



Forest Carbon Partnership Facility

4h. Review of Financing Plans of ER Programs and Options to Address the Financing Gap

Sixteenth Meeting of the Carbon Fund (CF16)

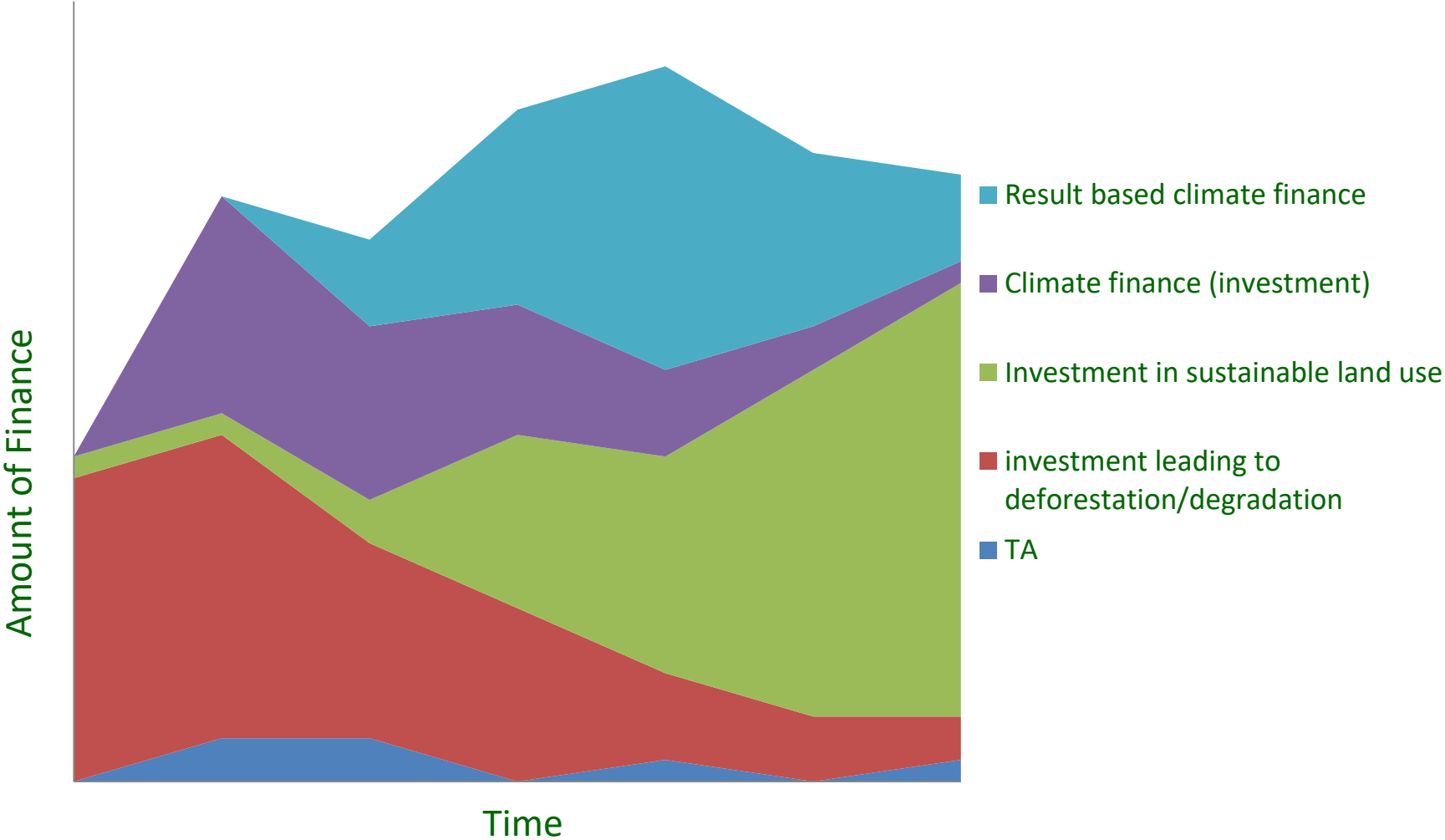
Paris, France

June 19-22, 2017

Progress on ER Program Financing

- **Presentations at CF12 and CF13**
 - General menu of options for upfront financing discussed (CF12)
 - Some details on bonds and guarantees presented (CF13)
 - Mixed reactions from CFPs on using the CF to leverage results based payment stream for upfront finance needs of programs
- **Since CF12 and CF13**
 - 10 ER PDs have been prepared, including financing plans to support the implementation of ER programs
 - There is significant variation in the data and information presented in the ER PDs
 - Financing plans are expected to be reviewed as part of the World Bank's appraisal of ER programs

