

Comments on the United States' Informal Finance Intervention in Bonn, June 2010

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We welcome the deepened US engagement in climate finance as represented in the “U.S. intervention related to the establishment of the new Fund, LCA informal breakout group on finance institutions, June 9, 2010,” and hope to see a COP decision on a new global climate fund in Cancun. We are particularly pleased to see US openness to an independent secretariat for the global climate fund. We strongly support the secretariat not being located at the World Bank or other existing institutions. We are also pleased to see the US delineate that the “Board is the executive authority of the fund.”

However, we think that it would be more constructive going forward to ground the US finance approach in the Convention rather than the Copenhagen Accord. While we understand that the Copenhagen Accord is important to the Obama Administration, it remains a polarizing matter in the UNFCCC negotiations.

Fund Design

In terms of designing the fund, while it is certainly the case that finance experts should be involved in setting up a fund, the involvement of negotiators (which could include those who are equally expert on the Convention and on finance) and experts on development, mitigation, adaptation, governance, and other matters is also fundamental. It is especially important to include negotiators (and not just finance experts) as part of the core group designing the fund to ensure ownership and political buy-in, and to facilitate trust-building. It is also essential that the details of the fund get established in a fully open and transparent manner.

It is critical that the fund be established within the context of the UNFCCC and not brought in later via an MOU. We are not suggesting that the COP at large would design the details of the instrument. Rather, establishing the fund could require a working group appointed by the COP to work out the details of the fund. This would then need to be brought back to the COP. We suggest that the COP could nominate members of a working group (or some other named entity) in a democratic and transparent manner, based on agreed criteria. This working group – with buy-in from all parties – could design the instrument and then bring it back to the COP for adoption. The Montreal Protocol Fund - which was designed within the context of the Meeting of Parties of the Montreal Protocol rather than brought in later via an MOU - provides a model from which to draw.

Another possible way forward, as was used with the Adaptation Fund, is for a COP decision to establish the contours of the Board, have Parties decide on the individual Board members – which should be

approved by the COP – and have the Board, in consultation with relevant finance and other experts, establish the details of the fund.

To establish common understanding and to avoid any misperceptions regarding inclusiveness, we suggest in “Step 2 – designing the instrument,” that you clarify what is meant by “*our countries*” in “finance experts from *our countries* convene in a series of meetings to design an instrument.” Also, in writing, “At the final meeting of this *working group*, *countries* would approve the instrument and nominate the Board,” we think it would be helpful to clarify who would make up this working group and on what basis, as well as which countries (members of the working group, COP, or something else) would approve the instrument and nominate the Board. It is critical that the criteria for instrument approval and Board nomination be decided and approved so as to be seen as legitimate in the eyes of all parties.

Trustee

The trustee is not the appropriate body to convene the process to design the fund, and we are glad to see openness on the part of the US to other options for a convener. The convener must have the trust and buy-in of all parties and must come from within the Convention-- both qualifications would disqualify the World Bank. (Suggestions we’ve come across for the convener include the COP, the Finance Board, and the LCA Chair, amongst others within the UNFCCC.) The role of the trustee should be limited to that of a bank account, ensuring fiduciary responsibility and disbursing funding. The trustee must have financial competence to manage the fund’s resources and must handle the funds in accordance with principles and modalities for operation as specified in COP decisions. Similarly, borrowing from the draft intervention language, the trustee “receives money” and “holds money.” We also advise against specifying a trustee in the COP decision establishing the fund but rather encourage an open bidding process to identify the most efficient, competent and cost-effective trustee. The COP decision could establish the criteria for open bidding.

Model Funds

In elaborating on funds to look to as models, we think it critical to give due consideration to the Multilateral Fund for the Implementation of the Montreal Protocol. It has a strong track record of success and is an example of effective international cooperation that enjoys widespread support by developing and developed countries. US leadership has been key to its establishment and continued support. The Multilateral Fund was the first financial mechanism established by an international environmental agreement and is the only dedicated fund to a multilateral environmental agreement. It is under the authority of and directly accountable to the Montreal Protocol’s Meeting of the Parties. The Executive Committee of the Multilateral Fund manages the fund under the Meeting of the Parties’ direct supervision. Further, the Fund is based on the principle of common but differentiated responsibility.

There are also important lessons to be learned from the Global Fund to Fight AIDS, Tuberculosis, and Malaria. For example, it has an independent secretariat, strong criteria for accountability and

transparency, and a unique governance structure which includes members of civil society and representatives from affected communities.

We also urge you not to dismiss the Adaptation Fund model. It has set an important precedent, especially in terms of governance and direct access, and contains important lessons from which to draw. Indeed, it was the legitimacy of the process to establish the Adaptation Fund Board that enabled the rather easy passage of agreed fiduciary standards by the COP serving as the Meetings of the Parties to the Kyoto Protocol. We urge you to look at Decision1/CMP.3 establishing the Adaptation Fund as a model from which to draw for a decision establishing a global climate fund.

Direct Access

We think direct access to funds for domestic institutions in developing countries is crucial and welcome US openness to it. We urge further elaboration of what the US views as the “right circumstances” and “appropriate fiduciary standards” to allow for such direct access. The international fiduciary standards approved under the Adaptation Fund should be considered as a politically-tested, proven model.

Co-financing

Co-financing requirements to access funds have been an area of concern raised consistently by developing countries at climate negotiations, especially with regards to adaptation. For example, this requirement has often been cited as an obstacle to accessing funds from the Least Developed Countries Fund. We recommend that co-financing not be required at least for adaptation initiatives.

References to Articles of the Convention

As a more formal US finance submission is developed, we encourage that it reference developed countries’ legal obligation to provide new and additional financial resources, including reference to Article 4.3. We also urge specific reference to Article 4.7, that the extent to which developing countries implement Convention commitments depends on the provision of financial resources by developed countries and that development and the elimination of poverty are the foremost priorities of developing countries. We further encourage any decision text to reference Articles 4.1, 4.4, and 4.5 of the Convention, which also pertain to the provision of finance.

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