

1 **U.S. intervention related to the establishment of the new Fund**
2 **LCA informal breakout group on finance institutions, June 9,2010**

- 3 • Following the Facilitator's guidance, we will focus our comments on the establishment of
4 a new Fund, because many parties have approached us seeking clarification of our views
5 on this matter.

6 **On the Finance Board**

- 7 • However, I would just make one point on the previous conversation about a Finance
8 Board. A large number of parties have expressed the view here that it is premature to talk
9 about a Finance Board as the only option in the text. We are open to discussing the
10 functions in para 35, but the text currently offers only one institutional solution — the
11 Finance Board.

- 12 • Therefore, we would request the Chair to include an alternative that reflects this view
13 held by many parties, and we would be happy to offer text if necessary.

14 **On the establishment of the Fund**

- 15 • In our view, this should be a three step process, with the Accord let's say being step 0.
16 • For us, as a party who associated with the Copenhagen Accord, important decisions
17 related to the Fund have already been made by our leaders. The most important is that the
18 Accord defines the basic relationship between the COP and the Fund. The Fund will be an
19 operating entity of the financial mechanism, under the guidance of and accountable to the
20 COP. This division of labor in Article 11 is very clear.

21 *Step 1 — COP decision*

- 22 • Step 1, then, can be a COP decision, consistent with the Accord:
23 • Specifying that a new fund will be established as an operating entity
24 • Specifying the basic composition and criteria for the Board
25 • Specifying the Trustee
26 • Specifying the thematic areas to be covered
27 • This COP decision provides the framework for proceeding to step 2.

28 *Step 2 — designing the instrument*

- 29 • Here let me pause and let me emphasize something that is very important to us.
30 • Establishing a fund is not like establishing an expert group or technical body under the
31 COP-Actually designing the arrangements for a fund is a matter for finance ministry
32 experts. It is essential to have the right people involved in the process.

- 33 • So let's consider the precedents of other funds operating at the scale we envision.
- 34 • I know people have mentioned the Adaptation Fund model — but we must remember
35 that this fund is small, has a limited track record, and is funded primarily through an
36 international CDM levy rather than through national contributions.
- 37 • We therefore need to consider other examples at a larger scale — and would urge all of
38 you to consult your finance experts to consider the lessons of these other examples.
- 39 ○ The Global Fund to Fight AIDS, Tuberculosis, and Malaria — the G8 called for
40 its establishment, and a group of countries formed a Transitional Working Group
41 hosted by Belgium and chaired by Uganda and, over a series of meetings,
42 developed the framework for the fund. Board composition was agreed, and board
43 members appointed by their constituencies.
- 44 ○ The GEF — following the signature of the UNFCCC, finance experts from many
45 countries convened to restructure and reform an already-existing GEF pilot
46 program and negotiated the GEF instrument that we have today. The GEF
47 subsequently negotiated a Memorandum of Understanding with the COP in
48 fulfillment of the requirement in Article 11.
- 49 ○ The Climate Investment Funds (the largest pool of multilateral climate finance
50 today) — a group of developed and developing countries and the MDBs worked
51 to establish the CIFs
- 52 ○ We could also look at a recent example -- France and Norway decided to take the
53 initiative, convened more than 60 parties in Paris and then Oslo and agreed the
54 REDD+ Partnership document.
- 55 • Now yes, we could meet here once or even twice a year, as climate negotiators meeting a
56 few times a week at the COP or SBI to design an institution. This may seem normal in
57 our context, but in the context of how other major funds have been established — from
58 the perspective of historical precedent — this method would be highly unusual.
- 59 • We are concerned that such a process, unfolding entirely within the COP or SBI, would
60 take years (considering how long it took to establish the Adaptation Fund, or as the G77
61 reminded me recently, the four years it took to negotiate the decision establishing the
62 SCCF).
- 63 • So recalling that step 1 was a COP decision providing a framework, we propose that in
64 step 2, finance experts from our countries convene in a series of meetings to design an
65 instrument.
- 66 • In our initial proposal, the Trustee would convene because it has the infrastructure to
67 host a technical financial process, but we are open to considering a party or group of
68 parties who wish to convene this process.

