



Forest Carbon Partnership Facility

Options for Addressing Financing Gap of ER Programs Guarantee

Thirteenth Meeting of the Carbon Fund (CF13)

Brussels, Belgium

October 13-16, 2015

Outline of Presentation

- The Financing Gap in REDD+ Programs
 - Investment phase
- Options for addressing financing gap of REDD+ Programs (presented at CF12)
 - Advance payment
 - Loan/credit/grant
 - **Guarantee (elaborated at this CF13 meeting)**
 - Bond (elaborated at this CF13 meeting)
 - Bilateral funding
 - REDD Country's own resources
 - Other

Financing Gap in ER Programs

- Results-based finance is available downstream and is only accessible for verified emission reductions during later part of an ER program.
- Lack of finance for investments (“missing middle”) to achieve ER Program targets is a major risk to achieving the results of ER programs and consequently the objectives of the Carbon Fund.
- Available public finance (e.g., Forest Investment Program (FIP)) only meets partial investment needs of ER programs.
- Preliminary assessment of ER-PINs indicates that the majority of ER programs do not have adequate finance for implementation.
- Need to consider multiple options to address financing gap of ER Programs.
- At CF12 Participants Committee meeting, the FMT presented an overview of selected financing options for addressing the financing gap of ER Programs.
- Some options are elaborated at this CF13 meeting to share progress on the work program and to seek feedback to advance work on the identified options.



