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Unlocking Private Sector Finance for Sustainable Landscape Management

The Tropical Landscapes Finance Facility For Indonesia

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Leading Partners



United Nations Environment

- [The United Nations Environment Programme](#) is the leading global authority that sets the agenda on environmental issues, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system and serves as an authoritative advocate for the global environment

ICRAF

- The International Centre for Research in Agroforestry ("[ICRAF](#)"), known as World Agroforestry Centre, is recognized as the global leader in agroforestry research and development with six regional offices located in Indonesia, India, Kenya, Malawi, Peru and Cameroon, and conducting research around the developing world

ADM Capital/ADMCF

- Asia Debt Management Hong Kong Limited ("[ADM Capital](#)") is a global investment manager. Currently with USD 1.6 billion in assets under management, ADM Capital manages private credit funds, including two with the IFC. [ADMCF](#) was established in 2006 as an impact-driven nonprofit initiative to provide funding and intellectual capital to help address specific forestry, water, air and marine environmental and social challenges. ADMCF is a leader in environmental philanthropy in Asia, with a focus on real impact rooted in evidence-based research

BNP Paribas

- BNP Paribas ("[BNPP](#)") is an international financial institution with a presence in 75 countries and more than 185,000 employees. Being Europe's second largest bank by assets, it is an established financial institution with a long history in Asia

Established to leverage private finance for public good, mobilizing international capital markets for commercial projects with environmental and/ or social impact in Indonesia

- **Innovative financial platform** with a focus on **scale** and **replicability** to offer long-tenor loans and secure refinancing from the capital markets.
 - **Tropical Landscapes Loan Facility**, which provides access to long-term credit for commercial projects with measurable environmental and social impact as well as a financial return
 - **Tropical Landscapes Grant Fund**, managed by a Jakarta TLFF Secretariat and the United Nations Office for project services to support pipeline development, needed education and other grant funding as well as monitoring and evaluation services to the Loan Facility

Indonesia is the largest economy in South East Asia with a population of 260 million, 25% of whom live on less than \$2 a day. The Government of Indonesia has set ambitious goals to address social and environmental challenges

■ Overview

- Consisting of ~17,000 islands, Indonesia is the **4th most populous country in the world**. The country has charted impressive economic growth since the Asian Financial Crisis in the late 1990s and is a member of the G-20
- **4th biggest emitter of carbon**, largely from deforestation
- **Extreme poverty** and a chronic education gap – ~11% of the population lives below the poverty line (USD 22 per month)
- **No access to electricity** affects 13,000 villages (out of 75,000) or ~ 40 mm – 5 year plan calls for 35 GW of additional power of which 8GW to come from renewable energy
- **Agriculture represents ~14% of GDP**, a significant share of which is generated by ~38 mm smallholder farmers

■ Government of Indonesia (“GoI”) growth targets

- **Carbon Emission Savings** – Targeted carbon emission savings of 26% by 2019 and 29%-41% by 2030
- **Renewable Energy** – Shifting from the current 6% of the total energy mix to 23% by 2025
- **Electrification** – Improving from the current 81% electrification rate to a targeted 97% electrification rate by 2019
- **Palm Oil Exports** – Doubling palm oil exports over the next 5 years
- **Poverty** – Reducing the poverty rate from 11% to below 4% by 2025

There is a significant funding gap if Indonesia is to meet its targets – this is what TLFF is seeking to address

