



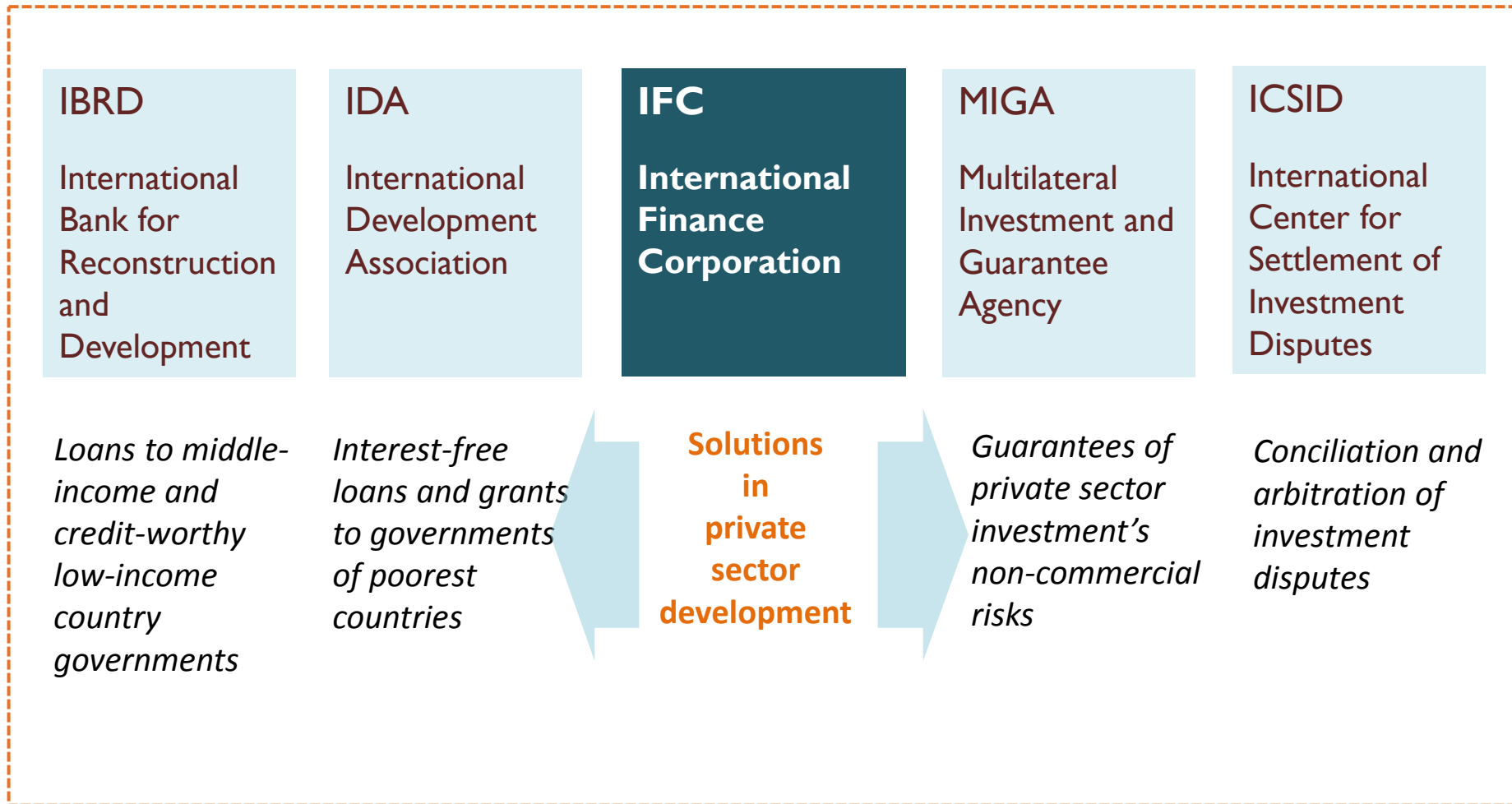
**International
Finance Corporation**
World Bank Group

Potential for private sector engagement in Forestry/REDD+ in Indonesia

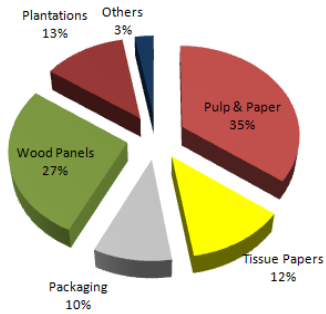
Session 4: Private sector and REDD+ implementation

Dr. Michael Brady
Senior Forestry Program Officer, EAP

IFC: Part of the World Bank Group

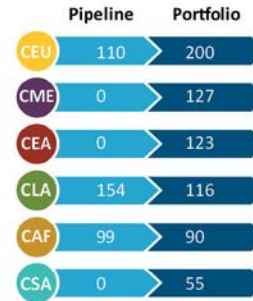


Our global portfolio in forestry and wood products



IFC Volume of IS Investments

Approximate IFC gross investment (\$ million)