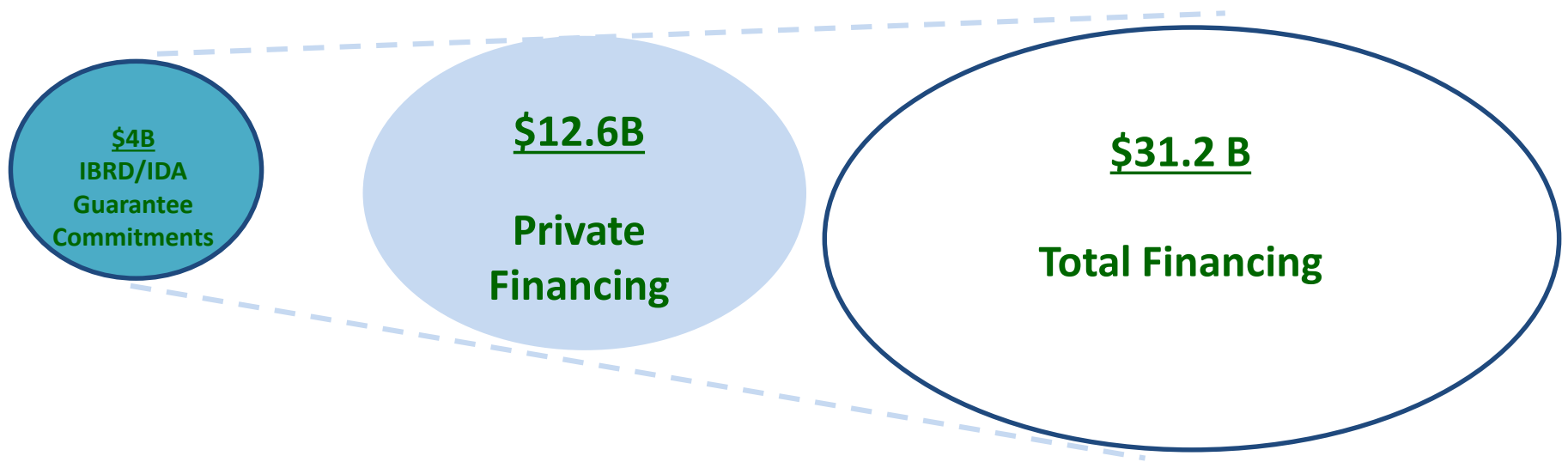
Guarantee

Options for Addressing Financing Gap: Guarantee

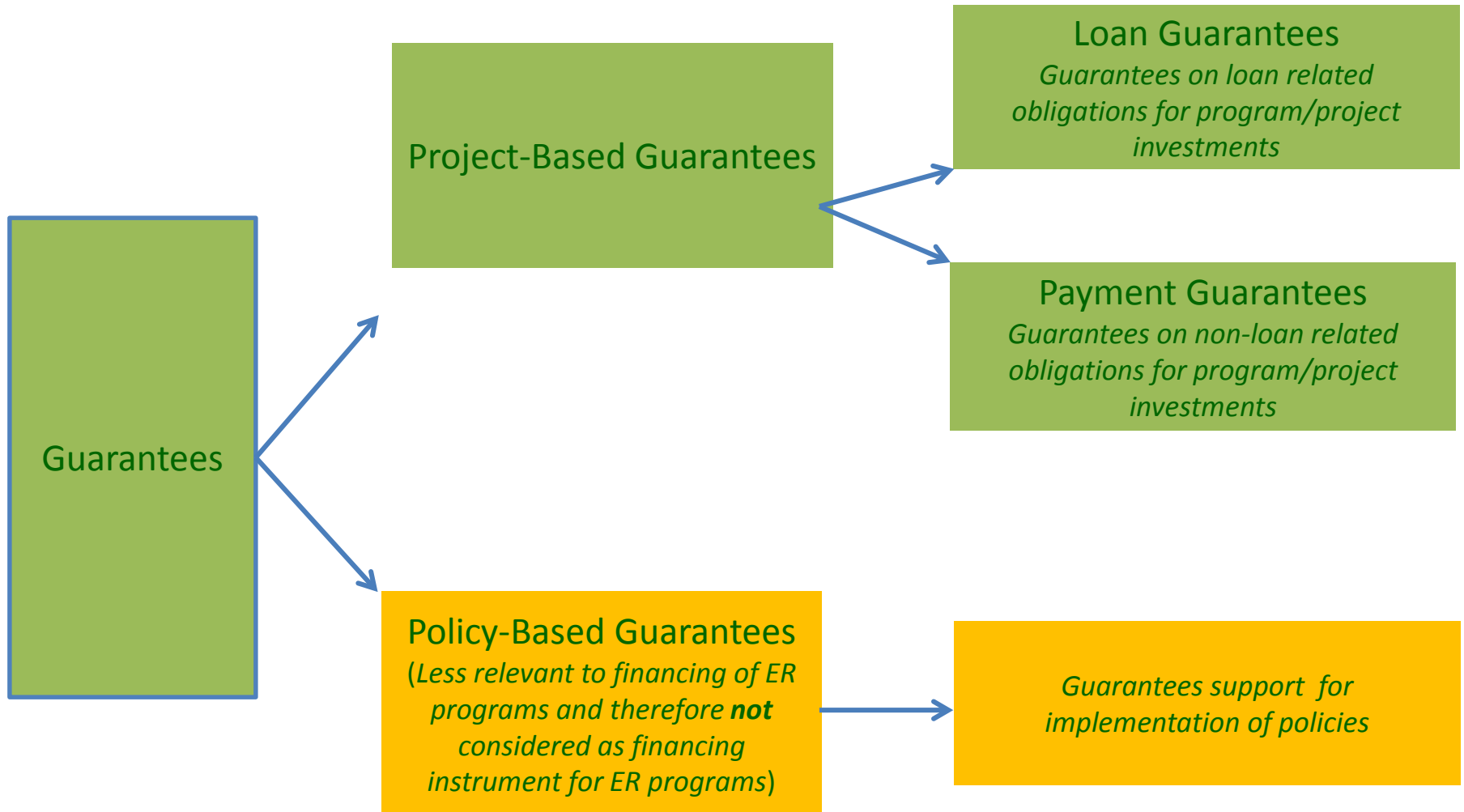
- In countries implementing ER Programs, public/private investors may be reluctant to invest in ER Programs and those that intend to do so may require risk mitigation measures to help share or manage risk.
- Guarantees can leverage additional finance by mitigating risks of public/private financiers thereby improve conditions for investment in ER programs.
- Different types of guarantees can help to mobilize finance by mitigating or sharing risks and leveraging additional public/private investment for ER programs.
- Guarantees can address barriers to investment, improve market access, provide certainty to off-taker agreements or performance contracts for sustainable production activities in ER programs.
- World Bank's Operational Policy (OP) 10 (Investment Project Financing) provides a framework for design and implementation of the Guarantees for ER programs included in the FCPF Carbon Fund portfolio.

