

MULTI-COUNTRY FORESTS BONDS PROGRAM

Coordination with FCPF

June 2018



Creating Markets, Creating Opportunities

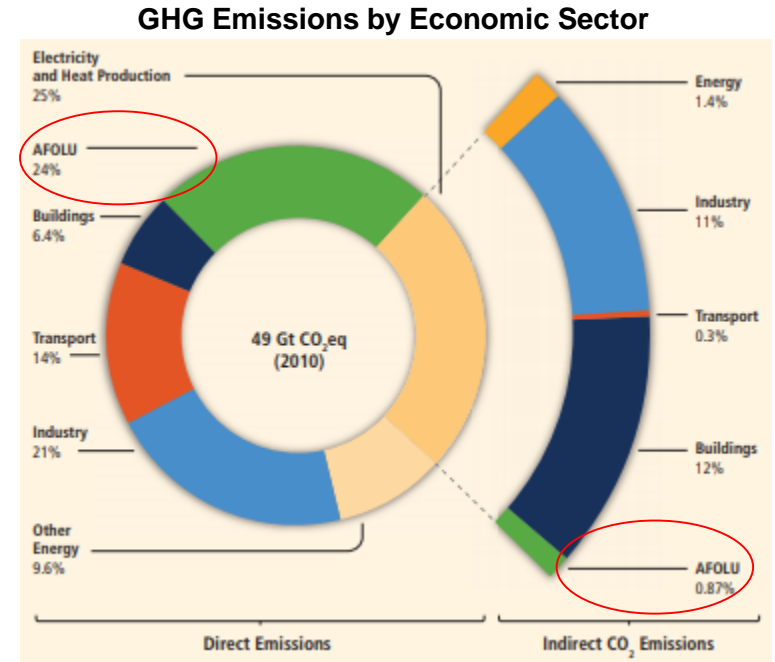
WHY ARE WE HERE?

- 1) *To present new approach to engage private sector in forest conservation*
- 2) *To provide additional funding to support private sector REDD+ activities*

THE SITUATION

More funding is needed to achieve global forest conservation goals

- 1) **25% of global GHG emissions** come from deforestation, unsustainable agricultural practices, and land use change
- 2) Halving deforestation is expected to require **\$75-300 billion in investment** over the next decade
- 3) FCPF doing groundbreaking work to **create the enabling environment and fund REDD+ efforts**
- 4) However, **more funding** is needed

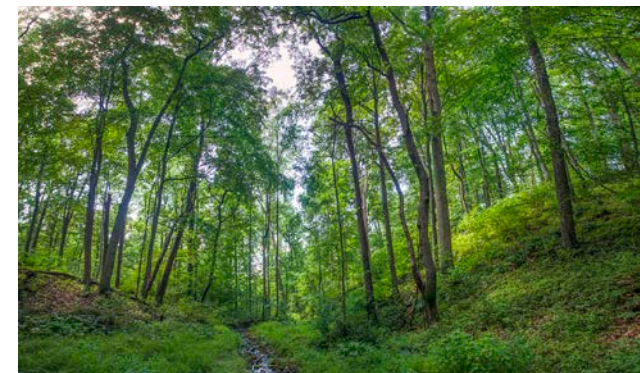


Source: IPCC, 2014: Summary for Policymakers

HOW IFC CAN BOOST PRIVATE SECTOR ENGAGEMENT

Align World Bank/FCPF & IFC objectives

- 1) **IFC to submit proposal to GCF to improve & replicate Forests Bond**
 - IFC issued \$152 million Forests Bond October 2016 in support of Kasigau project in Kenya
 - Moving from project-based method to supporting jurisdictional approach by use of FCPF framework & purchase of FCPF credits
 - Aim to use jurisdictional credits that will be included in national ER program accounting
 - Where bankable, IFC aims to provide loans to private sector initiatives in countries (e.g. REDD+ projects, sustainable forestry, zero-def ag supply chains, etc.)
- 2) **Introduce mechanisms to boost liquidity and price transparency of FCPF credits**
- 3) **IFC to facilitate (through GCF Collaboration):**
 - a) \$100 million of credit purchases to projects
 - b) \$30 million up-front debt funding to private sector REDD+ efforts in target countries
 - c) \$5 million in Capacity Building funding to complement FCPF in supporting governments in incorporating private sector activities



