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

- **IBRD**: International Bank for Reconstruction and Development
  - Loans to middle-income and credit-worthy low-income country governments

- **IDA**: International Development Association
  - Interest-free loans and grants to governments of poorest countries

- **IFC**: International Finance Corporation
  - Solutions in private sector development

- **MIGA**: Multilateral Investment and Guarantee Agency
  - Guarantees of private sector investment’s non-commercial risks

- **ICSID**: International Center for Settlement of Investment Disputes
  - Conciliation and arbitration of investment disputes
Our global portfolio in forestry and wood products

Volume of IS Investments

Approximate IFC gross investment ($ million)

Pipeline          Portfolio
CEU   110        200
CME   0          127
CEA   0          123
CLA   154        116
CAF   99         90
CSA   0          55

IFC Committed Balance
$ 711 million
Our global portfolio in forestry and wood products

*IFC projects across the world*
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

Context for private sector forestry in Indonesia

**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
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 greenhouse 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

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

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

mbrady1@ifc.org

Forestry & Wood Products Indonesia