Forest Carbon Partnership Facility

Options for upfront financing of ER Programs

Twelfth Meeting of the Carbon Fund (CF12)

Paris, France

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Outline of Presentation

- The Financing Gap in REDD+ Programs
  - Investment phase
- Options for filling the gap
  - Loans/credits/grants
  - Bonds
  - Guarantees
  - Bilateral
  - REDD Country's own resources
  - Other
    - Forest Investment Program (FIP), FCPF Readiness Fund, UN-REDD, Global Environment Facility (GEF), REDD Early Movers (REM), Green Climate Fund (GCF)
  - Advances

The Financing Gap in REDD+ Programs

- Results-based finance is downstream, post-verification of emission reductions
- Finance for investments or activities to produce the results (the “missing middle”) is limited
- Forest Investment Program (FIP) specifically targets this investment phase, other funds can be used
  - currently 8 countries selected into the FIP, a few more to be selected in May
- Each country submitting ER Programs is in a different financial situation and each has different options
- Some countries presented preliminary financing plans in ER-PINs and in Early Ideas but there are significant gaps in the information provided
- Preliminary assessment of ER-PINs indicates most programs do not have adequate finance to implement programs

Investment Example: Forest Sector Development in Vietnam (ER Program Area)

Key points

- Many countries face barriers to implementing national REDD+ policies and measures, including finance to make necessary investments
- Need to **leverage existing finance** which is often many times larger than climate finance; financing in other sectors (non-forestry) is critical to address drivers of deforestation and degradation
- Long-term, cumulative emission reductions from the ER Program will be **created and maintained** from a different financing mix
- Technical assistance, investments and results-based finance are part of an **integrated finance package** to create long-term emission reductions

Integrated Finance Package

Financing Package ($ XX million)