Overview of World Bank Guarantees

- **50 guarantee operations** approved for cumulative amount of \$5.9 billion in 41 countries.
- \$31.2 billion has been mobilized with \$4 billion in guarantees - an industry leading **leverage of 7.8 times**.
- Guarantees contribute to design of innovative financing structures to leverage private capital.
- Most guarantees have been provided by IBRD/IDA and supported investment projects in **energy and infrastructure** sectors.
- Use of **trust fund guarantees** to address the financing needs of ER programs is an extension of World Bank guarantees to support the priorities of REDD+.



Categories of World Bank Guarantees



Carbon Fund Guarantee

Features of FCPF Carbon Fund Guarantee (CFG):

- Proposed on the concept of **project-based guarantee**.
- A **trust fund guarantee** that meets the requirements of World Bank's Operational Policy (OP) 10 (Investment Project Financing).
- **Enables raising additional finance** from public/private sources for meeting investment needs of ER programs and promotes public-private partnerships in implementing ER programs.
- Provides **credit enhancement** to potential financiers thereby facilitating mobilization of additional finance from public/private sources.
- Promotes **risk sharing arrangements** in implementing ER programs

Types of Carbon Fund Guarantee

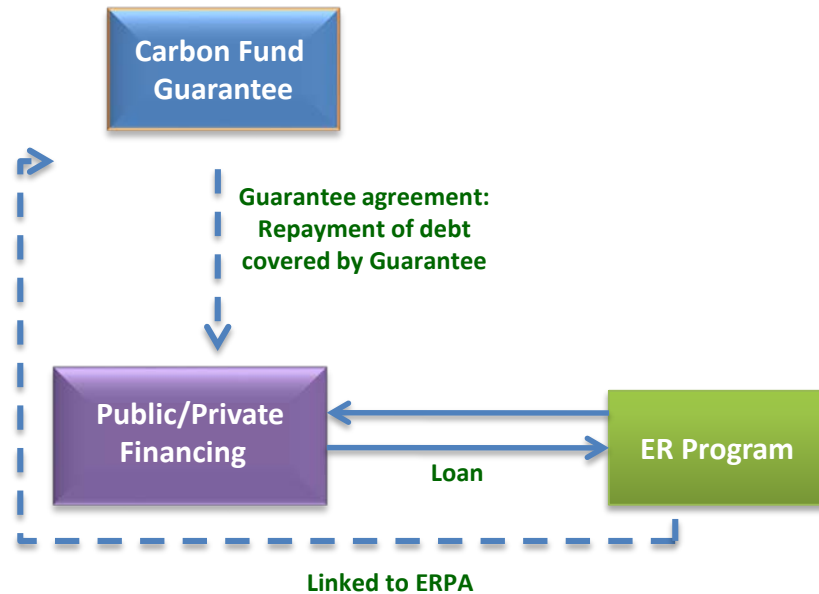
- Carbon Fund Guarantee (CFG) proposed for ER programs can be of **two** types:
 - **Loan Guarantee** covers debt service risk for public/private loans extended to entities implementing ER programs.
 - **Contingent Finance Guarantee** is a payment guarantee that covers specific risks (e.g., technologies, practices) that are outside the control of implementing entities and potentially impact the costs of implementing ER programs.

Features of Carbon Fund Guarantee

Item	Loan Guarantee	Contingent Finance Guarantee
Guarantor	FCPF Carbon Fund administered through the IBRD	FCPF Carbon Fund administered through the IBRD
Implementing agency	IBRD using its Guarantee processing guidelines	IBRD using its Guarantee processing guidelines
Guarantee beneficiary	Financial institution, e.g. commercial bank or investor fund or another entity extending finance to ER program with arrangements on recourse to guarantee funds from the Carbon Fund.	An entity with contractual obligations with ER Program and arrangements with Carbon Fund on recourse to guarantee funds from the Carbon Fund.
Maximum Carbon Fund Guarantee	As per the decision of CF Participants - ER program receives up to xx % (e.g., 10 %) of the Carbon Fund resources committed to an ER program	As per the decision of CF Participants - ER program receives up to xx % (e.g., 10 %) of the Carbon Fund resources committed to an ER program
Guarantee Period	ERPA period	ERPA period
Events triggering Guarantee	Specific events to be defined	Specific events to be defined
IBRD Fee for administering guarantee	As per the decision of CF Participants - 0.xx% fee on guaranteed amount or one time \$xxxxx amount to cover administration costs of guarantee	As per the decision of CF Participants - One time charge of \$xxxxx to cover administration costs of guarantee
Guarantee charge accruable to Carbon Fund	As per the decision of CF Participants - 0.xx% per annum of the committed and undisbursed balance of CFG Commitment from guarantee effectiveness date	As per the decision of CF Participants - 0.xx% per annum of the committed and undisbursed balance of CFG Commitment from guarantee effectiveness date
Counter-Guarantee	No requirement for sovereign government indemnity	No requirement for sovereign government indemnity