Profile of Finance to ER Programs Over Time



Financing Plans as presented in ER programs

- ER Programs present financing plans in Section 6.2 with a summary in Annex 1
- Public finance is the major source of funding to programs. The government budget and bilateral and multilateral financing are the major sources of finance to programs
- Private finance forms a small portion of program finance (exception – majority of funding in Ghana ER program is from private sources)
- Wide range of approaches to program financing
 - Attribution of a portion of national budget/public funds to program – Madagascar, Costa Rica
 - Incremental costs of implementing program – DRC, RoC, Ghana
 - Mix of national budget and incremental cost – Vietnam, Nepal

Elements of ER Program Financing

Use of funds

- Implementation costs
- Institutional costs
- Transaction costs

Source of funds

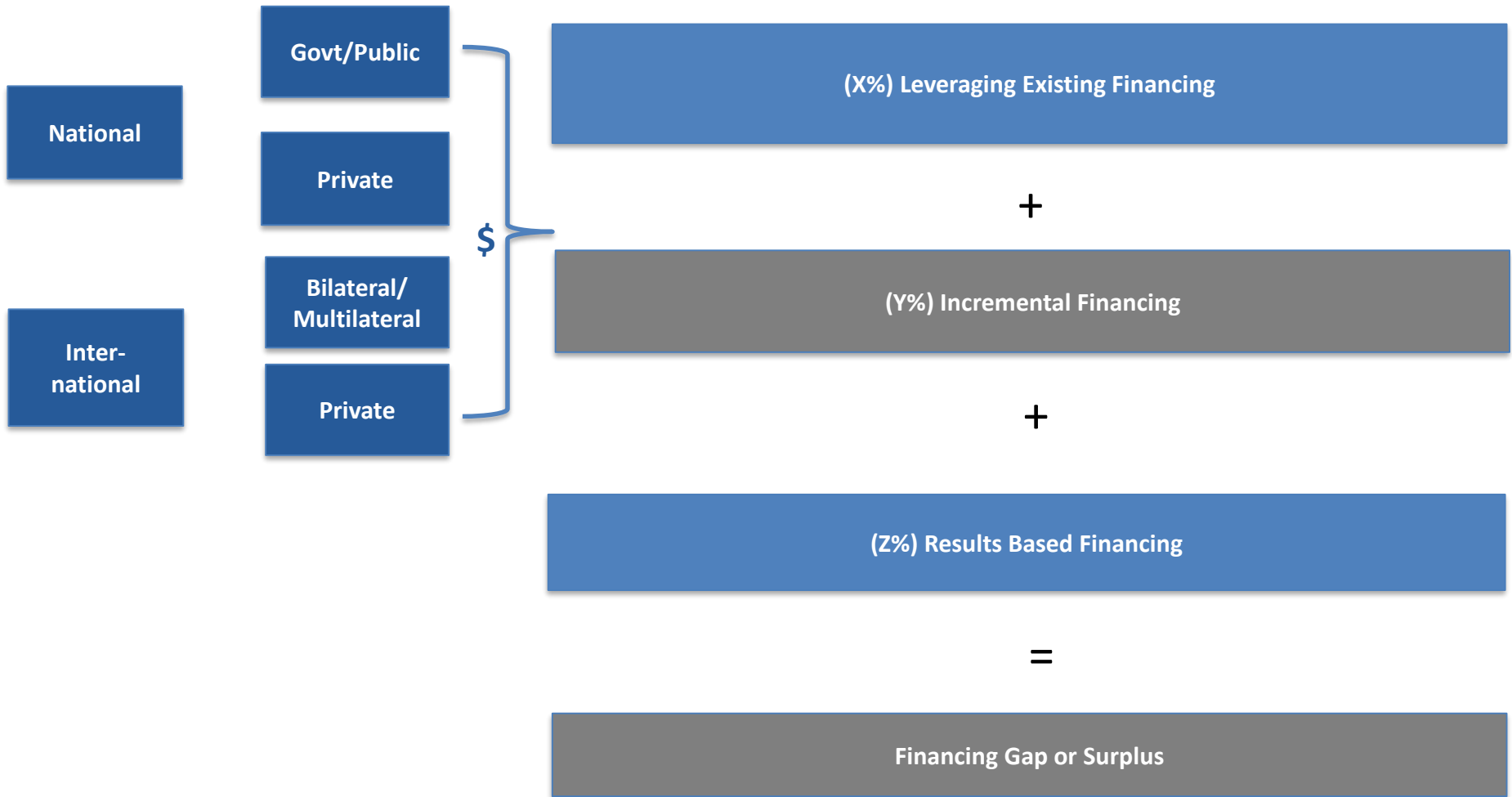
- National
 - Public – government, other public, quasi-public
 - Private
- International
 - Public – bilateral, multilateral
 - Private

