation and facilitation and do not involve liability or compensation,<sup>2</sup>

*Expressing their appreciation* to the Governments of Egypt, the Dominican Republic and the United Arab Emirates for hosting the 1<sup>st</sup> and 4<sup>th</sup> meetings, 3<sup>rd</sup> meeting and 5<sup>th</sup> meeting respectively of the Transitional Committee and to the Governments of Australia, Germany, Norway and the United States of America for providing financial support for the work of the Committee,

1. *Welcome* the report of the Transitional Committee<sup>3</sup> containing recommendations on the operationalization of the funding arrangements for responding to loss and damage referred to in paragraph 2 of decisions 2/CP.27 and 2/CMA.4, including the fund referred to in paragraph 3 of the same decisions (hereinafter referred to as the Fund), and *take note with appreciation* of the work of the Transitional Committee in responding to its mandate;<sup>4</sup>
2. *Approve* the Governing Instrument of the Fund, as contained in annex II;
3. *Decide* that the Fund will be serviced by a new, dedicated and independent secretariat;
4. *Also decide* that the Fund will be governed and supervised by a Board;

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<sup>1</sup> Decision 1/CMA.4, eleventh preambular paragraph.

<sup>2</sup> FCCC/CP/2022/10, para. 7(b), and FCCC/PA/CMA/2022/10, para. 71.

<sup>3</sup> FCCC/CP/2023/9–FCCC/PA/CMA/2023/9.

<sup>4</sup> Decisions 2/CP.27, para. 4, and 2/CMA.4, para. 4.

5. *Further decide* 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;
6. *Decide* that arrangements with the Fund, consistently 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 the CMA, are to be approved at COP 29 (November 2024) and CMA 6 (November 2024);
7. *Request* the Standing Committee on Finance to develop the arrangements referred to in paragraph 6 above, to be concluded between the COP, the CMA and the Board of the Fund, consistently with the Governing Instrument of the Fund, for consideration and approval by the Board and subsequent consideration and approval at COP 29 (November 2024) and CMA 6 (November 2024);
8. *Invite* Parties, through their regional groups and constituencies, to submit nominations of representatives for membership of the Board of the Fund to the UNFCCC secretariat as soon as possible;
9. *Decide* that the alternate member for the seat on the Board of the Fund referred to in annex II, paragraph 17(g), will rotate among the developing country Parties in the regional groups and constituencies listed in annex II, paragraph 17(b–f);
10. *Request* the UNFCCC secretariat to initiate arrangements for convening the first meeting of the Board of the Fund once all voting member nominations have been submitted, but no later than 31 January 2024, and to convene subsequent meetings until the secretariat of the Fund is operational;
11. *Urge* the Board of the Fund to promptly select the Executive Director of the Fund through a merit-based, open and transparent process;
12. *Also urge* developed country Parties to continue to provide support and *encourage* other Parties to provide, or continue to provide support, on a voluntary basis, for activities to address loss and damage;<sup>5</sup>
13. *Invite* financial contributions with developed country Parties continuing to take the lead to provide financial resources for commencing the operationalization of the Fund;
14. *Welcome* the offers of XXX to contribute to the Fund;
15. *Decide* that the Board of the Fund will be conferred with legal personality and the legal capacity necessary for discharging its roles and functions, in particular the legal capacity to negotiate, conclude and enter into a hosting arrangement with the World Bank as interim trustee and host of the Fund’s secretariat;
16. *Request* the Board of the Fund to select the host country of the Board through an open, transparent and competitive process, with the host country of the Board conferring to the Board the legal personality and the legal capacity necessary for discharging its roles and functions;
17. *Invite* the World Bank, subject to paragraphs 20–24 below, to operationalize the Fund as a World Bank hosted financial intermediary fund for an interim period of four years, starting from the sessions of the COP and the CMA at which the Board of the Fund confirms that the conditions referred to in paragraph 20 below can be met, with the Fund to be serviced by a new, dedicated and independent secretariat hosted by the World Bank;
18. *Confirm* their expectation that, as a financial intermediary fund, the Fund will operate through the legal personality and legal capacity of the World Bank, and the privileges and immunities accorded to the World Bank will apply to the officials, property, assets, archives, income, operations and transactions of the Fund;

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<sup>5</sup> This paragraph is without prejudice to any future funding arrangements, any positions of Parties in current or future negotiations, or understandings and interpretations of the Convention and the Paris Agreement.