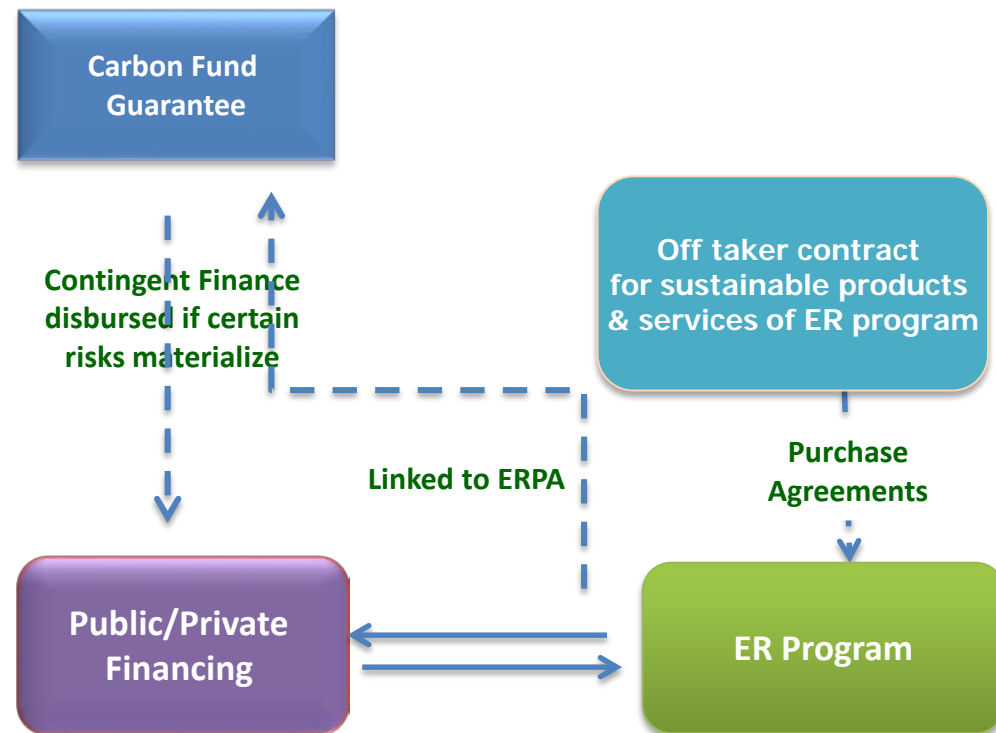
Loan Guarantee

- To cover public/private financiers against specific risks of debt service default (interest and principal) up to guarantee amount available to an ER program.
- To ensure an ER program is bankable for public/private financial institutions as loan guarantee can give financiers comfort that loan repayment risk is mitigated and thus help to mobilize additional funds for implementing an ER program.
- Provisions on the obligations of Carbon Fund and ER program in relation to guarantee to be clarified in ERPA.



Contingent Finance Guarantee

- To provide certainty to implementing ER program activities with additional finance backstop to address specific contingencies.
- To address risks associated with performance or barriers to implementing sustainable management activities of the ER program.
- To address barriers or perceived risks of investors in institutionalizing sustainable production and value chain interventions that sustain or enhance the results of ER programs.
- Provisions on the obligations of Carbon Fund and ER program in relation to guarantee to be clarified in the ERPA.