Market Landscape: Sustainable Agriculture

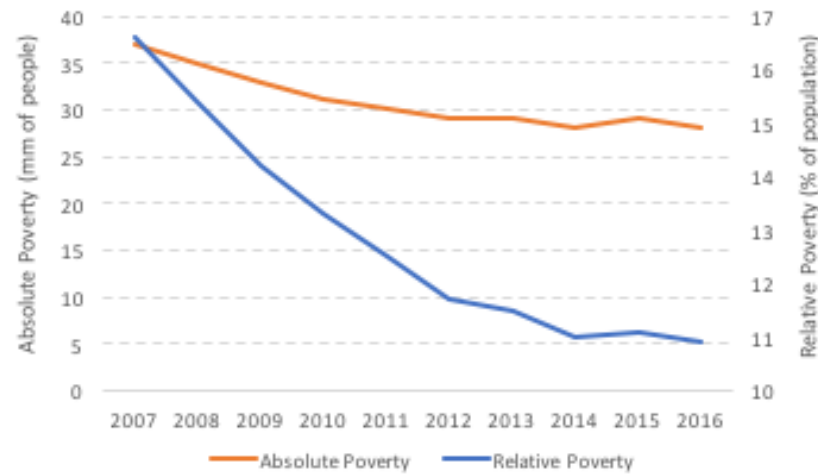
Smallholders in Indonesia



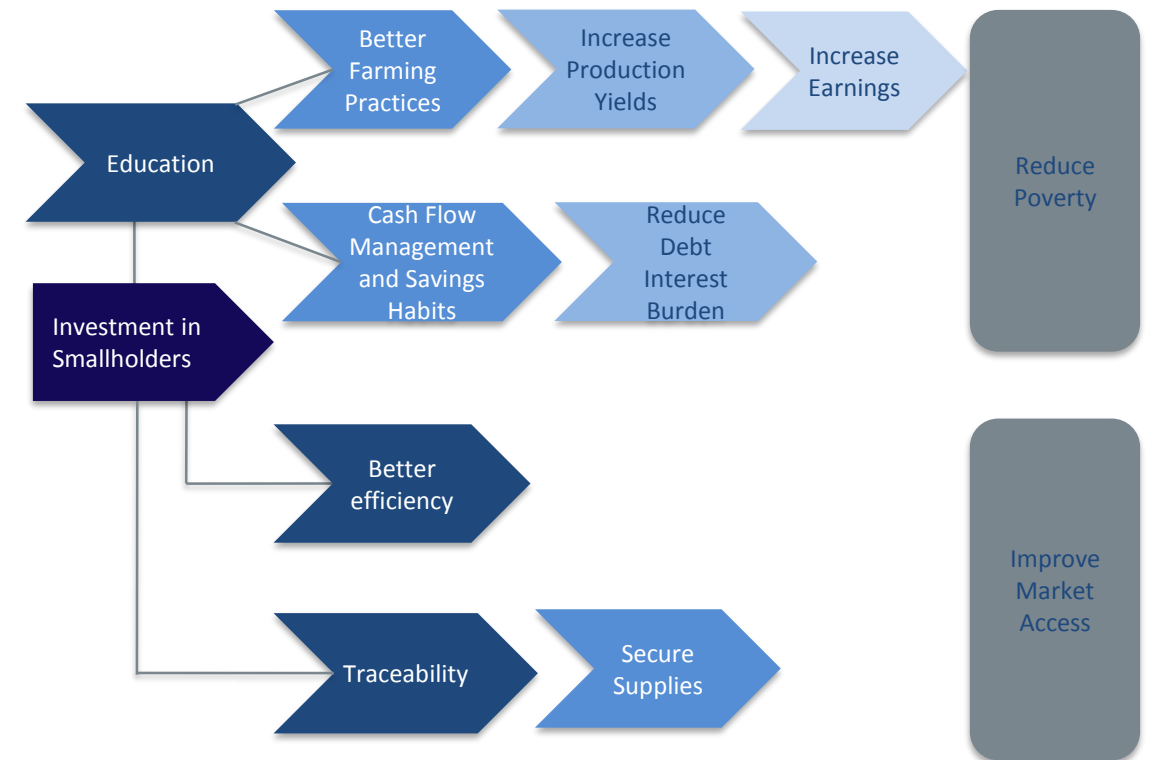
TLFF will provide loans for smallholders to improve efficiency & support jobs growth across the sustainable agriculture supply chain

Rural Livelihoods

- Although the relative % of the Indonesian population below the poverty line has been decreasing over time, falling from 16.6% in 2007 to 10.9% in 2016, there are still over 28 mm people in rural Indonesia living in extreme Poverty
- In 2016, GoI defined the poverty line at IDR 354,386 (USD 26.6) monthly
- Agricultural sector in Indonesia plays an important role in raising rural livelihood as a main source of national income
- TLFF will make investments that support smallholder and other sustainable farming practices as well as improved efficiency



Supply Chain



Value Proposition



TLFF is the first ever private public partnership focused on mobilising international capital markets to address environmental and social challenges at scale in Indonesia

Product Offering

- Long dated commercially rated debt
- Advise project sponsors on creating optimal capital structures to generate positive environmental and social impact
- Lever development finance institutions and credit guarantees

Deal Mechanics

- Deal size: > USD 80 million (or IDR equivalent)
- Long-dated tenors: 10+ years
- Structured approach

Sector Focus

- **Renewable Energy**, and rural electrification
 - e.g. bioenergy, geothermal, hydro, solar, wind
- **Sustainable Agriculture**, including land rehabilitation and improving rural livelihoods
 - e.g. replanting for smallholder farmers in bamboo, cocoa, coffee, oil palm, rubber, etc.