- Agriculture
- Energy
- REDD+
- Others

- Private Sector
- Donors
- Government

$

(X%) leveraging existing (investment) financing

+

(Y%) new (investment) financing

+

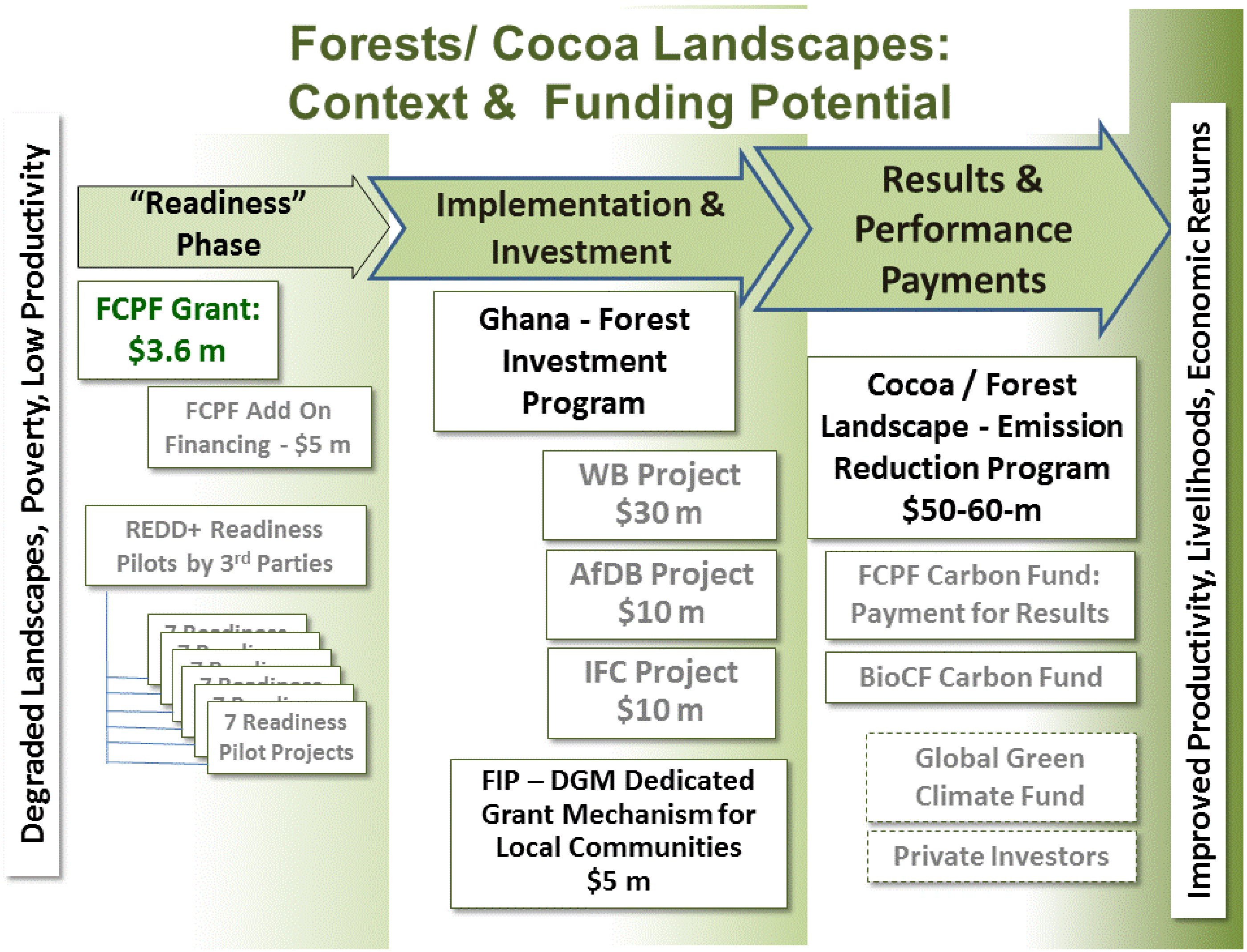
(z%) Results Based financing

Filling the investment gap (for timely program implementation)