- 69 • The Instrument serves as the founding document to establish the fund. This document
70 could build on the COP decision and set forth elements such as:
- 71 ▪ Purpose and Principles, including for making funding decisions
 - 72 ▪ Board Modalities
 - 73 ▪ Secretariat details and financing
 - 74 ▪ Funding Modalities (grants, loans, other financial products direct access)
 - 75 ▪ Specialized Windows
 - 76 ▪ Monitoring and Review
 - 77 ▪ Fiduciary and Safeguard Responsibilities/Need to be linked to Trustee
- 78 • At the final meeting of this working group, countries would approve the instrument and
79 nominate the Board.
- 80 • The Board would then convene and at that point, we have an instrument and a Board.
81 The Board is then ready to negotiate an MOU with COP, and to begin work on its
82 operational responsibilities.

83 *Step 3 – MOU agreed between COP and Fund*

- 84 • In Step 3, the COP and the Fund's Board would agree an MOU setting out the details of
85 guidance and accountability. It's important to remember that this fund is a new
86 accountability model, not like the GEF (which is accountable to multiple conventions)
87 and the CIFs (which are not accountable to any convention). It is a chance for a clean
88 sheet of paper.
- 89 • If this three-step process seems confusing to some of you, it's because – as I said – setting
90 up a fund for many billions is not really a matter for climate negotiators. Our job is to
91 establish the overall framework at the beginning, and then negotiate the legal relationship
92 to the COP via the MOU. But let's not try to write the instrument.

93 **The Fund's relationship to the World Bank**

- 94 • There seem to be some misunderstandings about the U.S. vision for this fund. Many have
95 expressed concern that we want it to be "at the Bank". I'm not sure what it means for a
96 fund to be "at the Bank," so let me lay out our vision specifically.
- 97 • First, we have certainly emphasized the importance of the Trustee function. The Trustee
98 receives money, holds money, ensures the money is spent in accordance with appropriate
99 standards and safeguards.
- 100 • In our view, the World Bank may be the only institution with the fiduciary standards,
101 safeguards, and experience to serve as Trustee for this fund. Note that the Bank

- 102 serves as Trustee for the Global Fund, the Adaptation Fund, the LCDF, the SCCF, the
103 GEF, and the CIFs.
- 104 • So the World Bank's role as Trustee is important to us ... but this is not a "Fund run
105 by the World Bank" in the way that some have interpreted.
- 106 • Second, the Board is the executive authority of the fund – it would not report to the
107 World Bank. It is accountable to the COP for policy guidance, program priorities,
108 and eligibility criteria.
- 109 • So I hope this is clear – the Board runs the Fund, the Board is under the guidance of the
110 COP, the Board is not "accountable" to the World Bank.
- 111 • Let me also emphasize that we need criteria for membership of this Board
112 focusing on expertise in finance and development.
- 113 • Third, the Secretariat. The secretariat would be an independent, dedicated fund manager
114 reporting to the Board. Again, the World Bank does not necessarily have to play this
115 role. You would expect that the Secretariat would be staffed with professionals with
116 experience in public finance and private finance, mitigation and adaptation etc. The
117 Bank offers expertise in this area but others do too.
- 118 • Finally, let me touch on the role of the MDBs in channeling finance.
- 119 • We do think the multilateral development banks will be key institutions in co-financing
120 large-scale mitigation and adaptation investments. In fact, they already are. The MDBs
121 put together financing packages of public and private funds, both international and
122 domestic sources, to finance major projects and programs.
- 123 • However, this does not mean the MDBs would necessarily serve as an additional layer
124 standing between the Fund and countries. We are certainly open to considering, under
125 the right circumstances and with appropriate fiduciary standards, how domestic
126 institutions could access financing directly from the Fund.
- 127 • I hope this has clarified our views on the establishment of the Fund and its relationship
128 with the MDBs. We look forward to hearing the views of other Parties.