Geographic Focus

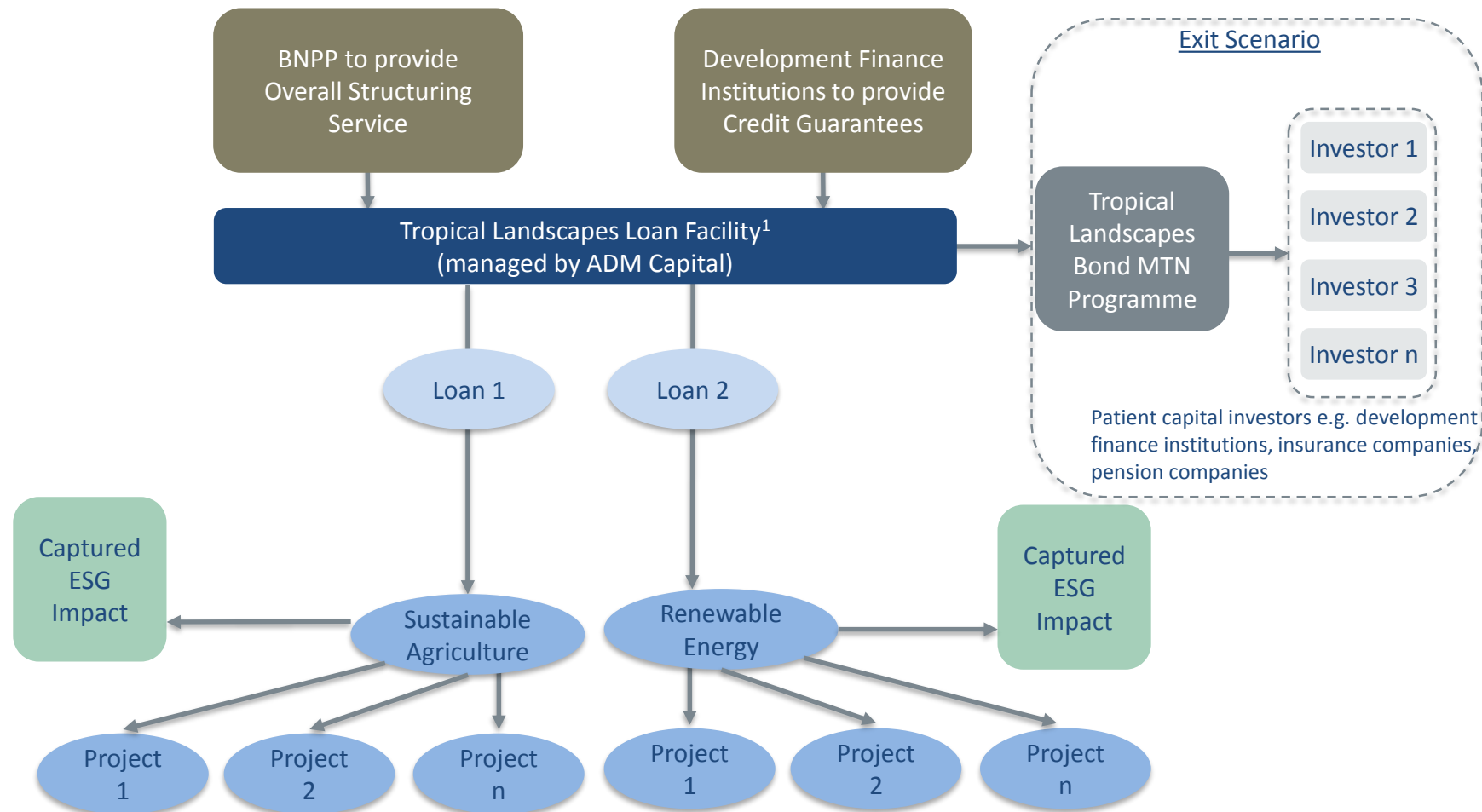
- Indonesia

Key Investment Criteria

- Core Environmental and Social objectives
- Credit protection via hard collateral or guarantee(s)