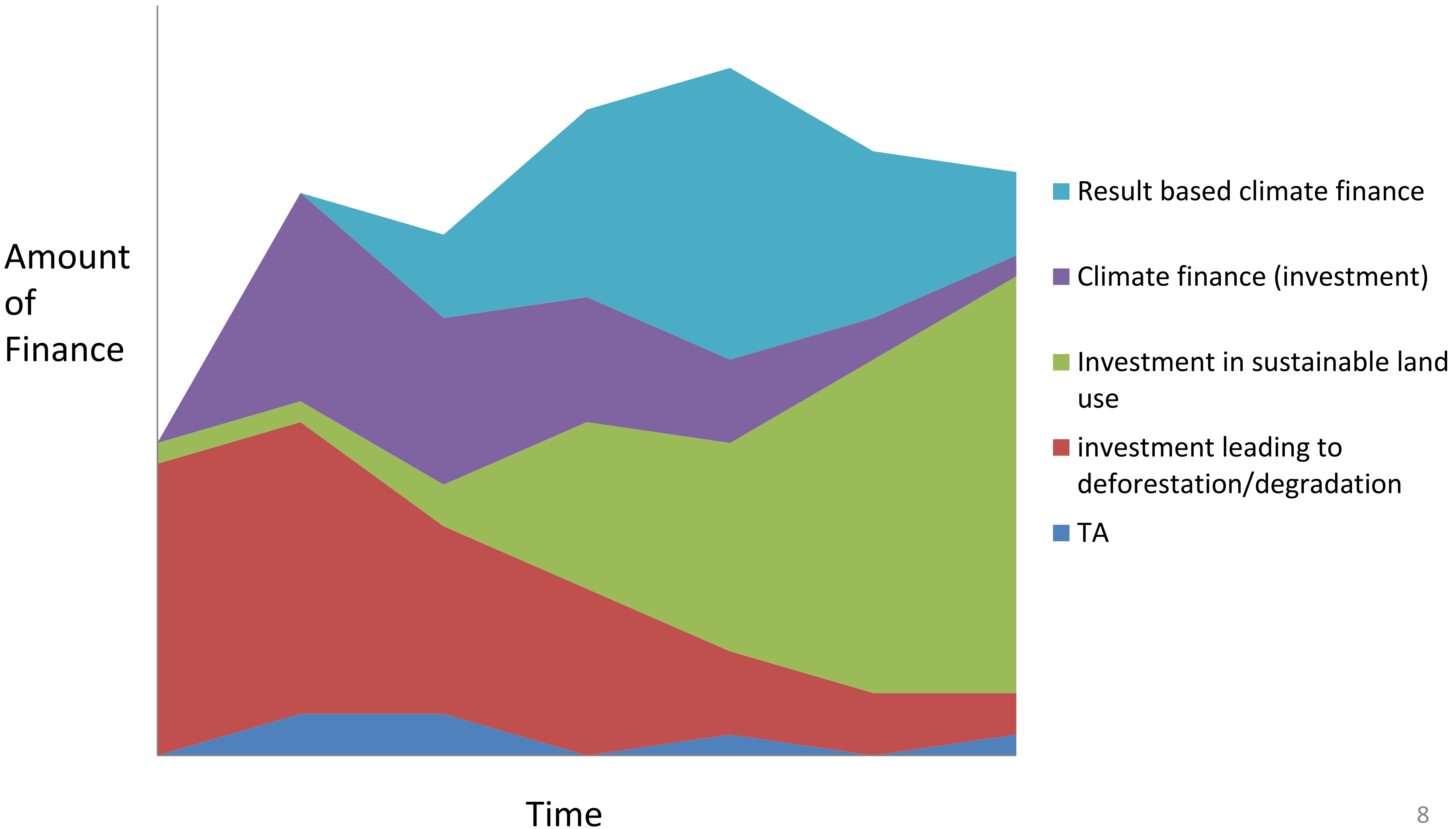
(Y%) new (investment) financing

- Use RBF as leverage to attract:
  loans for Private Sector/Govt/NGOs, (IDA, IFC, Risk Sharing Facility, Bonds, others)
- Use RBF, and/or policy measures as direct incentives for leveraging additional private sector investments, and engaging program partners
- Advance payment for ERs

Country example: Ghana



Finance package for ER Program changes over time



How to fill the Financing Gap in REDD+ Programs

- Lack of upfront financing is a possible major risk which could undermine results in many programs
- As programs develop, the FMT and World Bank Global Practice teams will work with the countries to obtain a full picture of the financing situation, assess financing gaps and explore options to fill the financing gap. This assessment of financing normally forms part of World bank due diligence.
- The FMT is looking for feedback or agreement in principle from CFPs on different financing options to see what options can be considered by countries

Options for Filling the Gap (1) Loans

- Program Entities can take out loans using the future ER Payments as collateral
- Loan sources: Commercial banks or International Financial Institutions (IFIs) (eg World Bank, IFC for private sector)
- Commercial loans
  - Easier access in Upper Middle Income Countries (MICs) (mainly Latin American, Mexico, Peru etc)
  - More difficult in Lower MICs (Indonesia, Republic of Congo, Vietnam, Ghana, Guatemala)
  - Very difficult in Low Income Countries (DRC, Nepal)
- World Bank will lend to MICs and credit-worthy poor countries
  - Requires one to two years for preparation, negotiations and approval
- Development Policy Financing (DPF) through general budget financing to support broad policy and institutional reforms
- World Bank lending for forestry projects is modest (less than $400 million)
- Many governments/quasi governmental organizations do not wish to borrow to finance REDD+

Options for Filling the Gap (2)
'Credits' and Grants

- Lower MICs and LICs can receive loans (called 'credits') and grants from the International Development Association (IDA)
- IDA lends money on concessional terms
  - Minimal or no interest
  - Repayments over 25 to 38 years, including a 5- to 10-year grace period
  - IDA allocations per country
- IDA-eligible CF pipeline countries:
  - Blend countries: IDA-eligible but also creditworthy for some IBRD borrowing - Ghana, Republic of Congo, Vietnam
  - IDA-eligible: DRC, Nepal

Options for Filling the Gap (3)
Bonds (1)

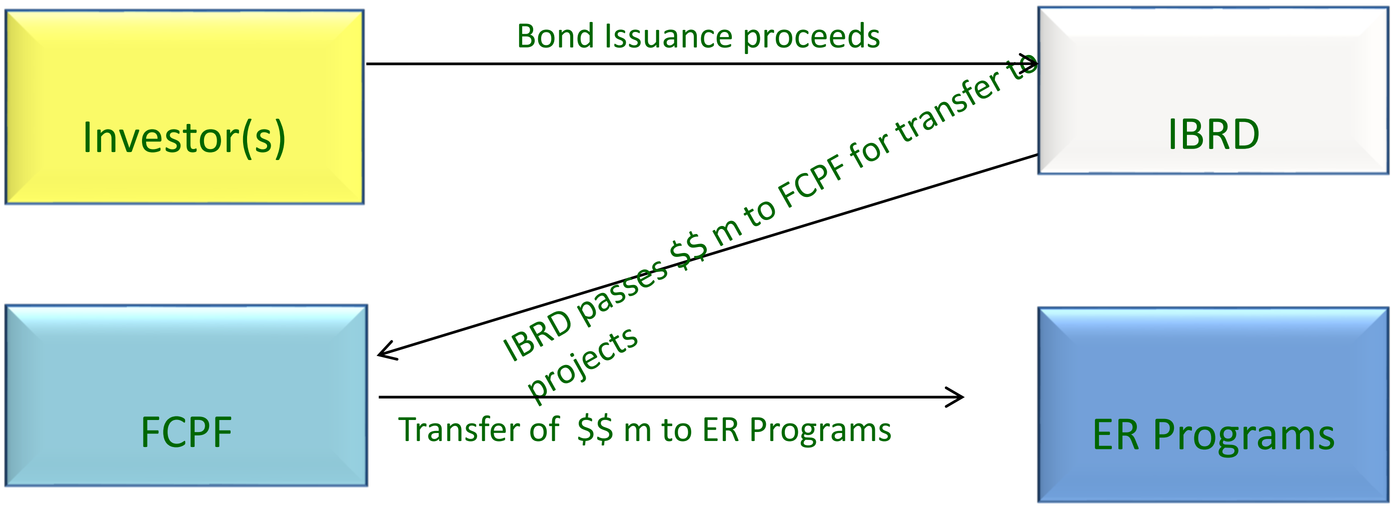
- Bonds are a form of loan, often with fixed interest (coupon) and a date for principal repayment (maturity date)
  - e.g., government bonds or Treasury bonds
- World Bank has significant experience issuing green bonds ($6.7 billion in last 5 years)
- Risks too high for a single country REDD+ bond but diversification across the 11 CF pipeline countries (or more) maybe feasible
- Bonds team in the World Bank is currently researching the feasibility of an FCPF specific REDD+ bond with potential investors