19. *Invite* the World Bank to take the steps necessary to promptly operationalize the Fund as a financial intermediary fund and to submit to the Board of the Fund by no later than eight months after the conclusion of COP 28 the relevant financial intermediary fund documentation, approved by the World Bank Board of Directors, including a hosting agreement between the Board of the Fund and the World Bank based on consultations with and guidance from the Board of the Fund, as elaborated in paragraph 25 below;

20. *Decide* that, as further elaborated in paragraphs 21–24 below, the continued operationalization of the Fund during the interim period will be conditional on the World Bank hosting the Fund as a financial intermediary fund in a manner that:

- (a) 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;
- (c) Enables the Fund to establish and apply its own eligibility criteria, including on the basis of guidance from the COP and the CMA;
- (d) Ensures that the Governing Instrument of the Fund supersedes, where appropriate, the policies of the World Bank in instances where they differ;
- (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, consistently with the policies and procedures to be established by the Board of the Fund and applicable safeguards and fiduciary standards;
- (f) Allows for the use of implementing entities other than multilateral development banks, the International Monetary Fund and United Nations agencies, consistently with the policies and procedures to be established by the Board of the Fund and applicable safeguards and fiduciary standards;
- (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;
- (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;
- (i) Ensures that the Fund can receive contributions from a wide variety of sources, in line with due diligence considerations;
- (j) Confirms that the Fund’s assets and its secretariat have the necessary privileges and immunities;
- (k) Ensures a cost recovery methodology that is reasonable and appropriate;

21. *Also decide*, notwithstanding the invitation referred to in paragraph 17 above, that if the World Bank has not confirmed that it is willing and able to meet the conditions set out in paragraph 20 above within six months after the conclusion of COP 28, the Board will launch the selection process for the host country of the Fund and COP 29 and CMA 6 will approve the necessary amendments to the Governing Instrument of the Fund;

22. *Further decide* that, if the Board of the Fund determines that the relevant financial intermediary fund documentation referred to in paragraph 19 above, approved by the World Bank Board of Directors, does not ensure that the conditions set out in paragraph 20 above can be met during the interim period, it will recommend that the COP and the CMA take the necessary steps to operationalize the Fund as an independent stand-alone institution, including approving the necessary amendments to the Governing Instrument of the Fund and providing guidance to the Board with respect to the selection process for the host country of the Fund, or the COP and the CMA may take any other course of action deemed appropriate;

23. *Decide* that, if the conditions set out in paragraph 20 above have not been met, as determined by the Board of the Fund following an independent assessment of the performance of the World Bank as host of the Fund’s secretariat, the COP and the CMA will

take steps at the end of the interim period referred to in paragraph 17 above to establish the Fund as an independent stand-alone institution, including approving the necessary amendments to the Governing Instrument of the Fund and providing guidance to the Board with respect to the selection process for the host country of the Fund, or take any other course of action deemed appropriate;

24. *Also decide* that, if the conditions set out in paragraph 20 above have been met, as determined by the Board of the Fund following an independent assessment of the performance of the World Bank as host of the Fund’s secretariat, the COP and the CMA will take steps at the end of the interim period referred to in paragraph 17 above to invite the World Bank to continue operationalizing the Fund as a financial intermediary fund, with or without conditions, as appropriate;

25. *Further decide* that, prior to the establishment of the financial intermediary fund, the Board of the Fund will provide guidance to the World Bank as it takes the necessary steps to establish the Fund as a financial intermediary fund;

26. *Decide* to establish an interim secretariat for the Fund to provide support, including administrative support, to the Board of the Fund during the transitional period until the establishment of the independent secretariat referred to in paragraph 3 above and *request* the secretariats of the UNFCCC and the Green Climate Fund and *invite* the United Nations Development Programme to jointly form this secretariat;

27. *Welcome* and *confirm* the recommendations of the Transitional Committee in relation to the funding arrangements contained in annex III.

## Annex II

### Governing Instrument of the Fund

1. The Fund is hereby operationalized in accordance with the following provisions.

#### I. Objectives and purpose

2. 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.

3. Given the urgent and immediate need for new, additional, predictable and 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 aim of the Fund is to provide a new channel for multilateral finance to assist those countries in responding to loss and damage associated with the adverse effects of climate change. The Fund will also endeavour to assist those countries in mobilizing external finance to strengthen their efforts to respond to loss and damage while supporting both the achievement of international goals on sustainable development and the eradication of poverty.

4. The Fund should operate in a manner that promotes coherence and complementarity with new and existing funding arrangements for responding to loss and damage associated with the adverse effects of climate change across the international financial, climate, humanitarian, disaster risk reduction and development architectures. In accordance with the provisions set out in chapter VI below, the Fund will develop new coordination and cooperation mechanisms to help enhance complementarity and coherence and will facilitate linkages between itself and various funding sources, including relevant vertical funds, as appropriate, to, inter alia, promote access to available funding, avoid duplication and reduce fragmentation.