Carbon Fund Guarantee Framework

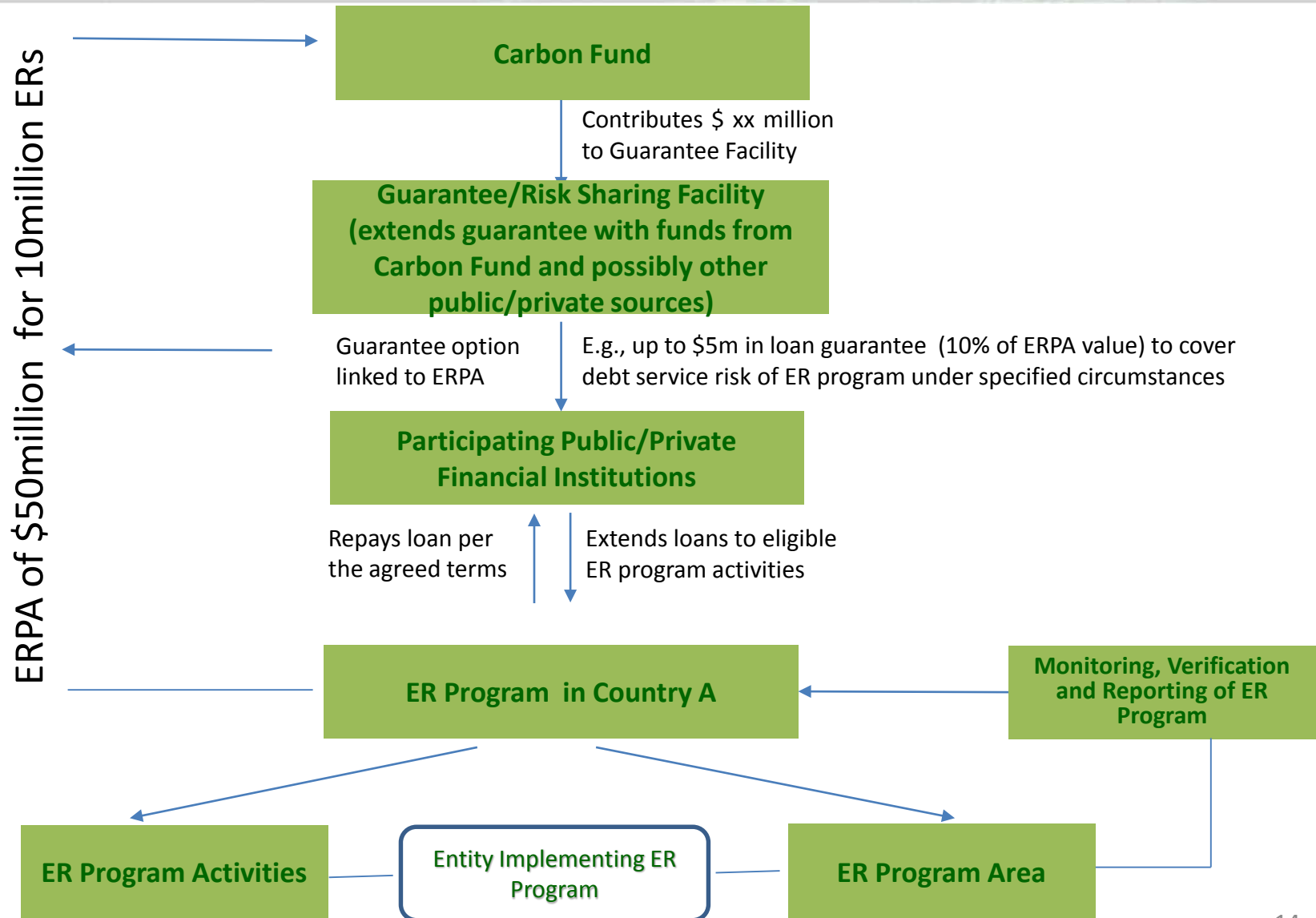
Carbon Fund Guarantee Facility – structure for risk sharing

- Enables mobilization of additional resources to meet guarantee requirements.
- To be created with contributions from Carbon Fund, grants, and funding from other participating public and private sector institutions.
- Criteria for participation in the Guarantee Facility to be established.
- Guarantee Facility to have two windows:
 - **Multi-country** – for public/private investors participating in ER programs of multiple countries
 - **Single country** – for public/private investors participating in ER program of a specific country
- ER Programs have option to receive guarantees from Guarantee Facility as part of the ERPA.
- Institutions participating in Guarantee Facility have option to negotiate contracts with ER programs for the ERs generated in excess of Carbon Fund ERPA.
- Provisions to be adopted on the use of funds from the Guarantee Facility in case no guarantees are triggered during the Carbon Fund period.
- Guarantee Facility is to be managed as part of the Carbon Fund Guarantee.