Tropical Landscapes Loan Facility

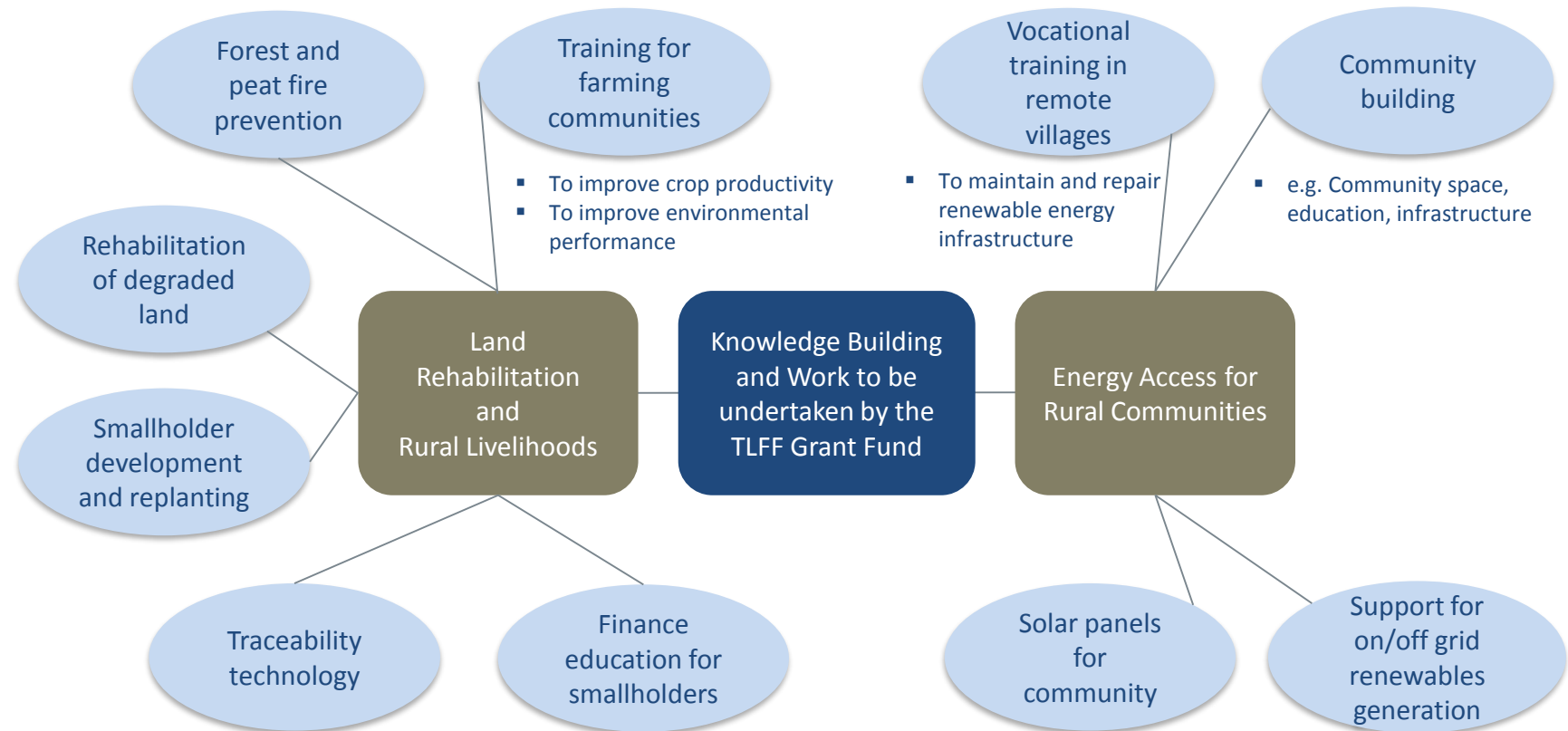
- BNP Paribas will provide structuring advise to the finance structure of the TLFF
- The loan extended by TLFF will be supported by a credit guarantee
- As investment manager of the Tropical Landscapes Loan Facility, ADM Capital will source different eligible projects
- Project cashflows will be securitised and sold by BNPP via a long-dated bond programme
 - Notes will be limited recourse, secured obligations backed by individual project loan
 - Tranches may be sold with or without a credit guarantee



1. Different and separate loan facilities would be set up for the purpose of extending project loans to different types of projects in order to fit with the projects' unique profile.

Tropical Landscapes Grant Fund

- The Tropical Landscapes Grant Fund is established by UN Environment under UNOPS
- The Tropical Landscapes Grant Fund will be capitalized by donors interested in contributing to significant social and environmental impact in Indonesia leading to the achievement of the UN Sustainable Development Goals



Risk Management and Governance

Robust processes to manage risk and provide strong governance

ADM Capital Risk Management



Fund Governance

Investment decisions taken collectively by an Investment Advisory Committee (“IAC”) with relevant investment experience

Regular communication through progress reports, newsletters, website and emails to discuss status of investments, credit quality update, risk and portfolio updates

Monitoring and evaluation via TLFF Grant Fund, which advises on ESG performance, external auditors where relevant

TLFF Steering Committee Support to help meet objectives of TLFF, while ensuring compliance with standards and commitments

Impact

8 Core Environmental and Social Objectives



Each TLFF Project is managed to IFC Performance Standards

1) Improved Rural Livelihoods

- Fair labor and wages better smallholder farming practices with attention to gender equality;