Options for Filling the Gap (4)
Bonds (2)

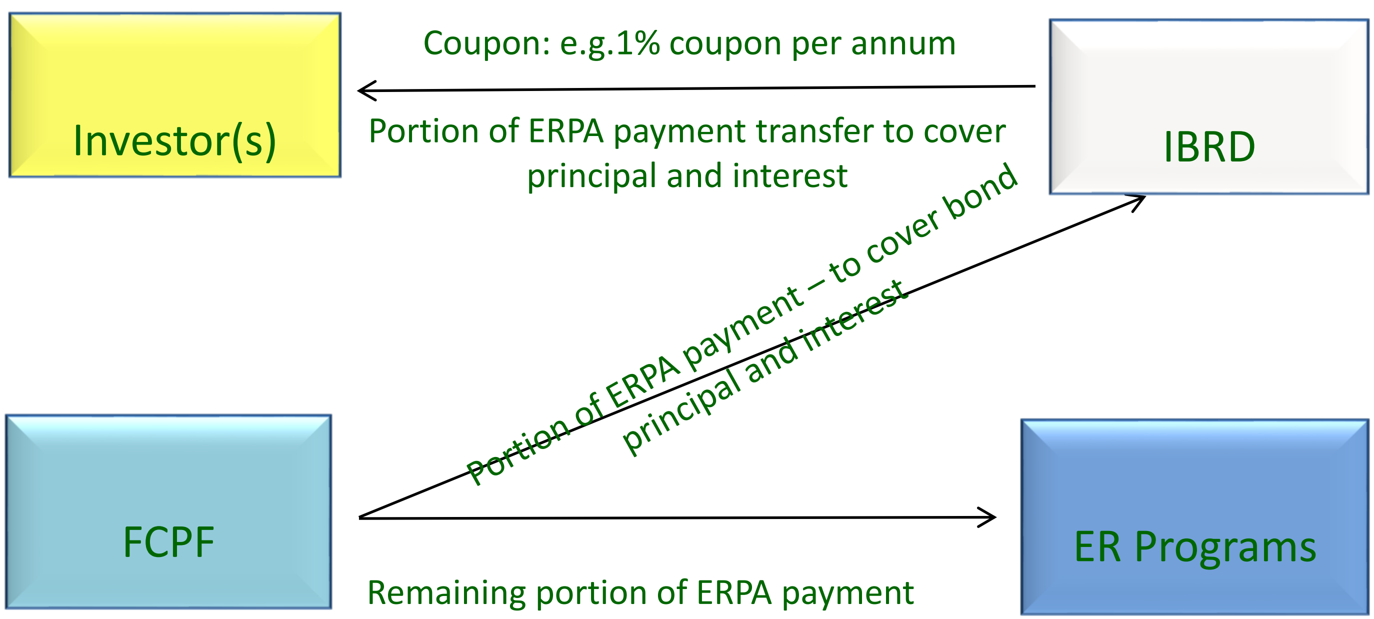
- Bond structure (for illustration purposes)
  - Bond value $75 million
  - Fixed annual interest (possibly 1%, ie $3.75 million over 5 years)
  - Bullet bond with full redemption at maturity
  - Redemption linked to performance of REDD+ programs
  - Possible upside or premium for investors if programs successful
  - Possibly unprotected principal (but depends on risk perception of investors)
  - If unprotected then risk of no or little principal repayment if programs fail
- Should FMT continue researching this option?
  - For FCPF (and possibly ISFL) specifically?
  - For broader REDD+ programs?