5. The Fund will operate in a transparent manner guided by the principles of accountability, efficiency, effectiveness and sound financial management. The Fund will pursue a country ownership approach to programmes and projects and seek to promote and strengthen national response systems through, among other means, the effective involvement of relevant institutions and stakeholders, including non-State actors. The Fund should be scalable and flexible; practise continuous learning, guided by monitoring and evaluation processes; 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 take a culturally sensitive and gender-responsive approach.

#### II. Scope

6. The Fund will provide finance for addressing a variety of challenges associated with the adverse effects of climate change, 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.

7. The Fund will focus on closing priority gaps within the current landscape of institutions, including global, regional and national institutions, that are funding activities related to responding to loss and damage. To this end, the Fund will provide complementary and additional support and improve the speed and adequacy of access to finance for responding to loss and damage by particularly vulnerable developing countries.

8. The Fund will provide support for responding to economic and non-economic loss and damage associated with the adverse effects of climate change. This support may include funding that is complementary to humanitarian actions taken immediately after an extreme weather event; funding for intermediate or long-term recovery, reconstruction or rehabilitation; and funding for actions that address slow onset events.

9. The support provided by the Fund may include developing national response plans; addressing insufficient climate information and data; and promoting equitable, safe and dignified human mobility in the form of displacement, relocation and migration in cases of temporary and permanent loss and damage.

### **III. Governance and institutional arrangements**

#### **A. Legal status**

10. The Fund will possess international legal personality and the appropriate legal capacity as is necessary for the exercise of its functions, the fulfilment of its objectives 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 will enjoy such privileges and immunities as are necessary for the independent fulfilment of its purpose. The officials of the Fund's secretariat will similarly enjoy such privileges and immunities as are necessary for the independent exercise of their official duties.

#### **B. Relationship to the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement**

11. The Fund will be 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.

12. Arrangements for ensuring that the Fund is accountable to and functions under the guidance of the COP and the CMA, consistently with this Governing Instrument, will be concluded between the COP, the CMA and the Board of the Fund for consideration and approval at COP 29 (November 2024) and CMA 6 (November 2024).

13. The Board will:

(a) Receive guidance from the COP and the CMA on its policies, programme priorities and eligibility criteria;

(b) Take appropriate action in response to the guidance received from the COP and the CMA;

(c) Submit annual reports to the COP and the CMA for their consideration.

14. 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.

#### **C. Board**

##### **1. Composition**

15. The Fund will be governed and supervised by a Board that is its decision-making body. The Board will have 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.

16. The Board will have an equitable and balanced representation of all Parties within a transparent system of governance.

17. The Board will comprise 26 members, as follows:
- (a) 12 members from developed countries;
  - (b) 3 members from Asia-Pacific States;
  - (c) 3 members from African States;
  - (d) 3 members from Latin American and Caribbean States;
  - (e) 2 members from SIDS;
  - (f) 2 members from the LDCs;
  - (g) 1 member from a developing country not included in the regional groups and constituencies referred to in paragraph 17(b–f) above.
18. Each Board member will have an alternate member, with alternate members 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. During the absence of a member from all or part of a meeting of the Board, its alternate will serve as the member.
19. The relevant regional groups and constituencies will nominate representatives with the appropriate technical, finance, loss and damage, and policy expertise, with due consideration given to gender balance, to serve as Board members, including alternate members.
20. The Board will enhance the engagement of stakeholders by inviting active observers, including youth, women, Indigenous Peoples and environmental non-governmental organizations, to participate in its meetings and related proceedings.

## 2. Roles and functions

21. The Board will serve the objectives and purpose of the Fund and steer the Fund's operations so that they evolve with the Fund's scale and maturity. The Board will exercise strategic leadership and flexibility to allow the Fund to evolve over time.
22. 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) Approve funding in line with the Fund's criteria, modalities, policies and programmes;
  - (d) Approve a policy for the provision of grants, concessional resources and other financial instruments, modalities and facilities, taking into account access to other financial resources and debt sustainability;
  - (e) Approve specific operational policies and frameworks, including for the programme and project cycle;
  - (f) Develop a mechanism that will help ensure the activities financed by the Fund are implemented in line with environmental and social safeguards and fiduciary principles and standards that promote a high level of integrity;
  - (g) Develop, approve and periodically review the Fund's results measurement framework;
  - (h) Establish subcommittees, panels and expert bodies, as appropriate, and define their terms of reference;
  - (i) Develop an accountability framework for funding approvals, which may be delegated by the Board to the Executive Director of the Fund, subject to the relevant policies of the host institution;
  - (j) Develop a system for allocating resources, as outlined in paragraph 60 below;