Sensitivity analysis

- Costs and revenues
- Source of finance
- Discount rates

Fund flow arrangements

Program Financing



Mix of Multilateral Financing to Mozambique Forest Sector

FCPF REDD+ Readiness Grant	\$3.8 million + \$5 million (2013 – 2018)
Earth Observation for Drylands (GEF)	\$2 million (2016 – 2018)
Forest Investment Project (FIP) and Development Grant Mechanism for Indigenous Communities (DGM)	\$47 million + \$5 million (2017 – 2022)
Agriculture & Natural Resources Landscape Management Project (IDA)	\$40 million (2016 – 2021)
Conservation Areas for Biodiversity and Development Project (IDA and GEF)	\$40 million + 6 million (2015 – 2019)

Note: A portion of funds from the projects and programs funded through IDA, FIP, and GEF are expected to support the implementation of Mozambique ER program.

Financing Plans of ER Programs Proposed to the Carbon Fund

USD Million

No.	ER Program	Program duration (years)	Use of funds (cost of program)	Source of Financing		Financing Gap 1 (with ER payment)	Financing Gap 2 (without ER payment)
				All public & private sources	Expected ER payments		
1	Chile	9	174	37	60	77	137
2	Costa Rica	10	297	N/A	23	N/A	N/A
3	D R Congo	10	89	78	97	0	11
4	Ghana	5	237	187	50	0	50
5	Madagascar	10	189	159	87	0	30
6	Mexico	5	426	420	50	0	6
7	Mozambique	10	N/A	40	44	N/A	N/A
8	Nepal	10	177	131	70	0	46
9	Rep of Congo	10	151	86	65	0	65
10	Vietnam	8	454	313	103	38	141
	Total		2194	1451	649	115	486

Financing Plans of ER Programs with 5 Year ERPA

USD Million

No.	ER Program	Length of ERPA (years)	Cost of program	Source of Financing		Financing Gap 1 (with ER payment)	Financing Gap 2 (without ER payment)
				All public & private sources	Expected ER payments		
1	Chile	5	128	21	17	90	107
2	Costa Rica	5	165	N/A	14	N/A	N/A
3	DRC	5	89	78	50	0	11
4	Ghana	5	237	187	50	0	50
5	Madagascar	5	169	159	50	0	10
6	Mexico	5	426	420	50	0	6
7	Mozambique	5	N/A	40	22	N/A	N/A
8	Nepal	5	97	80	35	0	17
9	Rep of Congo	5	92	86	35	0	6
10	Vietnam	5	241	193	38	10	48
	Total		1644	1264	360	100	255

Financing Gap

- Financing gap is the difference between the cost of the program and amount of financing available
- Committed funding is generally less than the financing need of the programs
- The financing gap is expected to increase if funding anticipated during later period of program implementation does not materialize
- Few programs show a large financing gap $> 30\%$ – e.g., Chile
- The financing gap of most programs ranges from 10 to 30% - e.g., DRC, RoC, Madagascar, Vietnam
- ER payments are *ex post* and therefore unlikely to meet upfront investment needs of programs; but can flow to later part of program implementation

Estimate of Financing Gap

Estimate of Financing Gap of ER Programs

- Financing gap of ER programs over the ERPA period
 - ~ USD 200 Million (estimate based on the information available on the financing gap in 8 programs out of 10 programs reviewed)
- Financing gap needs to be assessed at periodic intervals

Options to Address Financing Gap

Options to address financing gap

National

- Domestic resources
- Loans/credits/grants (bilateral/multilateral)