VALUE PROPOSITION

Private sector involvement & more capital to sector



PRIVATE SECTOR CONSIDERATIONS

Supply, demand, and counterparties need to be confirmed

Government Support	Does government support private sector engagement for REDD+?
Investor Appetite	Is there investor demand for FCPF credits?
Timing	Will FCPF-compliant credits be available in a timely manner?
Volume	Will enough credits be available for IFC purchase?
Carbon Credit Seller	<ul style="list-style-type: none">• <u>Projects</u>, not governments, as counterparties.• Are suitable projects available in target countries?
Bankability for IFC Loan	<ul style="list-style-type: none">• Are projects bankable for IFC loans?• Bankability enhanced with creditworthy ERPA counterparty (IFC)

INITIAL TARGET COUNTRIES

Based on meetings with FCPF/IFC teams, ERPD reviews, and investor discussions

Country	ERPD Submitted?	Expected ERPA Signing
Colombia*	No	Year End 2019
DRC	Yes	Mid-2018
Madagascar	Yes	June 2019
Peru	No	Year End 2019

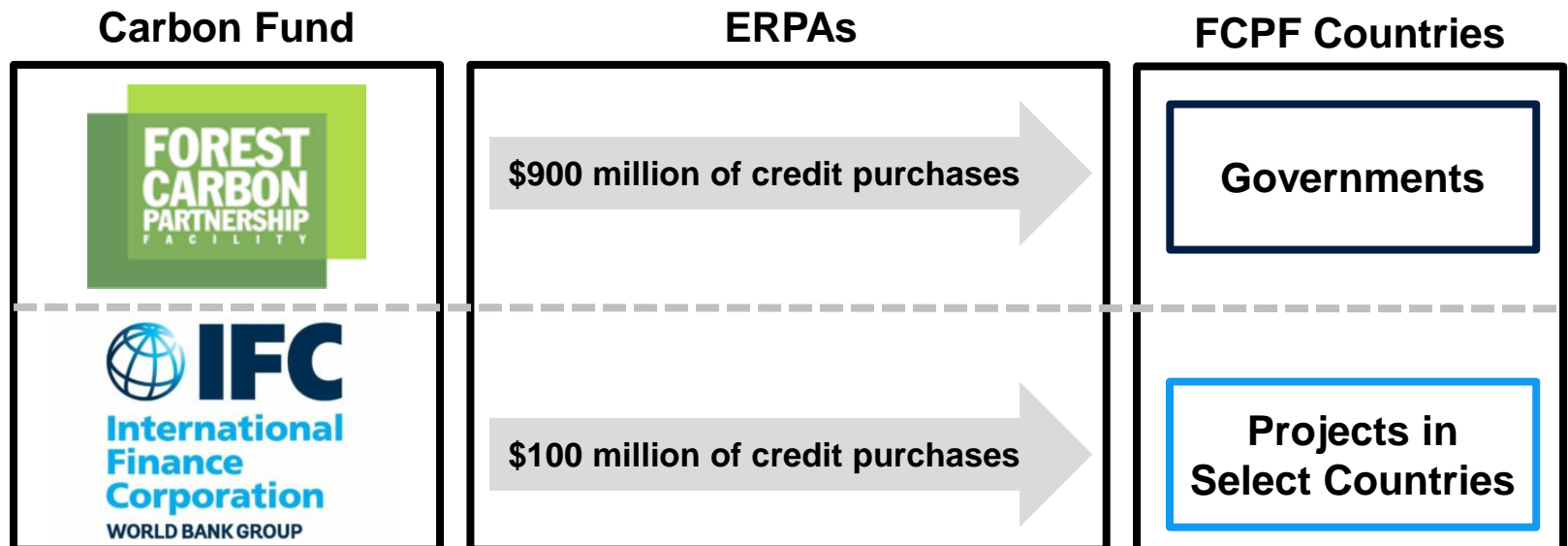
* Part of BioCarbon Fund Program

PROPOSAL FOR COLLABORATION

FCPF/IFC agreement on supporting private sector projects

1) IFC to invest alongside the Carbon Fund

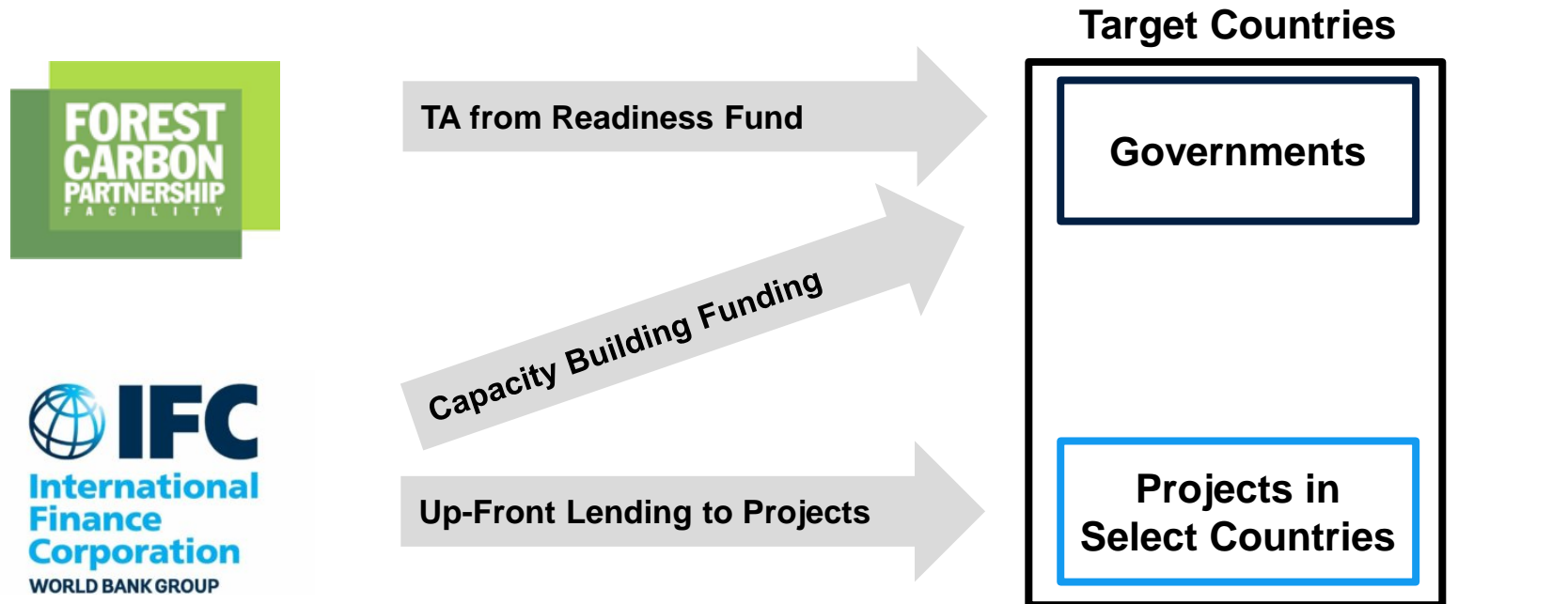
- Expected credit purchases of \$100 million (4mm credits/year for 5 years)
- ERPAs signed with projects in target countries only
- FCPF carbon credits will be purchased
- FCPF & IFC to work with governments and stakeholders to develop an approach allowing IFC to transact directly with projects in jurisdictional credit purchases, as IFC must transact with private entities
- Tranche A carbon credit allocation % unchanged



PROPOSAL FOR COLLABORATION (CONTINUED)

FCPF/IFC agreement on supporting private sector projects

- 2) IFC aims to provide up-front lending to projects to support and expand private sector activities
- 3) Capacity building funding to target country government to support private sector engagement and complement FCPF's Readiness funding



BENEFITS OF COLLABORATION

Private sector involvement & more capital to sector

✓	Collaboration will further efforts to strengthen national / jurisdictional REDD+ frameworks
✓	Additional IFC funding will allow FCPF Carbon Fund to support more countries/credits purchases
✓	New approach will unlock access to finance for private sector developers
✓	IFC capital market solutions can boost demand and liquidity for (compliance-grade) FCPF credits

PROPOSED NEXT STEPS

Next milestones to be achieved

- 1) Incorporate feedback from FCPF Carbon Fund participants
- 2) Finalize approach
- 3) IFC to submit GCF funding proposal (due July 20th)

Questions / Feedback?