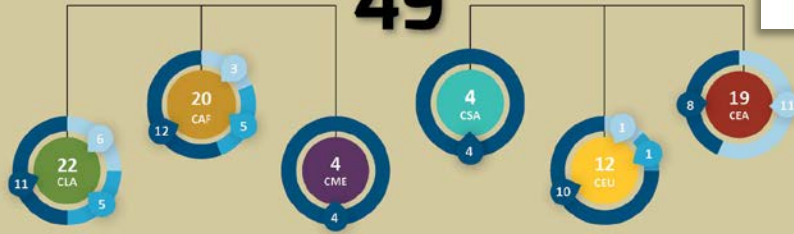
IFC Number of IS Investments by Region

IFC Involvement and Impacts in Forestry, Wood, and P...

- Prospect
- Pipeline
- Portfolio

Number of portfolio investments

49



IFC Committed Balance
\$ 711
million



Our global portfolio in forestry and wood products

IFC projects across the world



Context for private sector forestry in Indonesia

Indonesia Context

Economic contributions:

- ❖ Consistently **3-4%** of country exports
- ❖ Exports over US\$6 billion forest products pa (pulp, paper, plywood, specialty products, furniture, etc)
- ❖ Highest tropical timber production globally with **28%** of regional production
- ❖ Growing international and domestic **demand** for forest products

Targets:

- ❖ GoI targets to increase plantations (20 Mha) and restore ecosystems (7.5 Mha)
- ❖ Community plantations (5.5 Mha, plus)
- ❖ Forestry for biomass energy emerging

Challenges

- ❖ Government of Indonesia plans to **reduce** GHG emissions (26-41%) with focus on forest sector
- ❖ Natural forest concessions **declined** from 61 Mha in 1993 to 22 Mha in 2011, with few certified
- ❖ Expanding area of degraded land in forest estate (35-50 Mha)
- ❖ Increasing **conflicts** with communities over land use and tenure
- ❖ Low and distorted pulp fibre **prices** inhibit plantation expansion
- ❖ Sector still considered **unbankable**, particularly at SME and forest farmer levels

IFC Indonesia Sustainable Forestry Program

A central theme of the forestry program is to work with private sector clients to develop viable planted forests on degraded lands

Key program goals:

- Reduce green house gas emissions
- Improve sub national enabling environments
- Strengthen business cases for sustainable forest management by industry and SMEs along supply chains

Common firm-level challenges in forestry linked to REDD+

1. Cost efficient management
 - REDD+ safeguards, IFC Performance Standards
2. Increased revenue opportunities
 - PES, Carbon, NTFP
3. Improve enabling environments
 - Assessments and standards
 - Licensing, tariffs and taxes, market access



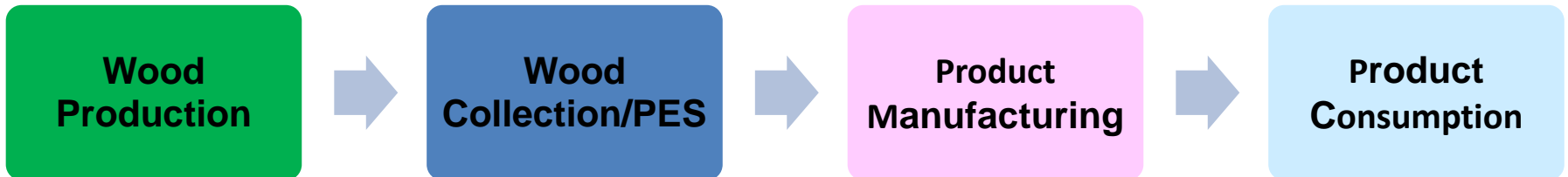
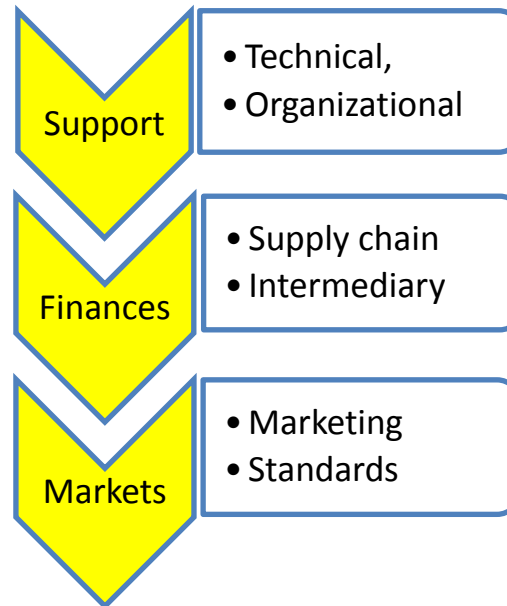
IFC's advisory services with direct and indirect REDD+ Impacts

