

## **Annex 2f**

# **Potential leveraging of private and public sector finance**

to the GCF Funding Proposal

*Land-based mitigation and adaptation through a Jurisdictional  
Approach in West-Kalimantan*

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## **1. Introduction**

Annex 2f provides an overview of potential leveraged private and public sector funding for the Land-based mitigation and adaptation through a Jurisdictional Approach in West-Kalimantan project. Two letters of intent from private sector actors are included in Annex 13.

## **2. Potential funds from the Roundtable on Sustainable Palm Oil (RSPO) Remediation and Compensation Procedure (RaCP)**

### **2.1 Background**

The RSPO, an organization that promotes sustainable palm oil, has established the Remediation and Compensation Procedure (RaCP) – a mechanism for restoring cleared High Conservation Value (HCV) areas.

A distinction is currently made between RSPO members who have cleared forests after November 2005 and those who have cleared forests after May 2014. Members who cleared forest after 2005 must either compensate the cleared area into similar forest areas (ha to ha option) or compensate financially paying 2,500 USD/ha (ha to dollar option). Clearing forests after 2014 lead to an expulsion from the RSPO. However, this situation was complicated because non-RSPO plantations are still clearing forests and RSPO members could acquire these plantations later. For this reason, there are discussions about potential changes. Ideas include allowing expelled members to rejoin RSPO or enabling non-RSPO plantation to join by developing “restoration plans”. As a consequence, these options would result into two options:

- 1) Restoring protected forest area (ha to ha)
- 2) paying a fee (ha to dollar).

### **2.2 Analysis of the conditions and estimation of funding**

Based on the above conditions, the partner organisation Flora Fauna International analysed forest changes using the official data from the Ministry of Environment and Forestry (MoEF) between

(1) the years 2005 and 2014, and (2) years 2015 and 2020. The cut-off was chosen to examine different scenarios on different situation.

#### Scenario A: RSPO member, clearance 2009 – 2015

This scenario analyses deforestation within the concession areas of RSPO members. The most conservative RSPO RCP coefficient is then used to calculate the liability of the RSPO member then multiplied by the coefficient of 0.4. Following this method, estimates are made for the liabilities of RSPO members across West Kalimantan province and the five target regencies in the GCF-project. The results suggest that the total liabilities for West Kalimantan Province are 28,160 ha (or US\$ 70,399,605) and for the five target regencies are 19,488 ha (or US\$ 48,719,613).

#### Scenario B: RSPO member, clearance 2015 – 2020

This scenario analyses forest clearing within the concession areas of RSPO members. The most conservative RSPO RaCP coefficient is used to estimate the liability (or re-entry) multiplied by the coefficient of 0.4. Following this method, estimates are made for the liabilities of RSPO members across West Kalimantan province and the five target regencies in the GCF-project. The results suggest that the total liabilities for

West Kalimantan Province are 10,078 ha (or US\$ 25,193,809) and for the five target regencies are 7,538 ha (or US\$ 18,844,016).

Hence, the total liability for RSPO members between the years 2009 and 2020 for West Kalimantan Province are 38,237 ha (or US\$ 95,593,413) and for the five target regencies are 27,025 ha (or US\$ 67,563,629).

Scenario C: Non-RSPO member, clearance 2009 - 2015

This scenario analyses forest clearing that has occurred in areas of non-RSPO members. The most conservation RSPO RaCP coefficient is used to estimate the liability (or restoration plan) multiplied by the coefficient of 0.4. Following this method, estimates are made for the liabilities of non-RSPO members across West Kalimantan province and the five target regencies in the GCF-project. The results suggest that the total liabilities for West Kalimantan Province are 92,487 ha (or US\$ 231,216,541) and for the five target regencies are 60,710 ha (or US\$ 151,774,690).

Scenario D: Non-RSPO member, clearance 2015 - 2020

This scenario analyses forest clearing that has occurred in areas of non-RSPO members. The most conservation RSPO RaCP coefficient is used to estimate the liability (or restoration plan) multiplied by the coefficient of 0.4. Following this method, estimates are made for the liabilities of non-RSPO members across West Kalimantan province and the five target regencies in the GCF-project. The results suggest that the total liabilities for West Kalimantan Province are 36,151 ha (or US\$ 90,378,291) and for the five target regencies are 26,379 ha (or US\$ 65,947,597).

Hence, the total liability for non-RSPO members between years 2009 and 2020 for West Kalimantan Province are 128,638 ha (or US\$ 321,594,832) and for the five target regencies are 87,089 ha (or US\$ 217,722,287).