Appendix 1:

GCF Multi-Country Forests Bond Program Overview

PROGRAM OVERVIEW

Five countries, \$750 million in Forests Bonds, \$100 million in Carbon Credit Payments

[Four] Countries:

- Colombia, DRC, Madagascar, and Peru
- Countries selected are working towards achieving UNFCCC compliance and have robust supply of private REDD+ projects
- Countries/projects working with World Bank's Forest Carbon Partnership Facility and are in advanced stage to sign FCPF ERPA

\$750 million in Forests Bonds

- Three AAA-rated IFC green bonds
- Each with detachable warrants giving investors option to convert interest payments into carbon credits from underlying projects

\$100 million in Carbon Credit Payments

- IFC will purchase ~\$100 million of carbon credits (amount equivalent to the total bond interest) from REDD+ projects from three or more of these countries through Forest Emission Reduction Purchase Agreements (FERPAs)
- FERPA counterparty needs to be private sector project implementer (not Government)
- Credits will backstop the warrants, be sold into market via an intermediary, and/or purchased through GCF's Results-Based Payment Facility

THE SOLUTION

Development of carbon markets. Cash flows to projects. Country REDD+ compliance.

Underdeveloped Carbon Markets

- Detachable warrants in new variant of Forests Bond to better align with investor appetite
- Introduce intermediaries (with Liquidity Support Facility) to boost REDD+ carbon market liquidity and transparency