- (k) Establish additional thematic substructures to address specific activities, as appropriate;
- (l) Develop relevant indicators and triggers to clarify access to different sources of support provided through the Fund;
- (m) Establish, as appropriate, procedures for the monitoring and evaluation of performance and the financial accountability of activities financed by the Fund, and for any necessary external audits;
- (n) Review and approve the administrative budget and work programme of the Fund and arrange for performance reviews and audits;
- (o) Oversee the operation of all relevant organs of the Fund with respect to the Fund's activities, including the trustee, secretariat, subcommittees, and expert, advisory and evaluation panels;
- (p) Prepare a long-term fundraising and resource mobilization strategy and plan for the Fund to mobilize financial resources from the sources outlined in paragraph 54 below;
- (q) Select the Executive Director of the Fund;
- (r) Ensure the expeditious disbursement of funds by the host institution in line with the policies and procedures of the Fund;
- (s) Provide recommendations to the COP and the CMA, including those relating to means to enhance consistency, coordination and coherence with other sources, funds, initiatives and processes under and outside the Convention and the Paris Agreement;
- (t) Exercise other functions, as appropriate, to fulfil the objectives of the Fund.

## **D. Rules of Procedure of the Board**

### **1. Co-chairs**

23. 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 regional group's or constituency's viewpoint in Board deliberations. However, the Board member retains the right to vote.

### **2. Term of membership**

24. Members and alternate members of the Board are to serve for a term of three years and are eligible to serve additional terms, as determined by their regional group or constituency, for a maximum of two consecutive terms.

### **3. Quorum**

25. A three-fourths majority of Board members must be present at a meeting to constitute a quorum.

### **4. Decision-making**

26. 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-fifths majority of the members present and voting. The Board will develop procedures for determining when all efforts at reaching consensus have been exhausted. The Board will adopt procedures for taking decisions between meetings.

### **5. Observers**

27. The Fund will make arrangements to allow for the effective participation of observers in its meetings, including developing and carrying out an observer accreditation process.

## **6. Stakeholder input and participation**

28. The Fund will establish consultative forums to engage and communicate with stakeholders. The forums will be open to a wide range of stakeholders, including representatives of civil society organizations, environmental and development non-governmental organizations, trade unions, Indigenous Peoples, youth, women, climate migrants, industries and sectors impacted by climate change, community-based organizations, bilateral and multilateral development cooperation agencies, technical and research agencies, the private sector and governments. Participation in such forums should reflect a balance among United Nations geographical regions.

29. The Fund will develop mechanisms to promote the input and participation of stakeholders, including private sector actors, civil society organizations and the 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.

## **7. Expert and technical advice**

30. The Board may establish expert and technical panels to support its work and to provide inputs to the Fund's activities. These panels may include representatives of relevant constituted bodies established under the Convention and the Paris Agreement.

## **8. Additional rules of procedure**

31. The Board will develop additional rules of procedure.

# **E. Secretariat**

## **1. Establishment**

32. The Fund will be serviced by a new, dedicated and independent secretariat, which will be accountable to the Board. The secretariat will have effective management capabilities to execute the day-to-day operations of the Fund. The secretariat will be run by professional staff with relevant experience, including experience in a range of issues related to responding to loss and damage and experience in financial institutions. The selection of staff will be managed by the Executive Director of the Fund and will be a merit-based, open and transparent process, taking into account geographical and gender balance and cultural and linguistic diversity.

33. The secretariat will be headed by the Executive Director of the Fund, who will be selected by the Board. The Board will approve the job description and required qualifications for the Executive Director. The Executive Director will be selected through a merit-based, open and transparent process and will have the necessary experience and skills for the position.

34. The secretariat will include regional desks for all relevant United Nations geographical regions, the staff of which will build and maintain relationships with relevant actors in their respective regions to facilitate regionally informed decision-making, assessment of loss and damage, and planning as the secretariat undertakes its functions. Regional desks may support and facilitate access to the Fund, as appropriate. The secretariat should also seek to enable multilingual engagement, as appropriate.