The four scenarios presented estimate that developing and implementing policies and regulations foreseen Output 1 could achieve forest protection in **West Kalimantan Province** withing a range from 38,237 ha to 128,638 ha or leverage finance to further implement social forestry from US\$ 95,593,413 to US\$ 321,594,832. For the **five target regencies of the project**, the project could secure the protection of forest under social forestry units from 27,025 ha to 87,089 ha or generate fund to implement and hence, protect social forests of US\$ 67,563,629 to US\$ 217,722,287.

In both cases, these results indicate improvement towards better management of palm oil plantations and support for social forest protection in West Kalimantan Province.

Table 1: Forest Loss RSPO and non-RSPO members

Forest Loss by Province/District	RSPO Member (ha)			Non RSPO Member (ha)			Grand Total (ha)
	2009 - 2015	2015 - 2020	Total	2009 - 2015	2015 - 2020	Total	
Province West Kalimantan	70,400	25,194	95,593	231,217	90,378	321,595	417,188
District Ketapang	37,289	16,325	53,614	23,894	18,511	42,405	96,019
District Kubu Raya	13	3	16	73,743	20,508	94,250	94,266
District Sanggau	2,982	744	3,726	9,378	2,362	11,740	15,466
District Sintang	2,580	1,059	3,639	19,956	16,529	36,484	40,124
District Kapuas Hulu	5,856	713	6,569	24,804	8,038	32,843	39,411
<i>Total for districts</i>	<i>48,720</i>	<i>18,844</i>	<i>67,564</i>	<i>151,775</i>	<i>65,948</i>	<i>217,722</i>	<i>285,286</i>
Conservative estimate (0.4)							
Province (ha to ha)	28,160	10,078	38,237	92,487	36,151	128,638	166,875
District (ha to ha)	19,488	7,538	27,025	60,710	26,379	87,089	114,114
Province (ha to USD)	70,399,605	25,193,809	95,593,413	231,216,541	90,378,291	321,594,832	417,188,245
District (ha to USD)	48,719,613	18,844,016	67,563,629	151,774,690	65,947,597	217,722,287	285,285,916

### 2.3. Jurisdictional Approach towards certification

Currently, there are 375 oil palm plantations (concession) across West Kalimantan province, and 75% of the members (281 plantations) are located in the five targeted regencies. The total recorded certified palm oil (CPO) from West Kalimantan was 1,140,639 ton from 476,891 ha of plantations<sup>1</sup> or roughly 2.3 tCPO/ha. Assuming there are 373,207 ha of RSPO-member oil palm plantations in the province or 275,634 ha of RSPO-member oil palm plantations in the five target regencies, then it is estimated around 892,645 ton CPO and 659,267 ton CPO produced from the entire West Kalimantan Province and the five target regencies respectively. With an RSPO certification cost of 1.4 USD/ton CPO<sup>2</sup> then the certification cost for the province and the five targeted regencies will be around 1.2 million USD and 0.9 million USD respectively. This number is still excluding the 1.6 million hectares of non-RSPO member in West Kalimantan Province.

Assuming the certification cost (in addition to the RSPO fee) is around US\$ 50,000 per company, and assuming 50% of the oil palm plantations has mills. Then, around 187 companies (with mills) will pay US\$ 50,000 for certification or around US\$ 9,375,000 per certification process.

Under the Jurisdictional Approach (JA), we aim to reduce the cost for certification process, by conducting the JA certification. It is assumed that the cost per certification process will go down to US\$ 6.5 million, including US\$ 1.8 million funds for the Jurisdictional Entity (JE) to manage the certification process and operational costs. JE will be operated by a professional entity but must be supervised by the jurisdictional government (regency and provincial level), this will increase the government's roles in green economic development. There will be a 30% cost reduction for the RSPO member certification who join the JA, and 20% fund for the JE operationalization. This 20% to the JE will be leveraged through the project. This will be around US\$ 1.8 million.

This certification process will be repeated every five years. With more companies join RSPO, and subsequently the JA, then more funds will be leveraged.