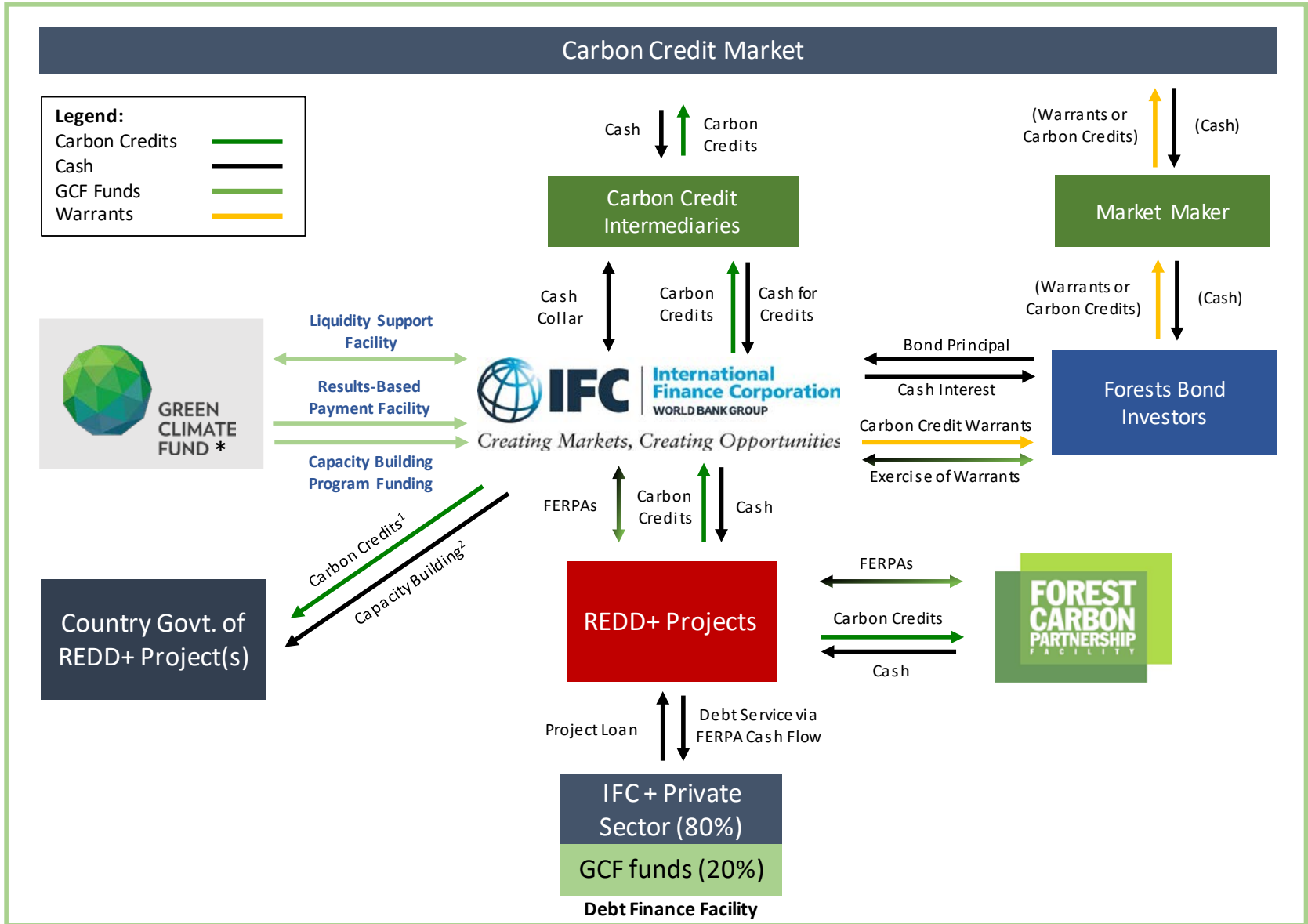
Underfunded REDD+ Project

- Debt Finance Facility (DFF) to provide funding to projects
- GCF's Results-Based Payment (RBP) Facility to purchase carbon credits

UNFCCC REDD+ Compliance

- Capacity Building Program (CBP) will help countries achieve UNFCCC REDD+ compliance

THE STRUCTURE



* Implemented through IFC as accredited entity

1. Carbon credits transferred to government if compliance is reached
2. Capacity building will be provided through technical partner(s)

CARBON MARKET DEVELOPMENT

Warrant structure and introduction of intermediaries to boost market participation



Evolution from inaugural Forests Bond:

Forests Bonds will be issued as green bonds