## **2. Functions**

35. The secretariat will be responsible for the day-to-day operations of the Fund and will:

- (a) Plan and execute all relevant operational and administrative duties;
- (b) Report information on the activities of the Fund to the Board;
- (c) Develop and implement procedures for coordinating the activities of the Fund with those of other relevant funding arrangements;

- (d) Prepare performance reports on the implementation of activities financed by the Fund;
- (e) Develop the work programme and administrative budget of the secretariat, as well as the administrative budget of the trustee, and submit these documents for consideration and approval by the Board;
- (f) Operationalize the programme and project cycle;
- (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 fulfil its responsibilities;
- (j) Coordinate monitoring and evaluation of programmes, projects and activities financed by the Fund;
- (k) Establish and apply effective knowledge management practices;
- (l) Establish modalities that allow recipients to use implementing entities, including international, regional, national and local entities, as appropriate, on the basis of functional equivalency with World Bank safeguards and standards;
- (m) Assist countries in engaging with the Fund through its processes and procedures;
- (n) Coordinate with the Santiago network for averting, minimizing and addressing loss and damage associated with the adverse effects of climate change to support countries seeking to access the Fund through technical assistance through the network;
- (o) Take a regionally informed approach in responding to context-specific operational needs, capabilities and priorities of recipient countries;
- (p) Perform any other functions assigned by the Board.

## **F. Trustee**

36. 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.

37. The roles and responsibilities of the trustee include the receipt of contributions, implementation of the terms of contribution arrangements, the holding and investing of funds, the transfer of funds to implementing entities and/or other relevant recipients, accounting, reporting, and financial and fiduciary management, as well as 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.

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

39. 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.

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

## **IV. Operational modalities**

41. The Fund will have a streamlined and rapid approval process with simplified criteria and procedures, while also maintaining high fiduciary standards, environmental and social safeguards, and financial transparency standards, and strong accountability mechanisms. The Fund will avoid disproportionate bureaucratic obstacles to the access of resources.

## **V. Eligibility, country ownership and access**

### **A. Eligibility**

42. 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 modalities**

43. The Fund will seek to promote and strengthen national responses for addressing loss and damage through pursuing country-led approaches, including through effective involvement of relevant institutions and stakeholders, in particular women, vulnerable communities and Indigenous Peoples.

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

45. The Fund will promote, in all its operations, direct engagement at the national and, where appropriate, the subnational and local level to facilitate efficiency and the achievement of concrete results.

46. The Fund will involve developing country Parties that are particularly vulnerable to the adverse effects of climate change during all stages of the Fund's programme and project cycle, insofar as their respective projects are concerned.

47. The Fund may provide support for activities relevant to preparing and strengthening national processes and support systems. This may include support for developing proposed activities, projects and programmes, such as planning activities for addressing loss and damage; estimating financial requirements for implementing loss and damage activities; and establishing national loss and damage finance systems.

48. Developing countries may designate a national authority or national focal point to be responsible for overall management and implementation of activities, projects and programmes supported by the Fund. The authority or focal point will be consulted on any requests for funding through any access modalities, including those referred to in paragraph 49 below.

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

(a) Direct access via direct budget support through national governments, or in partnership with entities whose safeguards and standards have been judged functionally equivalent to those of multilateral development banks;

(b) Direct access via subnational, national and regional entities or in partnership with entities accredited to other funds, such as the Adaptation Fund, the Global Environment Facility and the Green Climate Fund;

(c) International access via multilateral or bilateral entities;

(d) Access to small grants that support communities, Indigenous Peoples and vulnerable groups and their livelihoods, including with respect to recovery after climate-related events;

- (e) Rapid disbursement modalities, as appropriate.

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

## **VI. Complementarity and coherence**

51. The Fund will play a key role in coordinating a coherent global response to loss and damage between the Fund and the funding arrangements. The Fund will promote efforts that enhance complementarity and coherence, such as the exchange of information and good practices and consultation with existing and new mechanisms.

52. The Fund will develop methods to enhance complementarity between its activities and the activities of other relevant bilateral, regional and global funding mechanisms and institutions in order to better utilize the full range of financial and technical capacities.

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

## **VII. Financial inputs**

54. The Fund is able to receive contributions from a wide variety of sources of funding, including grants and concessional loans from public, private and innovative sources, as appropriate.<sup>1</sup>

55. The Fund will have a periodic replenishment every four years and will maintain the flexibility to receive financial inputs on an ongoing basis.

56. The Board will prepare a long-term fundraising and resource mobilization strategy and plan for the Fund to guide its mobilization of new, additional, predictable and adequate financial resources from all sources of funding.

## **VIII. Financial instruments**

57. The Fund will provide financing in the form of grants and highly concessional loans on the basis of the Board's policy for the provision of grants, concessional resources and other financial instruments, modalities and facilities. In its provision of finance, the Fund will make use of, inter alia, triggers, climate impact relevant indicators, debt sustainability considerations and criteria developed by the Board, and take into account guidance from the COP and the CMA.

58. The Fund may deploy a range of additional financial instruments that take into consideration debt sustainability (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, as appropriate) to augment and complement national resources for addressing loss and damage.