Carbon Fund

- Advances

World Bank Facilitated – if countries / CFPs agree

- Grants
- Bonds
- Guarantees
- Revolving fund

Findings from the Review

- Information on program financing is partial (10 out of 19 programs) and does not fully reflect the potential financing gap of the CF portfolio
- Financing plans reflect diverse approaches of programs to accounting costs and financing sources
- Data on program financing can be updated as programs go through appraisal
- Cost of implementing ER programs can range between 3 to 5 times of the value of projected emission reductions from programs
- Average amount of financing available from public and private sources varies between 2/3rd and 3/4th of the program implementation costs
- Use of a standardized template for program financing in the ER PD document can promote consistency in data and reporting on program financing
- Some programs have a financing gap that can impact program implementation and performance

Guidance on Options to Address Financing Gap (1)

1. Advance Payment

Guidance is requested from CFPs on the willingness to consider different financing options to address the financing gap of programs

- **Advance** is payable prior to the verification of ERs
 - *Upfront Advance*: is payable upfront during the early period of ERPA (considered an advance)
 - *Interim Advance*: is payable some time into the ERPA based on meeting specific milestones
 - *ER Advance*: is payable based on monitoring report provided all conditions of an ER payment are met except verification
- Amount of advance to be decided taking into account specific program context and based on information in the financing plan
- Only when no other sources of financing are available

Guidance on Options to Address Financing Gap (2)

2.Grants

- Grants can be critical to support policy, institutional and capacity and other specific program needs
 - *Fixed grants* provide support to specific program needs and can be lump sum or cost basis or other criteria
 - *Reimbursable grants* allow for payment of actual costs incurred on program activities subject to a specific threshold
 - *Contingent grants* get repaid if programs are successful in achieving results. If program performance is low, contingent grants can potentially be converted into grants

Guidance on Options to Address Financing Gap (3)

3. Bond

- Bond is a debt instrument in which an investor loans money in return for a periodic interest and repayment of principal at maturity
- Bond proposed for ER programs does not increase the debt burden of the forest countries as the bond repayment is expected be linked to a portion of ER payments
- Bond facilitates public and private investors to provide upfront finance to ER programs through IBRD taking into account variables such as:
 - **Maturity:** Aligned with the duration of ERPA contracts
 - **Coupon** (interest): As agreed with investors
 - **Redemption at maturity:** An amount linked to ERPA payment with bond investors sharing the risk/reward of ER Programs with ER programs
 - **Principal protection:** Bond investors receiving a minimum amount of principal to avoid significant downside risk
- Key actors
 - **Issuer:** IBRD - Issues bond on behalf of the FCPF Carbon Fund and receives and transfers bond proceeds to the Carbon Fund for distribution to programs
 - **Underwriter:** Investment Bank – Assists in the design of bond and provides market intelligence
 - **Guarantee provider:** Entity that extends guarantee to address the risk of repayment of the principal to the bond investors

Guidance on Options to Address Financing Gap (4)

4. Guarantee

- Guarantee can **leverage additional finance** by mitigating risks of private investors
- Guarantee address investment barriers, improve market access and promote **public-private** partnerships
- As a **risk sharing instrument**, guarantee can partially cover identifiable risks and contingencies of ER programs, e.g. guarantee to cover the repayment risk of a portion of bond principal
- Guarantee improves the **attractiveness of other financing instruments** (e.g. bond) to potential investors of ER Programs
- **Carbon Fund Guarantee** can address the specific risks private sector investment in ER programs (e.g. bond finance) and can facilitate sustainable sourcing (e.g. off-take agreements for sustainable products)

Guidance on Options to Address Financing Gap (5)

5. Revolving Fund

- Revolving fund (RF) is a self-replenishing pool to provide finance for ER programs
- RF serves as bridge finance for the ER programs that have delayed revenues and addresses the financing gap of programs
- RF can sustain on an ongoing basis with recycling of finance to programs
- RF can use different types of instruments for meeting the upfront investment needs of programs

Proposed Follow Up

- **Countries**
 - Requirement to present details of financing plan in a standardized template as annex to ER PD
 - Discuss with countries on their plan to address financing gap as a case-by-case approach
- **Carbon Fund Participants**
 - Provide guidance on willingness to consider the following options to address the financing gap
 - Advances
 - Grants
 - Bonds
 - Guarantees
 - Revolving fund
 - Consider the status of program financing at the time of signing ERPAs
- **World Bank**
 - Due diligence to cover review of program financing
 - Align Bank and other financing sources where possible, pending agreement with countries (good examples in DRC and Mozambique)
 - Assist countries on approaches to financing where possible



THANK YOU!

www.forestcarbonpartnership.org