Bonds

Use of bond proceeds



Repayment of bond

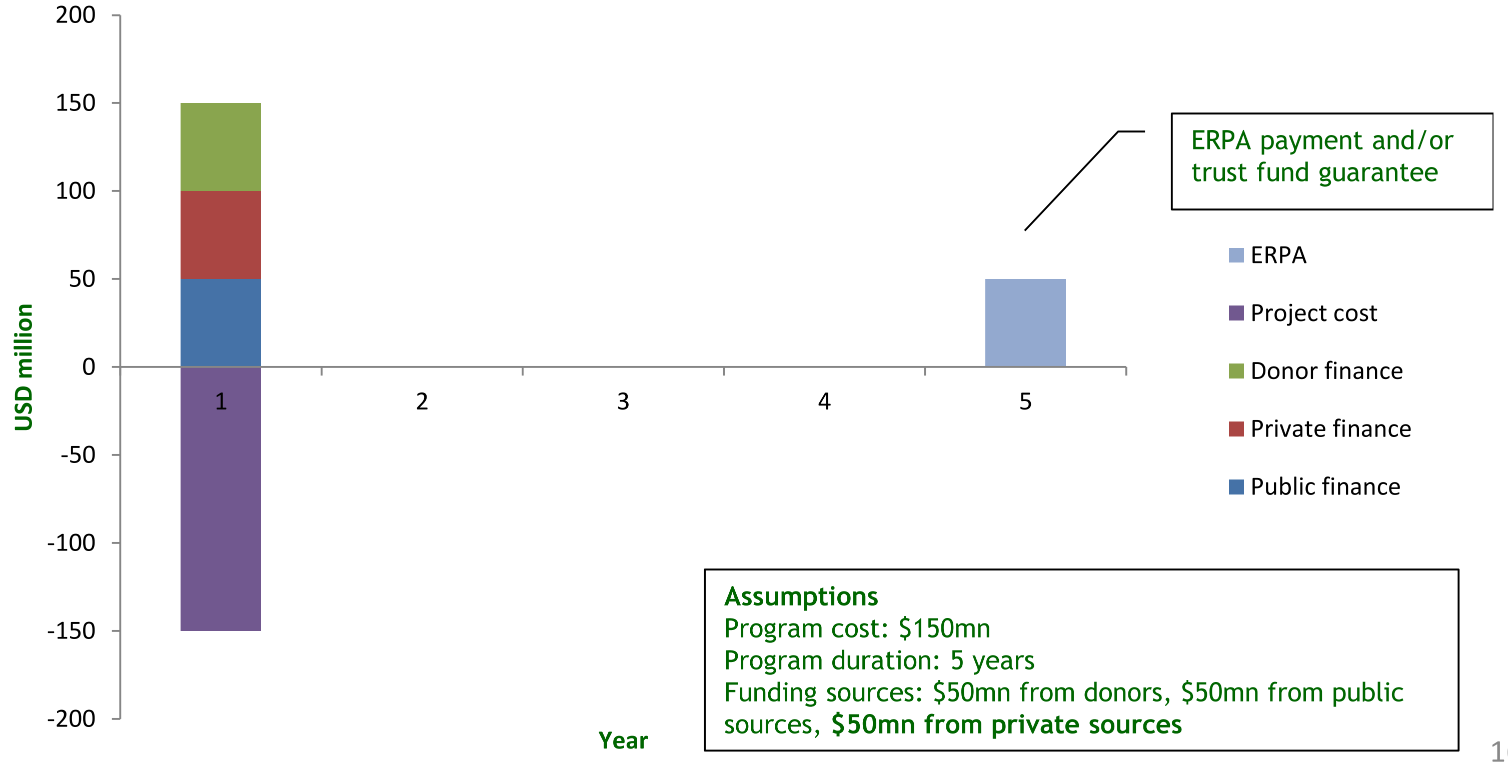


Options for Filling the Gap (5)
Guarantees (1)

- In many of the least developed REDD+ countries, investors are often reluctant to invest in REDD+ projects and those that intend to do so often require risk mitigation measures to help share or manage their risk
- Different types of guarantees to help mobilize private finance by reducing risk
- IBRD and IDA guarantees mobilize private sector investments for projects in developing countries that are eligible to borrow from the World Bank
- Provide a way to leverage resources
- Can mitigate risks for private sector in implementation of REDD+ projects in developing countries
- Can shield private sector investment against a range of risks that may cause breaches of contracts between private sector and sovereign agencies
- Can support private sector against a government's failure to meet contractual obligations on private or public projects

Options for Filling the Gap (6)
Guarantees (2)

- National government normally requests the World Bank guarantee and provides sovereign counter-guarantee and indemnity
- The guarantee includes a guarantee agreement, an indemnity agreement and a project agreement
- Trust fund guarantees eg.