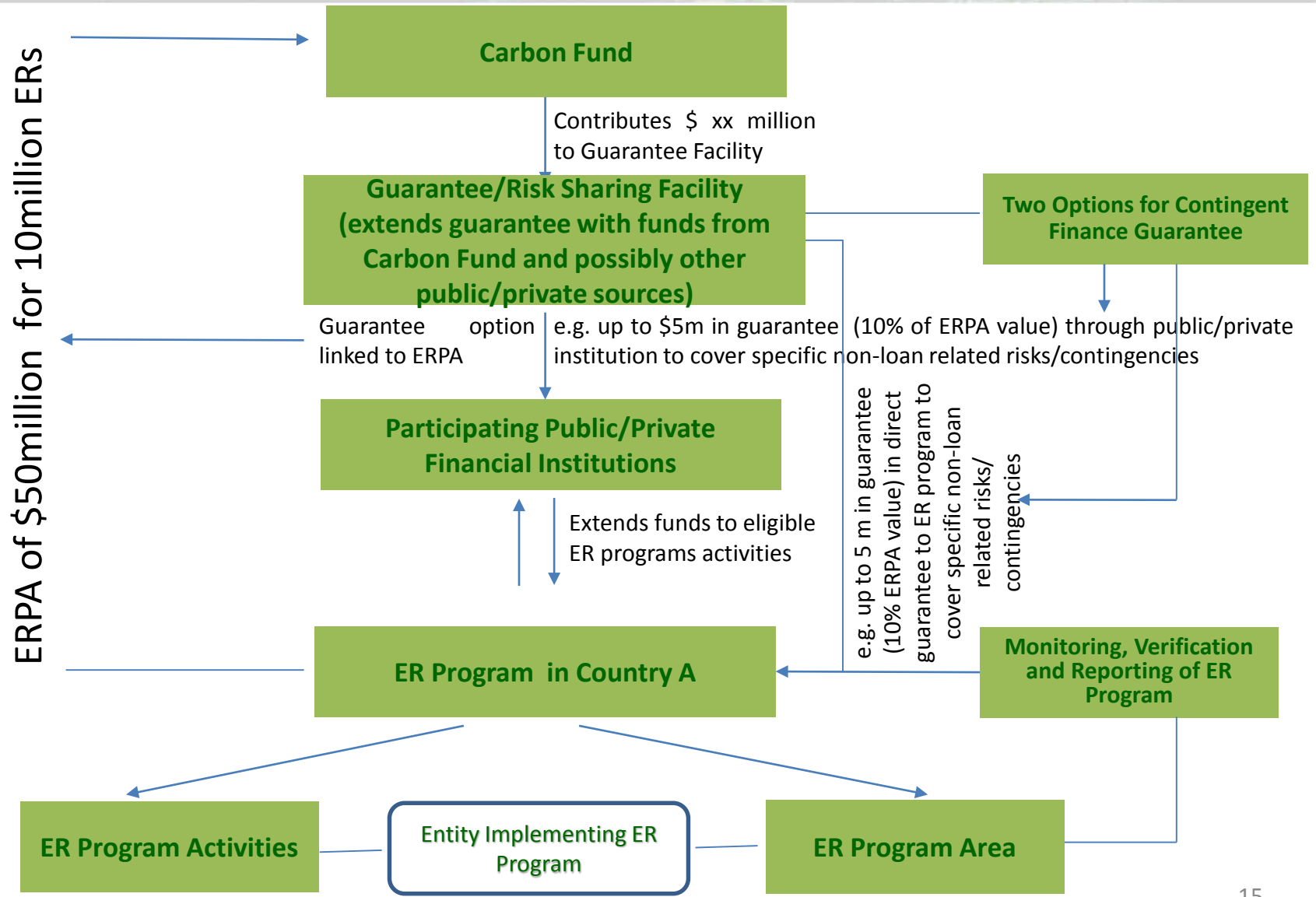
Guarantee provisions

- First Loss – Arrangements for sharing first loss to be defined
- Second loss – Arrangements for sharing second loss to be defined