2) Forest Retention

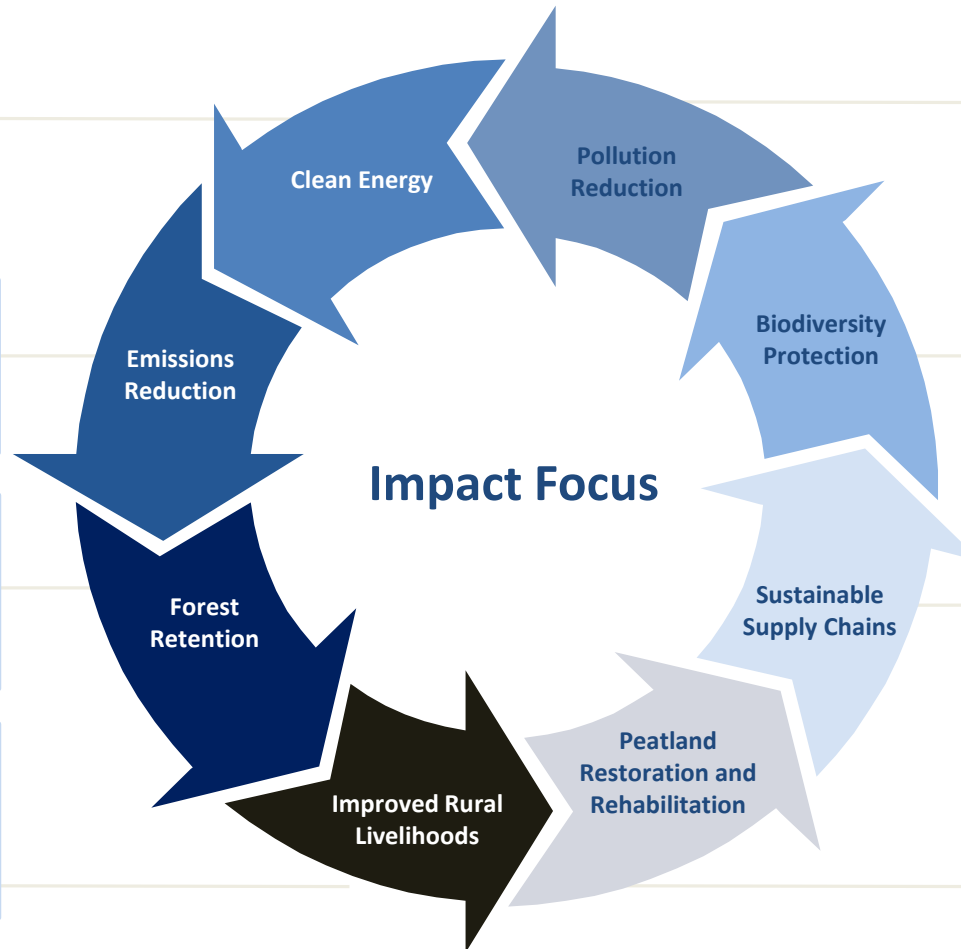
- retained canopy cover, averted fires, reduced land conversion through better efficiency in the smallholder ag sector

3) Peatland restoration/ rehabilitation

- Area of degraded peatland restored within concessions of funded projects Or regenerating

4) Sustainable supply chains for ag

- Improved ability to effectively track supply chains; number/percentage of farmers and intermediaries in a traceability scheme.



5) Clean Energy

- Installed capacity of clean energy, access to clean energy, total electricity produced

6) Reduced Emissions

- From land use change, forest restoration, avoided deforestation, c02 sequestered, emissions reduced by energy transition

7) Biodiversity Protection

- Areas of critical habitat protected, species protected where there are baseline studies

8) Pollution reduction

- In freshwater, soils and air, with a particular focus on fire and haze management as well as pesticide runoff

TLFF I: US\$95 million Corporate Sustainability Bond

The Royal Lestari Utama Transaction

Transaction Highlights: TLFF I PTE LTD.