59. The Fund should be able to facilitate the blending of finance from different financial tools to optimize the use of public funding, especially in order to ensure effective results for vulnerable populations and the ecosystems on which they depend.

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<sup>1</sup> This paragraph is without prejudice to any future funding arrangements, any positions of Parties in current or future negotiations, or understandings and interpretations of the Convention and the Paris Agreement.

## **IX. Allocation of funding**

60. The Board will develop and operate a resource allocation system. This system will take into account, inter alia:

(a) The priorities and needs of developing countries that are particularly vulnerable to the adverse effects of climate change, while taking into consideration the needs of climate-vulnerable communities;

(b) Considerations of the scale of impacts of particular climate events relative to the national circumstances, including but not limited to, response capacities of the impacted countries;

(c) The need to safeguard against the overconcentration of support provided by the Fund in any given country, group of countries or region;

(d) The best available data and information from entities such as the Intergovernmental Panel on Climate Change and/or pertinent knowledge from Indigenous Peoples and vulnerable communities on exposure and sensitivity to the adverse effects of climate change and on loss and damage, recognizing that such data, information and knowledge may be limited for specific countries and regions;

(e) Estimates of recovery and reconstruction costs based on data and information from relevant entities, in particular national and/or regional entities, recognizing that such data or information may be limited for specific countries and regions;

(f) A minimum percentage allocation floor for the LDCs and SIDS.

61. The allocation system will be dynamic and will be reviewed by the Board.

## **X. Monitoring**

62. 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.

63. A results measurement framework, with guidelines and appropriate performance indicators, will be developed, considered and approved by the Board. The performance of programmes, projects and other activities against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.

## **XI. Evaluation**

64. Periodic independent evaluations of the performance of the Fund will be conducted 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, identify and disseminate lessons learned, and support the accountability of the Fund.

65. The results of the periodic evaluations will be published by the secretariat. They will also be provided as part of the annual report of the Board to the COP and the CMA.

66. The Fund will be subject to periodic reviews conducted by the COP and the CMA. These periodic reviews will be informed by, inter alia, the results of the independent evaluation and the annual reports of the Board to the COP and the CMA.

## **XII. Fiduciary standards**

67. The Fund will ensure that fiduciary principles and standards that promote a high level of integrity are applied to its activities, and, to this end, the secretariat will work towards ensuring that each implementing entity applies such fiduciary principles and standards when

implementing activities financed by the Fund. The secretariat will support the strengthening of the capacities of direct access implementing entities, where needed, to enable them to attain functional equivalency with the World Bank’s fiduciary principles and standards, on the basis of modalities that will be developed by the Board.

### **XIII. Environmental and social safeguards**

68. The Fund will ensure that best practice environmental and social safeguard policies are applied to its activities, and, to this end, the secretariat will work towards ensuring that each implementing entity applies such environmental and social safeguard policies when implementing activities financed by the Fund. The secretariat will support the strengthening of the capacities of direct access implementing entities, where needed, to enable them to attain functional equivalency with the World Bank’s environmental and social safeguards, on the basis of modalities that will be developed by the Board.

### **XIV. Accountability and independent mechanisms**

69. 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.

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

71. 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.

### **XV. Amendments to the Governing Instrument**

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

### **XVI. Termination of the Fund**

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

## Annex III

### **Recommendations of the Transitional Committee in relation to the new funding arrangements**

#### **I. Objective and scope**

1. The purpose of the new funding arrangements, which complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement, is to assist 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, including for addressing extreme weather events and slow onset events, especially in the context of ongoing and ex post action.<sup>1</sup>
2. The new funding arrangements include scaling up or enhancing existing and initiating new funding arrangements for responding to loss and damage.
3. The new funding arrangements will focus on providing and assisting in mobilizing new and additional resources while complementing sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.

#### **II. Coordination and complementarity**

4. The funding arrangements will increase the coherence of and coordination across the loss and damage finance architecture. They will contribute to avoiding the duplication of effort, maximizing and leveraging comparative advantages, sharing best practices and promoting synergies among the communities of practice related to loss and damage while continuing to assist in mobilizing new, additional and predictable financial resources.
5. The funding arrangements should ensure coordination at the national and regional level while also ensuring coherence at the operational level and in programmatic approaches.
6. The funding arrangements are to work in a manner coherent with and complementary to the fund established by paragraph 3 of decisions 2/CP.27 and 2/CMA.4 (hereinafter referred to as the Fund), which will be made possible through the best use of existing mechanisms, such as the WIM and the Santiago network for averting, minimizing and addressing loss and damage associated with the adverse effects of climate change.
7. The Santiago network and its members should contribute to the above-mentioned coherence by aligning technical assistance catalysed under the network with efforts to build capacity and support the programmatic approaches of the Fund and the funding arrangements, as appropriate.