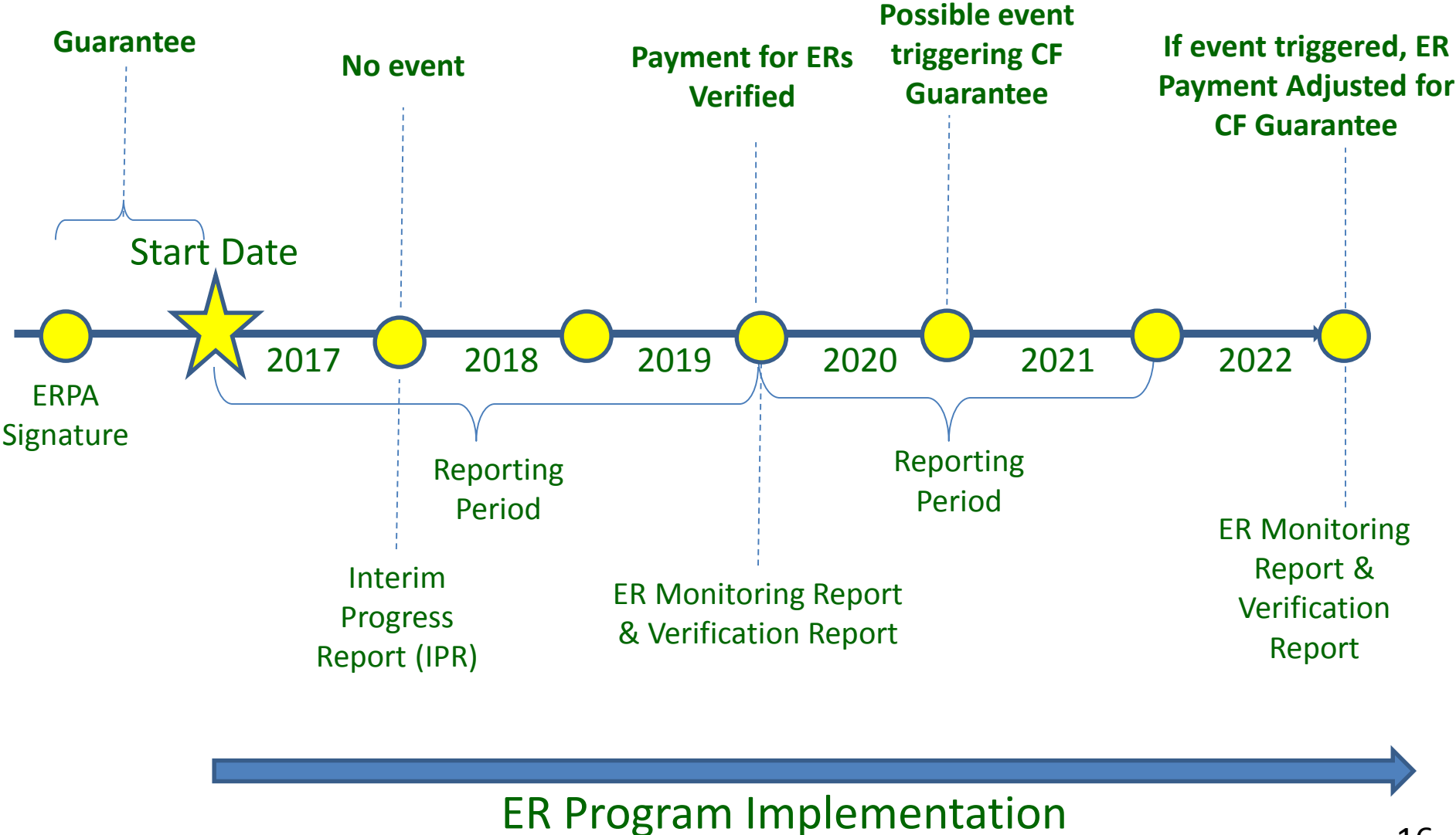
Example of Carbon Fund Guarantee: Loan Guarantee



Example of Carbon Fund Guarantee: Contingent Finance Guarantee



Use of Carbon Fund Guarantee



Question

- Should the FMT prepare a proposal on the **Carbon Fund Guarantee** for consideration at CF14/CF15?

Next Steps

- In case of CFP consent for the proposal on Carbon Fund Guarantee, FMT will initiate following steps.
 - Preparation of concept note on the guarantee instrument, peer review and consultations with relevant World Bank units
 - Consultations with ER program countries and private sector investors on the potential use of guarantee instrument
 - Design of guarantee taking into account the CF charter and WB operational policies
 - Presentation of the proposal on CF guarantee at the CF14/CF15



THANK YOU!

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