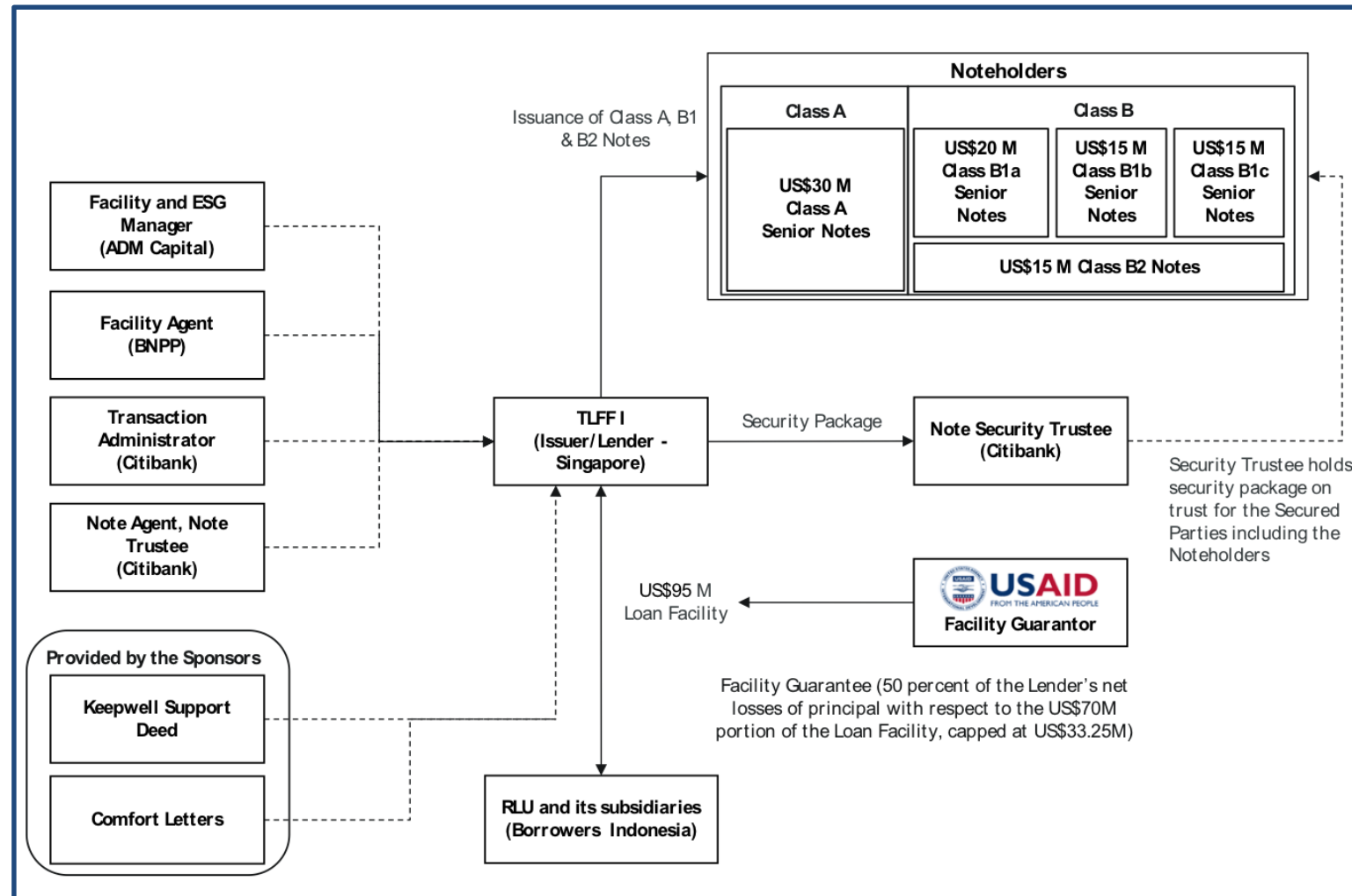
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Summary Terms*	
Issuer/ Lender	TLFF I Pte. Ltd
Borrower	Royal Lestari Utama (“RLU”) and its subsidiaries
Size	- USD 95mm - Class A (USD 30mm), Class B1a (USD 20mm), Class B1b (USD 15mm), Class B1c (USD 15mm), Class B2 (USD 15mm) - Class B2 was retained by the Sponsors
Tenor	Class A (15 years), Class B1a (15 years), Class B1b (5 years), Class B1c (7 years), Class B2 (15 years)
Interest Rate	Class A (4.136%), Class B1a (9%), Class B1b (8.375%), Class B1c (8.875%), Class B2 (2%)
Industry	Natural Rubber
Geography	Indonesia (East Kalimantan and Jambi)
Strategy for Repayment	Principal Repayment: The Notes will be repaid according to the individual Repayment Schedule for each Class until fully repaid at Maturity Interest Payment: Interest will be paid quarterly for all classes (30/360)
Guarantee	USAID will provide a guarantee in respect of 50% of the USD 70mm Guaranteed Loan Portion of the USD Secured Loan, amounting to 36.84% effectively of the USD 95mm principal, subject to a maximum ceiling of USD 33.25mm
Rating	Aaa by Moody’s for the Class A notes
Notes Security Package	- Secured by way of first ranking security over all of the Issuer’s property and assets (including its rights to the USD Loan Facility and Facility Guarantee, and first fixed charge over all funds held from time to time by the account bank in the name of Issuer) - Class A will be secured against the USAID Guarantee
Loan Security Package	Pledge over share capital in RLU, LAJ, MKC and WW; fiducia security over vehicles, machinery, equipment and inventory in LAJ, MKC and WW; and charge over accounts
Issue/ Closing Date	23rd February, 2018

* Indicative transaction highlights only, for detailed terms and conditions please refer to the Offering Circular

Transaction Investment Structure



ESG Proposition



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The project is an industrial rubber plantation, smallholder rubber, other community programs and conservation on **90,000 hectares** in Jambi, Sumatra and East Kalimantan.



At maturity, **the plantation will represent c. 10% of Michelin's global natural rubber supply**, ensuring a stable supply of high-quality and sustainable natural rubber products



RLU seeks to deliver **"win-win" outcomes for the company, communities and biodiversity through high productivity plantations and efficient mills** that will produce industrial natural rubber alongside conservation.



The project has been developed in partnership with WWF, which has worked with RLU to set aside **remaining 9,700 hectares of HCV and HCS forest as well as critical wildlife conservation and riparian areas**



Barito Pacific Group and Michelin have set out expectations for **no deforestation, environmental protection, respect for rights of local people and workers, and the development of local communities**



The project is operating in complex landscapes where there are long-standing historic deforestation trends, land-use problems and conflicts, which have both social and environmental implications.