<sup>1</sup> [https://agro.kemenperin.go.id/files/performance-document/BOOKLET\\_-\\_Profile\\_of\\_Palm\\_Cooking\\_Oil\\_Industry1.pdf](https://agro.kemenperin.go.id/files/performance-document/BOOKLET_-_Profile_of_Palm_Cooking_Oil_Industry1.pdf)

<sup>2</sup> <https://rspo.org/reduced-fees-for-physical-transactions-and-rspo-credits/>

### **3. Funds from the domestic carbon market**

The project targets around 200,000 ha of forests which will be protected and rehabilitated under the Social Forestry (SF) licenses. The initial conservative estimation is that 500,000 tCO<sub>2</sub>e per annum are expected to be generated as avoided/removed emissions due to the project implementation in social forests (Community Carbon Pools). As SF licenses are required to submit a project design document (*Dokumen Rencana Aksi Mitigasi*, DRAM), the DRAM will enable SF license holders to access the domestic carbon market. The carbon market can be accessed directly or through the Indonesia Carbon Exchange (IDXCarbon). Current prices). Looking at the IDXCarbon, for the non-forestry sector was Rp 69,600 per tCO<sub>2</sub>e. Considering SF is being established and implemented in steps, starting from year 4 or after the end of the project, around US\$ 2.25 million could be generated annually from the community carbon transactions.

In addition to the revenue generated from domestic carbon credits, there is high interest from different investors who want to invest in the development of the community carbon projects. This investment could run as a parallel fund to the GCF project or after the GCF project has ended. Depending on the government and community preference in establishing a legal and inclusive carbon project that complies with relevant laws and regulations. So far, the potential investors are willing to provide investment funds between US\$ 1 to 2 million for project development.

As part of the domestic carbon market, potential funding from private sector investment of US\$ 1 to 2 million for the development of the community carbon pools and from the sale of carbon credits of approx. US\$ 2.25 million per year (with carbon ownership remaining in Indonesia and accounting towards NDC targets) is possible.

### **4. Other non-carbon market approaches / carbon certificates**

German-based company TREEO<sup>3</sup> – affiliated to FairVentures expressed earnest interest in co-investing to the project by providing market access and finance to farmers for sequestered carbon. TREEO just received certification for the new Global Tree C-Sink standard under Carbon Standards International. TREEO has a number of private sector companies at hand who are willing to provide finance for performance without transfer of ER-titles. If the project can support access to communities with social forestry licenses (activity 3.2.1) TREEO will collaborate with the license holders to either rehabilitate protection forests or establish forest plantations on highly degraded land. TREEO estimates that per 1,000 hectares afforested area a revenue of EUR 3,500,000 (ca. US\$ 3,800,000) could be easily leveraged over a ten-year period. Half of this revenue can be paid in advance to support planting activities, and 80% of the total amount is expected to directly benefit smallholder farmers (please refer to Annex 13)

### **5. Direct leveraged private sector investments**

With regards to the leveraged private sector investments, the EE Solidaridad estimated that there will be at least one larger partnership with a producing company of approx. EUR 500,000 during the project period, and additional smaller private sector partnerships of EUR 100,000

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<sup>3</sup> <https://treeo.one/en/treeo/about-us>

per year. In sum, Solidaridad expect directly leveraged private sector investments of approx. EUR 1,000,000 through the project withing the project duration.

In addition, German-based technology company Continental AG is highly interested to extend and further expand the Public-Private Partnership<sup>4</sup> with GIZ in Kapuas Hulu, West Kalimantan on sustainable, EURD conform smallholder natural rubber value chains. Through the GCF project Continental AG is willing to provide further investments to West Kalimantan of up to EUR 2,000,000 and ensure long-term sustainably sourced rubber.

## **6. Impact Investors - access to loan finance schemes for SMEs**

ADM Capital signed a letter of intent (see Annex 13) with the project to collaborate in supporting small and medium-sized enterprises engaged in sustainable agriculture, agroforestry and aquaculture to medium-term senior secured lending schemes under ADM Capital's first Indonesia-focused impact fund "Asia Climate-Smart Landscape Fund (ACLF)"<sup>5</sup>. ADM Capital is focused on investments in the Asia-Pacific Area and currently has US\$ 2bn under management. The blended finance fund will set both financial and impact targets for projects. Impact targets include enhancing livelihoods and increasing employment, achieving fairer gender ratios, improving land use management, and reducing greenhouse gas emissions. Currently, SME's in WK are rarely able to access attractive finance schemes such as ACLF. The project will support and strengthen SME's capacities and business opportunities in the AFOLU sector to access sustainable finance. A detailed amount of potential private sector leveraged financed is difficult to calculate at this stage. ACLF seeks to fill the gap in the market for medium to longer-term lending in the smaller ticket sizes (USD 5-20 million) where capital markets unit economics and even DFI investment is not cost effective. ACLF incorporates several blended finance instruments and will lend to SMEs engaged in sustainable agriculture production, land regeneration and forest protection. The Fund aims to finance SMEs that achieve both financial and sustainability returns.

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<sup>4</sup> <https://www.continental.com/en/press/press-releases/20220824-natural-rubber-indonesia/>

<sup>5</sup> <https://www.admcapital.com/adm-capital-climate/>