##### **A. Relationship of the new funding arrangements with the Fund**

8. The Fund will act as the platform for facilitating coordination and complementarity under the funding arrangements by establishing and operationalizing the high-level dialogue outlined in chapter II.B below.
9. The Board of the Fund is encouraged to create an approach for developing partnerships with other entities under the funding arrangements.
10. The Board is requested to develop standard procedures informed, inter alia, by the work of the WIM to identify sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement that are assisting developing countries in responding to loss and damage from sudden or slow onset events, including economic or non-economic

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<sup>1</sup> Decisions 2/CP.27, para. 2, and 2/CMA.4, para. 2.



loss and damage (i.e. funding arrangements), for the purpose of supporting strengthened coordination and complementarity.

## **B. High-level dialogue**

11. An annual high-level dialogue on coordination and complementarity (the dialogue) with representatives from the main entities that form part of the funding arrangements will be organized to:

(a) Facilitate a structured and timely exchange of relevant knowledge and information, including between the entities under 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 experience of others, exchanging good policies and practices, and leveraging research and data systems;

(c) Promote the exchange of country and community experience in undertaking action to respond to loss and damage;

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

(e) Develop recommendations on scaling up or enhancing existing as well as initiating new funding arrangements for responding to loss and damage.

12. The Board of the Fund will report on the dialogue through its annual report to the COP and the CMA, and will include in the report information on actions to implement the recommendations arising from the dialogue, as well as recommendations on new funding arrangements.

13. The dialogue will be co-convened by the Fund and the United Nations Secretary-General; either may designate a high-level representative that has the power to convene the entities engaged in responding to loss and damage under the funding arrangements.

14. The dialogue will consist of no more than 30 high-level representatives of entities engaged in responding to loss and damage under the new funding arrangements, invited by the co-convenor of the dialogue, including representatives of:

(a) The Fund;

(b) The World Bank and regional development banks;

(c) The International Monetary Fund;

(d) Relevant United Nations agencies and other intergovernmental organizations as well as relevant regional, international, bilateral and multilateral organizations;

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

(f) The International Organization for Migration;

(g) The WIM Executive Committee and the Santiago network;

(h) Civil society, Indigenous Peoples and the philanthropic sector, as well as individual experts on loss and damage chosen on the basis of their expertise and their representation of different regions and perspectives.

15. The dialogue is to provide recommendations related to enhancing implementation of the objectives of the new funding arrangements in line with relevant COP and CMA decisions.

16. The dialogue will consider any comments or guidance from the COP and the CMA and will follow up on recommendations arising from previous dialogues.

### **III. Recommended actions with regard to the funding arrangements**

17. Parties and relevant institutions should consider, as appropriate, developing and implementing additional funding arrangements for improving sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement to address gaps in the speed of disbursement of, eligibility for, adequacy of and access to finance, especially pre-arranged finance, for responding to various 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.

18. A wide variety of sources, including innovative sources, should be made available to support and complement the new and existing arrangements, including sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement, and they should be made available in ways that ensure the new and existing funding arrangements target people and communities in climate-vulnerable situations (including women, children, youth, Indigenous Peoples, and climate migrants and refugees in developing countries that are particularly vulnerable to the adverse impacts of climate change).

19. The Santiago network and its members should contribute to coherence by aligning the technical assistance catalysed under the network with efforts to build capacity and support programmatic approaches of the Fund and the funding arrangements.

20. The entities under the funding arrangements should explore ways of better coordinating all channels of finance, including bilateral, regional and multilateral channels, with the aim of improving synergies and coherence among the existing and new arrangements for responding to loss and damage.

21. Initiatives such as Early Warnings for All, Climate Risk and Early Warning Systems, the Systematic Observations Financing Facility and the Global Shield against Climate Risks are welcome, and relevant actors are encouraged to increase their support for activities that enhance response to loss and damage.

22. United Nations agencies, multilateral development banks and bilateral agencies are invited to include, as appropriate, in their annual reports information on their efforts to assist developing countries that are particularly vulnerable to the adverse effects of climate change in responding to loss and damage, starting from 2024.

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

24. Relevant actors and contributors are urged to scale up anticipatory approaches through mechanisms such as the Central Emergency Response Fund, the Disaster Response Emergency Fund, the Start Network and country-based pooled funds.

25. The development of regional sources, funds, initiatives and processes to enhance approaches focused on unique regional challenges in responding to loss and damage should be explored. In this regard, the establishment of the Pacific Resilience Facility is welcomed.