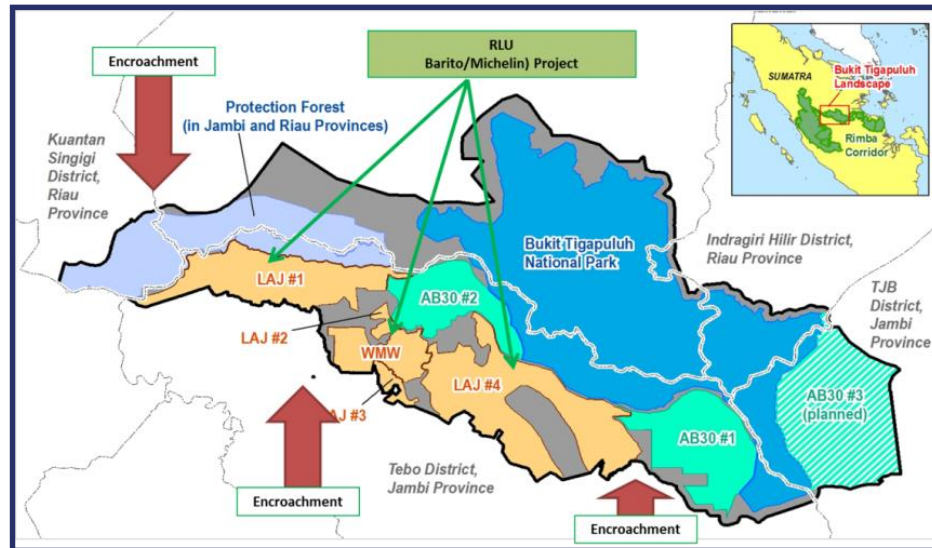


To ensure the project has and will be developed in compliance with the environmental and social policies of the lenders, an Environmental and Social Due Diligence (ESDD) report was developed then an Action Plan (ESAP). Annual third party audit

WWF operates two adjacent ecosystem restoration concessions, **which all together , form a strong and contiguous buffer zone protecting the 143,000 hectare Bukit Tigapuluh National Park** from further encroachment

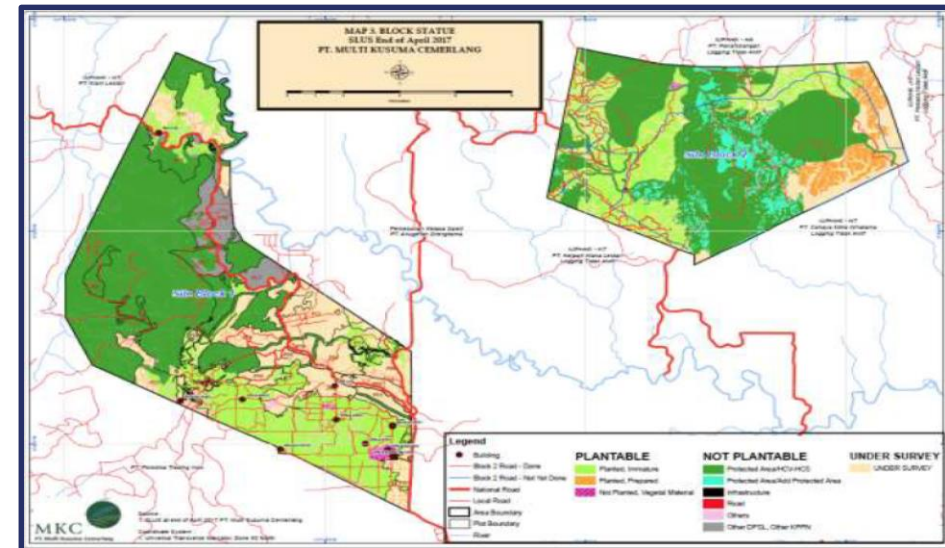
ESG Context

Current Situation



JAMBI

- Concession area is part of the "Rimba Corridor"- home to critically endangered Sumatran elephants, tigers & orangutans; an important bird & biodiversity area; home to two indigenous tribes; forms a protective buffer to the threatened Bukit Tigapuluh National Park; and is located upstream of an important river system
- The landscape has suffered severe deforestation and degradation in recent years, facing threats from illegal harvesting of timber, clearance for slash & burn agriculture, expanding human settlement and illegal development of palm oil plantations- only 5% of intact HCV forest now remains within the 70,000 Ha Jambi concession
- Area's current state is characterised by high GHG emissions, low incomes, illegal encroachment and high social & wildlife conflict levels