Options for Filling the Gap (7)
Bilateral

- Several good examples of bilateral REDD+ funding
- CFPs to consider opportunities for bilateral funding where
  - clear financing gaps are established
  - other types of financing are unsuitable or are prohibitively costly
  - appropriate bilateral relationships
  - as an alternative to upfront advances
- Better coordination of bilateral support, more targeted at Programs

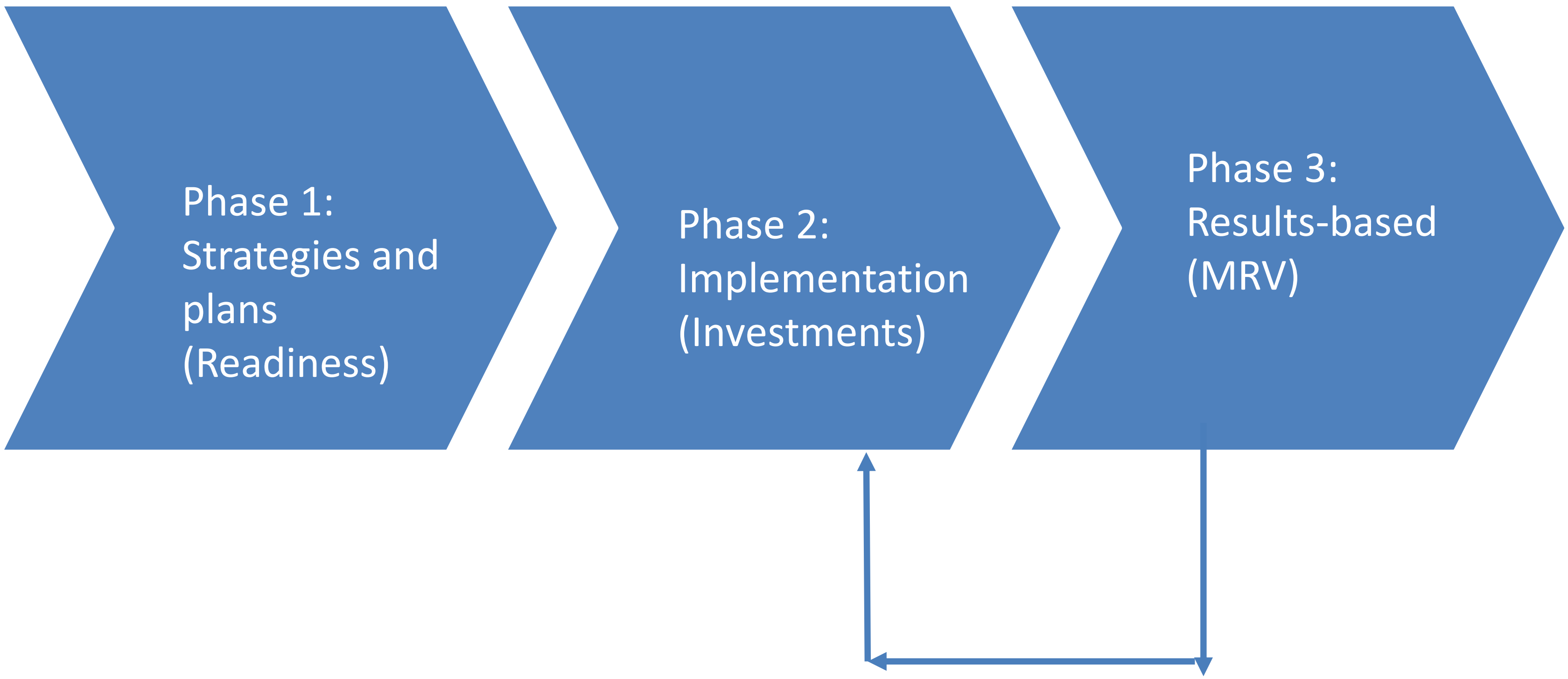
Options for Filling the Gap (8) Other (1)