Client Objectives	Solution	IFC Intervention
Increase efficiency by water, energy use	Resource Efficiency	<i>Expert to review potential efficiency gains, payback time of new machinery investments</i>
Meet E&S standards	Enhance client E&S systems	<i>Consultant to set up client E&S monitoring, management systems</i>
Increase forest planting, harvesting <i>(direct REDD+ impact)</i>	New Supply Chain Models	<i>Broker new contractual and financial arrangements between CFEs and client firms for re-forestation</i>
	Forestry Extension Units	<i>Extend reach of forestry extension units to work directly with Community Forestry Enterprises (CFEs)</i>
Improve social, economic ties with communities	Additional community supplies	<i>Establish new, secondary supply chains (wood or other) with neighboring communities</i>
	Strategic Community Investment	<i>Facilitate firm in defining and implementing strategy around neighboring communities relations</i>

IFC Forestry approach

Strengthening supply chains of forest and wood products sector, including REDD+

IFC adopts a 'Lead Firm' approach when addressing supply chains, particularly in frontier sectors



Forestry subsectors* with private sector links to REDD+

1. Industrial Plantation Forest
2. Ecosystem Restoration Concession
3. Community Plantation Forest on Private and Public Land

*Real sector activities include forest concession licenses providing defined spatial, temporal, legal and commercial security.

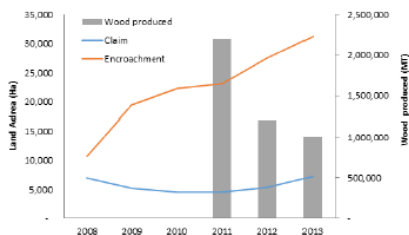
Other types of opportunities for private sector REDD+ in AFOLU include investment funds, carbon trading, consultancies, etc.

1. Industrial Plantation Forest

- Type of firms: National and international; many with integrated processing capacity
- Locations: Sumatra, Kalimantan, Papua, Sulawesi
- REDD+ links: Reforestation can be substantial; some offsetting (chips for biomass energy), interest there, but no known credit trading due to price
- Status: Operationalized; large GoI targets; PPPs
- Challenges: Ongoing forest conversion; land tenure conflicts; increasing population pressures
- Opportunities: Expanded species use attracting community partnerships and higher value added products; make use of established PDD for CDM; Forest Investment Program



Encroachment and Claims vs Production



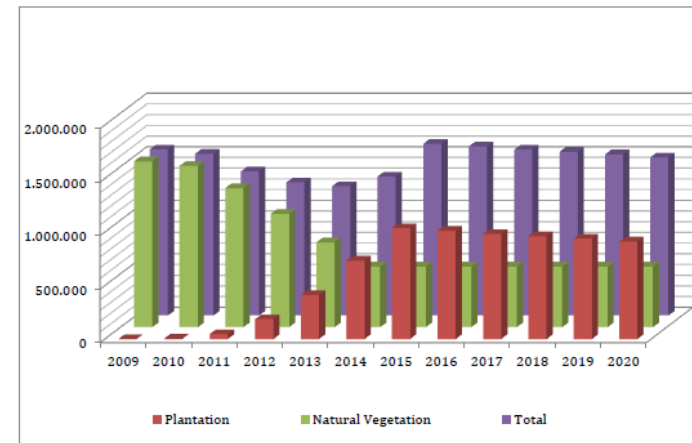
2. Ecosystem Restoration Concession

Type of firms:	Juniors; partnerships; transitioning from public funding
Locations:	Mainly Sumatra and Kalimantan (production forest)
REDD+ links:	Increase in natural carbon stocks, reforestation, other revenue opportunities from forest products and services; VCS/CCB validation established
Status:	Relatively new concession type, but licensing established; 1-2 now marketing credits
Challenges:	Licensing difficult and expensive (IFC exit); commercial transitioning to attract investments; low carbon prices
Opportunities:	Biodiversity conservation; livelihood provision; long-term high value wood supply; PPP



3. Community Plantation Forest

- Type of firms: Individuals, groups, associations, cooperatives, NGOs
- Locations: Country wide, but most well established in Java and Sulawesi
- REDD+ links: Public project links, but not aware of any market-based credit trading; payment for environmental service schemes established with purchasers
- Status: Forest and wood product markets established, but still weak outside Java;
- Challenges: Cost of assessment and verification; permanence and leakage risks; small scale
- Opportunities: SME strengthening; group certification; enhanced revenue; Forest Investment Program



Discussion

1. Lessons from Indonesia experiences
2. Public sector support
3. Current and future role of private sector in REDD+ program (pilot/national levels)
4. Benefits of private sector engagement

Thank you

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Forestry & Wood Products Indonesia