KALIMANTAN

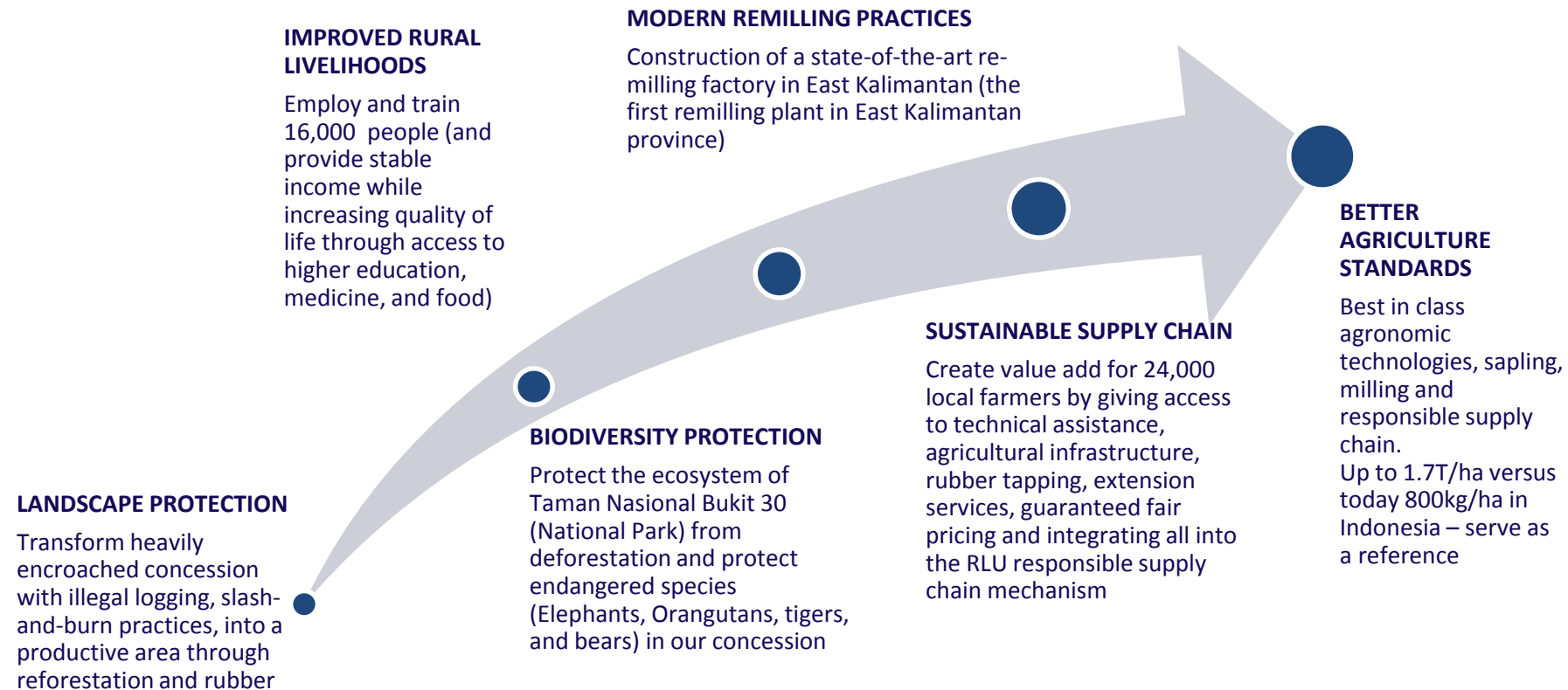
- Concession areas maintain considerable ecological importance- home to critically endangered orangutans and other iconic leopard, bird, deer and bear species; provides habitat to a range of threatened flora and fauna; and is located upstream of an important river system
- The landscape has suffered severe deforestation and degradation in recent years, facing threats from illegal harvesting of timber, clearance for slash & burn agriculture, expanding human settlement and illegal development of palm oil plantations- around 51% of intact HCV forest remains within the 18,000 Ha concession
- Area's current state is characterised by high GHG emissions, low incomes, illegal encroachment and high social & wildlife conflict levels

ESG Objectives

Vision and Mission



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- Indonesia is a country with a high-growth and dynamic economy and expected to be a top 5 economy by 2030
- While Indonesia's economy is growing at ~5%, this high-growth poses many challenges, both social and environmental
 - High rates of deforestation, GHG emissions, pollution of water and air, inadequate rural electrification, inadequate infrastructure and rural poverty are just a few of the challenges
 - Billions of USD are required to solve these challenges
- Yet Indonesia's financial sector favors economic growth above all
- Indonesia is not yet able to access efficiently estimated US\$3 trillion in institutional money looking for long-term assets and stable returns in global markets
- So lack of credit for projects that are commercial yet also address the social and environmental challenges
- need to consider blended finance, not just aid, in financing green growth, conservation and smallholder development objectives of Indonesia - at scale
- The objective with fiscal incentives is to disrupt the "business-as-usual" scenario in favor of a "business unusual" approach to financing projects that are commercial but also bring social and environmental benefit to the country

How can government's incentivize low-carbon investment?

Suggested Policy Measures: To Incentivize Impact Projects



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Interest Rate Swaps Facility

- Create an interest rate swaps facility – long-dated swaps - \$ to ?, 15 years

Tax Incentives for Impact

- Provide tax incentives. Specifically, this involves removing withholding tax from loans of 10 years or more for projects

Allow Foreign Ownership

- Foreign ownership of projects could be permitted (or for 50 years). Without ownership there is no control in a default and effectively there is no collateral. That means the cost is high and foreign investors don't lend

Other Government Support

- To promote sustainable agriculture projects, particularly for smallholder replanting and supply-chain traceability projects
- There needs to be a clear pathway to carbon benefit allocation and calculations toward each country's NDC

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