The option to receive carbon credits will come from a detachable warrant that can be exercised at a strike price equal to the FERPA price or sold separately to third parties interested in buying credits

Credits will be sold to a carbon market intermediary who will resell credits into market. Collar arrangement backstopped by a Liquidity Support Facility (LSF) provided by GCF assures a fixed price paid to project.

Any carbon credits not purchased by intermediary or warrant exercise, will be purchased by GCF's Results-Based Payment Facility

Advantages of enhanced structure:

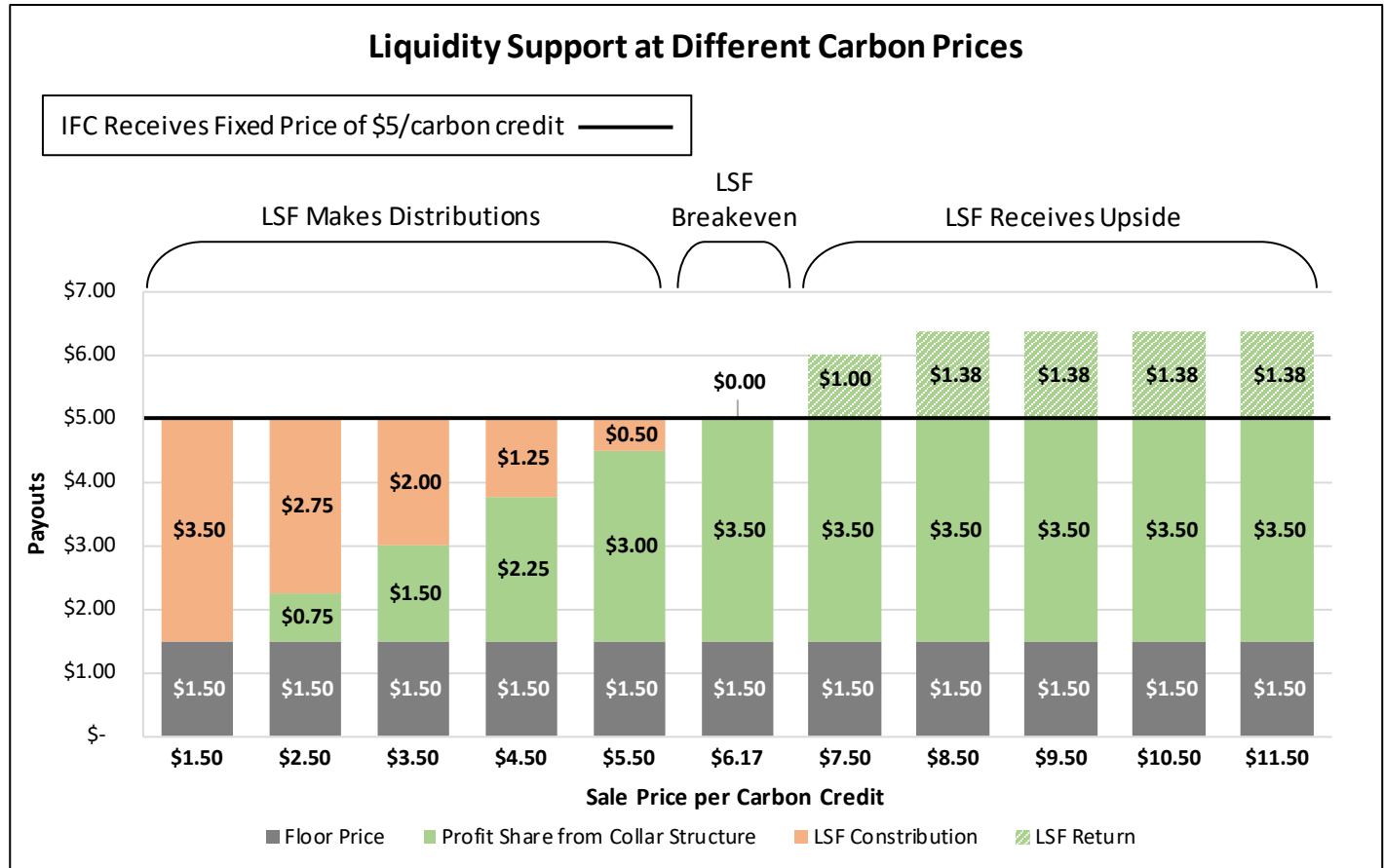
Issuance as green bonds will broaden investor appetite