- Forest Investment Program (FIP)
  - Currently active in 8 pilot countries, 7 of which are FCPF countries, 5 of which are in CF pipeline, 1 presenting Early Idea at this meeting
  - Additional 4-5 new Pilot Country slots
    - Some of the front-runners are FCPF CF countries
- FCPF Readiness Fund
  - Target additional financing of $5 million to CF Program Area (Indonesia, Costa Rica, DRC, Ghana plus others)
- UN-REDD
  - National Programs in a few FCPF CF countries (eg. Indonesia, DRC, Republic of Congo, Vietnam)
- Global Environment Facility (GEF)
  - GEF has provided $13.5 billion in grants and leveraged $65 billion in co-financing for 3,900 projects in more than 165 developing countries over 24 years
  - Some GEF projects in agriculture and forestry are operational in FCPF CF countries
  - All FCPF countries should be eligible for GEF grants
  - See GEF website for application process

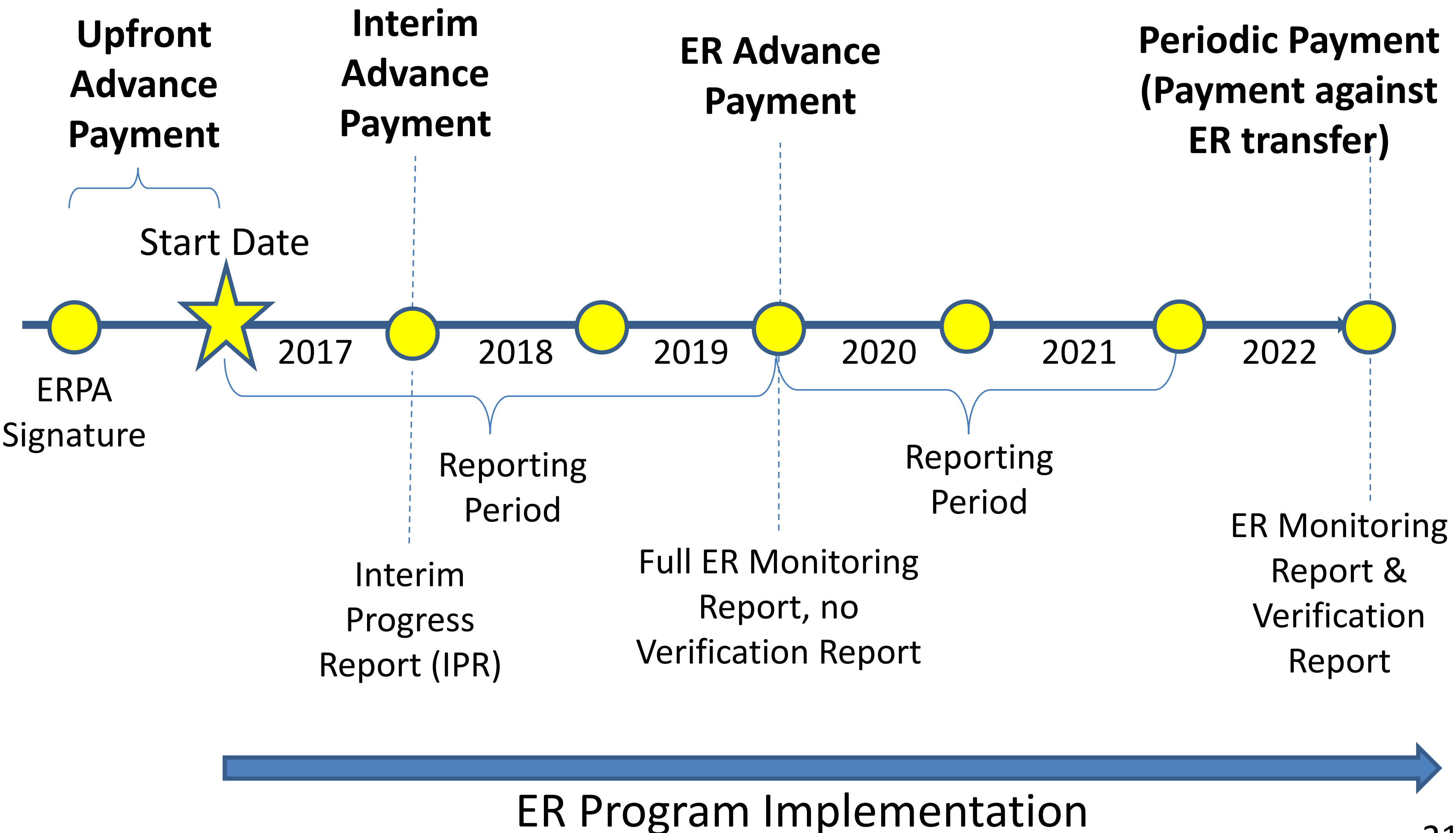
Options for Filling the Gap (9)
Other (2)

- REDD Early Movers (REM)
  - commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ)
  - implemented by the KfW Development Bank and the Gesellschaft für Internationale Zusammenarbeit (GIZ)
  - Provides incentive payments and performance-based payments
  - Active in Brazil, Ecuador, Colombia but potentially more?