26. Multilateral climate finance institutions and funds are encouraged to promote the inclusion of climate migrants and refugees in their funded activities, consistently with existing investments, results frameworks, and funding windows and structures.

## Annex IV

### Members of the Transitional Committee

<i>Member</i>	<i>Meetings held during membership</i>	<i>Country</i>	<i>Constituency/regional group</i>
Mohamed Nasr <sup>a</sup>	All	Egypt	Developing country Parties: Africa
Richard Sherman	All	South Africa	
Sumaya Zakieldean	1 <sup>st</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	Sudan	
David Kaluba	2 <sup>nd</sup>	Zambia	
Hana AlHashimi <sup>b</sup>	All	United Arab Emirates	Developing country Parties: Asia and the Pacific
Kunal Satyarthi	1 <sup>st</sup>	India	
Rosa Perez	2 <sup>nd</sup>	Philippines	
Daniel Lund	3 <sup>rd</sup>	Fiji	
Albara Tawfiq	4 <sup>th</sup> , 5 <sup>th</sup>	Saudi Arabia	
Ren Yan	1 <sup>st</sup>	China	
Hyekyoung Jung	2 <sup>nd</sup>	Republic of Korea	
Yingzhi Liu	3 <sup>rd</sup>	China	
Ali Waqas Malik	4 <sup>th</sup> , 5 <sup>th</sup>	Pakistan	
Jaime Tramón	1 <sup>st</sup> , 2 <sup>nd</sup>	Chile	Developing country Parties: Latin America and the Caribbean
Angela Rivera Galvis	3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	Colombia	
Milagros De Camps	1 <sup>st</sup> , 2 <sup>nd</sup>	Dominican Republic	
Matheus Bastos	3 <sup>rd</sup> , 4 <sup>th</sup>	Brazil	
Tulio Andrade	5 <sup>th</sup>	Brazil	
Carlos Méndez	1 <sup>st</sup> , 2 <sup>nd</sup>	Venezuela (Bolivarian Republic of)	
Avinash Persaud	3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	Barbados	
Diann Black-Layne	1 <sup>st</sup> , 2 <sup>nd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> (part)	Antigua and Barbuda	Developing country Parties: SIDS
Michai Robertson	3 <sup>rd</sup> , 5 <sup>th</sup> (part)	Antigua and Barbuda	
Khadeeja Naseem	All	Maldives	
Adao Soares Barbosa	All	Timor-Leste	Developing country Parties: LDCs
Sonam Phuntsho Wangdi	1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> , 5 <sup>th</sup>	Bhutan	
Hafijul Islam Khan	4 <sup>th</sup> (part)	Bangladesh	
Manjeet Dhakal	4 <sup>th</sup> (part)	Nepal	
Gayane Gabrielyan	All	Armenia	Developing country Party not included in a category listed above
Georg Børsting	All	Norway	Developed country Parties
Christina Chan	All	United States	
Jean-Christophe Donnellier	All	France	
David Higgins	1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup>	Australia	
Sally Box	5 <sup>th</sup>	Australia	
Outi Honkatukia	All	Finland	

<i>Member</i>	<i>Meetings held during membership</i>	<i>Country</i>	<i>Constituency/regional group</i>
Steven Kuhn	1 <sup>st</sup> , 2 <sup>nd</sup>	Canada	
Laurence Ahoussou	3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	Canada	
Lotte Machon	1 <sup>st</sup>	Denmark	
Jens Fugl	2 <sup>nd</sup> , 5 <sup>th</sup>	Denmark	
Jaime de Bourbon de Parme	3 <sup>rd</sup> , 4 <sup>th</sup>	Netherlands (Kingdom of the)	
Debbie Palmer	1 <sup>st</sup> , 2 <sup>nd</sup> (part), 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	United Kingdom	
Sarah Metcalf	2 <sup>nd</sup> (part)	United Kingdom	
Sinead Walsh	1 <sup>st</sup> , 2 <sup>nd</sup>	Ireland	
Heike Henn	3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup>	Germany	
Jun Yamazaki	1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup>	Japan	
Atsushi Kato	5 <sup>th</sup>	Japan	

<sup>a</sup> Representative of the President of COP 27.

<sup>b</sup> Representative of the incoming President of COP 28.

## **Annex V**

### **Organizations represented in the Technical Support Unit**

Adaptation Fund

Food and Agriculture Organization of the United Nations

Global Environment Facility

Green Climate Fund

International Organization for Migration

Multilateral Fund for the Implementation of the Montreal Protocol

United Nations Development Programme

United Nations Environment Programme

United Nations Office for Disaster Risk Reduction

United Nations Office for the Coordination of Humanitarian Affairs

World Bank

World Food Programme

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