Structure acknowledges that carbon credit buyers and traditional IFC bond investors are often different parties by allowing bond investors to sell warrants to traditional carbon credit buyers or exercise independent of green bonds ownership

Intermediaries will create greater liquidity & transparency for REDD+ credits

CARBON MARKET DEVELOPMENT

Liquidity Support Facility – Collar structure to incentivize credit sales



REDD+ PROJECT FUNDING SOURCES

Debt Finance Facility to provide funding to projects



Debt Finance Facility (DFF):

\$30 million Debt Financing Facility provides REDD+ projects with funding to accelerate project operations and bolster capacity to deliver carbon credits.

Secured against IFC FERPA

Funded ~80% senior debt provided by IFC Manufacturing, Agribusiness and Services (exposure up to \$24 million) and/or other lenders and 20% by concessional subordinated debt (up to \$6 million) funded by GCF. Subordinated piece will protect against policy risk resulting in underdelivery of credits.

IFC to have FERPA with private sector project implementer, not with Government is critical for pre-finance to projects under DFF.

HOST COUNTRY UNFCCC REDD+ COMPLIANCE

UNFCCC compliance will boost attractiveness of country's credits



Capacity Building Program:

\$5 million Capacity Building Program will help build domestic capacity to achieve UNFCCC REDD+ compliance in project host countries

Country compliance should enhance the marketability of REDD+ carbon credits generated in those jurisdictions

Capacity building activities include:

- Facilitate host countries to allow project developers to receive and sell jurisdictional REDD+ carbon credits (not cash)
- Facilitate host countries to allow export of jurisdictional REDD+ carbon credits
- Development of a national REDD+ strategy or action plan and investment plans
- Design of national forest reference emission level
- Design and establishment of national forest monitoring system
- Design and development of system for implementing the Cancun REDD+ Safeguards
- Preparation of Biennial Update Report

BENEFITS OF PROPOSAL

Alignment with FCPF & compliance markets

Alignment of Interests	
1	Proposal will provide capacity building funding that will efficiently complement work of FCPF
2	Simplified process – dealing solely with jurisdictional approach
3	IFC will purchase carbon credits from projects receiving results-based payments from the Carbon Fund
4	Carbon credits will be compliance-grade, and thus should be more valuable
5	Sends consistent message to investors/stakeholders
6	Collaboration and efficiency of resources within WBG

Appendix 2:

Inaugural IFC Forests Bond

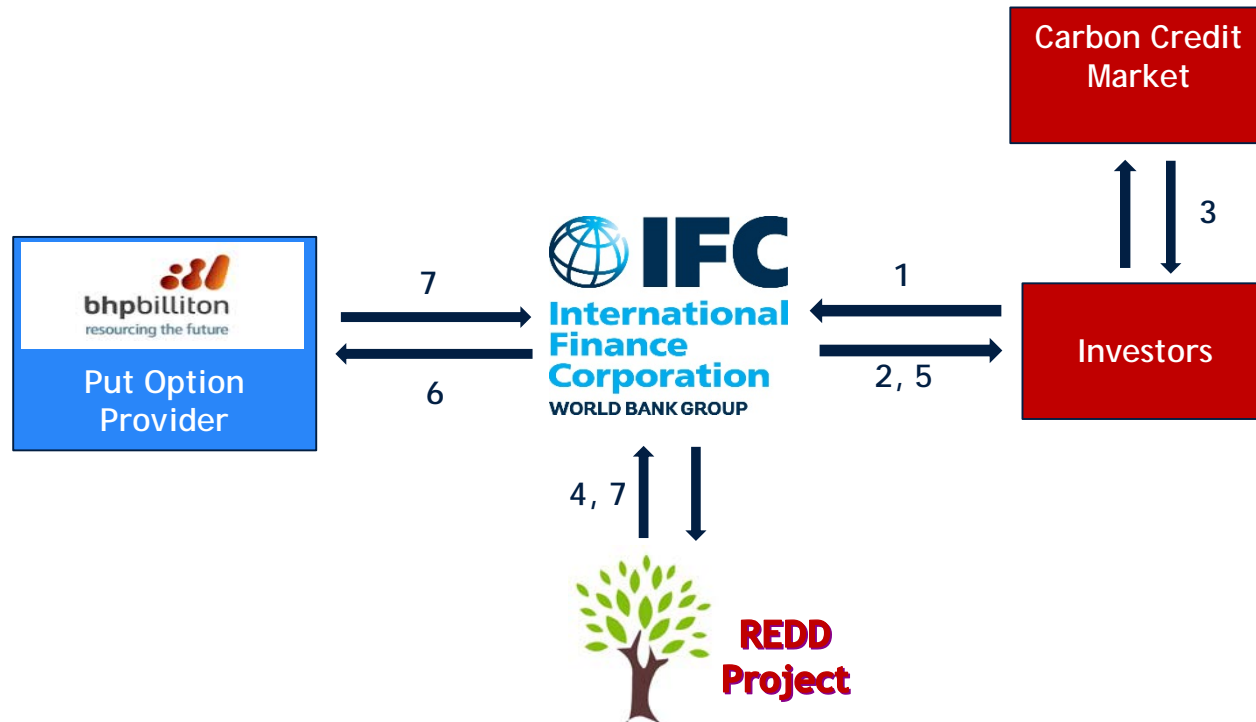
INAUGURAL FORESTS BOND

First-of-its-kind scalable solution to forest conservation

- US\$152 million 5-year bond is a first-of-its-kind, principal-protected fixed income instrument issued under IFC's AAA-rated program that pays the coupon optionally in the form of carbon credits.
- Coupon supports forest conservation in Kenya and offers an option to deliver voluntary REDD (forestry carbon) credits to bondholders.
- The Project supported by the coupon is expected to reduce deforestation, protect endangered plant and animal species, and develop sustainable economic opportunities for communities in Kenya
- HSBC named this “green coupon” bond as an innovative extension of the green bond market.
- Investors will have 4 options for their coupon:
 - 1) to receive the coupon in cash;
 - 2) to receive the coupon partly in cash and partly in carbon credits
 - 3) to receive the coupon in carbon credits and retire them to offset corporate greenhouse gas emissions; or
 - 4) to receive the coupon in carbon credits and sell the credits in the carbon market.

INAUGURAL FORESTS BOND

The financial structure



Notes:

1. On the Issue Date, investors in the Notes will pay US\$152 million, in aggregate, to IFC in issue proceeds, in consideration for the issuance of the Notes
2. On an annual basis Noteholders will receive a fixed cash coupon with an option for a coupon partly or fully deliverable in VCUs per Note at a fixed price of \$5 per VCU
3. In addition to having the ability to retire the VCUs, a noteholder may also independently sell them into the VCU market
4. IFC will buy the VCUs generated by the Project during each generation period on an annual basis
5. In respect of each interest payment date, IFC will use the VCUs purchased from the Project (per note 4) to meet investor demand for physical delivery of VCUs, and it will put to BHPB all the unused VCUs, i.e. the amount of VCUs that noteholders have not elected to receive
6. Investors are not exposed to any credit or performance risk of BHPB.
7. The total cash value of the price support provided by BHPB will be escrowed on or prior to the issuance date of the Notes. If any portion or all of the annual price support made available by BHPB under the Put Option is not used, then BHPB, by agreement with and via IFC, will apply the remainder to purchase VCUs from the Project for BHPB's own account