Options for Filling the Gap (10)
Advance Payments (1)



Options for Filling the Gap (11)
Advance Payments (2)



Options for Filling the Gap (12)
Upfront Advance Payment

- Upfront Advance Payment is paid upfront before ERs are generated (normally considered an advance)
- Letter of Credit from creditworthy institution or letter of guarantee from government?
- Details of when and how much should be decided in program specific context based on financing plans
- Only when no other sources of financing are available?
- Can be difficult to recover or create acrimony
- Provides funding for initial activities but risks attached

Options for Filling the Gap (13)
Interim Advance Payment

- Interim Advance Payment is payable some time into the ERPA
- Could be combined with an Advance Upfront Payment
- Based on an Interim Progress Report and meeting milestones
  - Could use proxies (e.g., IPCC Tier 1 as in REDD Early Movers) but pay %age of estimated ERs
  - Evidence on Safeguards Plan and Benefit Sharing Plan, and information on Priority Non-Carbon Benefits required
- Letter of Credit from creditworthy institution or letter of guarantee from government?
- Only when no other sources of financing are available?
- Can be difficult to recover or create acrimony
- Does not provide funding for initial activities but can provide funding earlier for later activities or for continuing activities

Options for Filling the Gap (14)
ER Advance Payment

- ER Advance Payment is payable provided all conditions of an ER Payment are met except Verification
- Based on a full, normal Monitoring Report
- Possibly capped at %age of value of ERs in Monitoring Report
- Could be combined with other advances
- Recover any overpayments from future payments
- If no future payments, request repayment of any overpayments
- Can be difficult to recover or create acrimony, risks reduced
- Does not provide funding for initial activities but can provide funding earlier for later activities or for continuing activities

Carbon Fund Pipeline Country Information

Country	WB Lending Project (Active/ Pipeline)	FCPF Readiness Program	FCPF/BioCF ER Program	FIP	Country classification
Argentina	✓	✓			Upper MIC
Cameroon		✓			Lower MIC
Chile		✓	✓		HIC
Colombia	✓	✓	✓		Upper MIC
Costa Rica		✓	✓		Upper MIC
Cote d'Ivoire		✓			Lower MIC
DR Congo		✓	✓	✓	LIC
Dominican Republic		✓			Upper MIC
Ethiopia		✓	✓		LIC
Fiji		✓			Upper MIC
Ghana		✓	✓	✓	Lower MIC
Guatemala		✓	✓		Lower MIC
Guyana		✓			Lower MIC
Indonesia		✓	✓✓	✓	Lower MIC
Lao PDR	✓	✓		✓	Lower MIC
Madagascar		✓			LIC
Mexico		✓	✓	✓	Upper MIC
Mozambique		✓			LIC
Nepal		✓	✓		LIC
Nicaragua		✓			Lower MIC
Peru	✓	✓	✓	✓	Upper MIC
Republic of Congo		✓	✓		Lower MIC
Vietnam		✓	✓		Lower MIC
Zambia			✓		Lower MIC
Total (24)	**4**	**23**	**15 + 10**	**6**	

HIC = High Income Countries

Upper MIC = Upper Middle Income Countries

Lower MIC = Lower Middle Income Countries

Conclusions

- Variety of funding sources exist but can be difficult to access
- Variety of barriers and challenges to crowd-in finance
- Package of financing needed
- During program preparation, the FMT and World Bank Global Practice teams work with countries to obtain a full picture of the financing situation, assess costs of implementation and financing gaps and explore options to fill the financing gap for each CF Program
- Advances, especially Upfront Advances, will only be considered after all other options

Questions

- Views or feedback on different options, other ideas?
- Should FMT continue researching the Bond option?
- Should FMT continue researching other financing options, including guarantees and risk-sharing facilities?
  - For FCPF specifically?
  - For broader REDD+ programs?
- If no other options exist, are CFPs willing to consider Upfront Advances in specific programs?
- What is needed to achieve better coordination of bilateral support, targeted at Programs?

THANK YOU!

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