



INDONESIAN TROPICAL LANDSCAPE BOND AND LONG-TERM LOAN FACILITY

Introduction

We are working toward a USD 1 billion, Indonesian Tropical Landscape Bond via a Medium Term Note program and loan facility that would provide long-term funding (10-15 years) largely for smallholder livelihood and rural electrification projects. The bond and fund, to be launched later this year, would be directed at development for the rural poor and stemming emissions reduction from land conversion. Expectations are for a commercial return to investors with credit support via guarantees or by off-take contracts from Indonesian based Agricultural companies such as Unilever Indonesia or, for power and other projects by state electricity company PLN or similar

There is considerable support within the Government of Indonesia for a private sector initiative along these lines. The Tropical Landscape Bond and Long-Term Loan Facility (TLB/TLLF) would help Indonesia meet its commitments toward reducing greenhouse gas emissions, full electrification, expanding the country's renewables mix from 6% to 23% and significantly expanding palm oil exports. An intended consequence would be better efficiency for smallholder producers and prevention of slash and burn expansion into forested areas. At the same time, the TLB aims to support, via investments in compliant provinces, the new Peatland Restoration Agency (BRG), established this year by the government of Indonesia to restore 2 million hectares of degraded peatland areas and prevent the reoccurrence of forest fires.

The TLB would represent the first landscape or forest protection bond issued globally. Indonesia, home to some of the most biologically diverse forests in the world, the third-largest emitter of greenhouse gases, and where 50 percent of the population live on USD 2 a day, is of course a critical target for such financing. Globally, deforestation accounts for an estimated 10% of global greenhouse gas emissions, the second-largest source after electricity generation and conversion of forests to agriculture was the largest single cause of deforestation from 2000-10.

ADM Capital is an investment manager, established in 1998 and based in Hong Kong, but with offices also in London, Istanbul and Mumbai, among others. ADM Capital Foundation was established in 2006 as an impact-driven nonprofit to provide funding and intellectual capital to help address specific forestry, water, air and marine challenges in Asia. Working in collaboration with ADM Capital/Foundation to structure and administer the TLB/TLLF are BNP Paribas (BNP), Satya Tripathi, former head of the United Nations Office for REDD+ Coordination in Indonesia (UNORCID) and the Initiative for Smallholder Finance, among others.

Participation in the TLB

The investment opportunity divides into two sections. The first is the construction or growing phase and the second is the "harvesting" phase where there is cash flow that can be packaged up and sold.

BNP will provide financing to the TLLF to extend long-term loans to projects in alternative energy, landscape regeneration and improved smallholder production that avoids land conversion. As described in greater detail below, each project will be commercially viable and have developer equity beneath the BNP loans. BNP will share this risk via commitments from foundation PRIs and DFIs. The target amount for this phase is USD 130 million.

Once each project is completed and generating cashflow, the BNP loans will be sold down in the private sector and the proceeds used to support the next project. The commitment is released at this stage and recycled to the next project. This process is expected to attract USD 1 billion of new private sector finance.

TLB/TLLF Overview

Aim of the TLB/TLLF is to mobilise private capital to invest in socially responsible projects in Indonesia

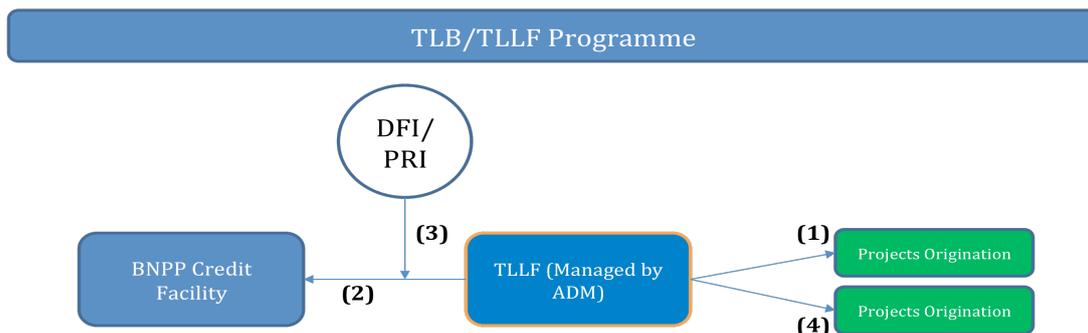
- ADM Capital will set up the Tropical Landscape Bond Fund to administer the logistics. TLB Fund will source the projects conforming to the investment criteria the pooled funders. Funding will be provided by BNP under the pooled guarantee. Completed projects will then be “flipped to” capital markets via an MTN program. The process is designed to be flexible, scalable and repeatable
- Projects include Renewal Energy, Reforestation and Land Rehabilitation etc. Investment scope can be tailored to fit mandates such as to cover initial construction only or build-operate-transfer (BOT)
- The total size of the MTN program under Capital Market Take Out can reach up to USD 1 billion, with the initial tranche is expected to be around USD 130mm

Process | TLB/TLLF: Overview



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Process | TLB /TLLF : Creation



- (1) TLLF ADM identify suitable projects for investment
 - (2) TLLF to issue a Loan Note to BNPP
 - (3) Loan Note will be guaranteed by DFIs/PRI
 - (4) Proceeds of Loan Note will be used by TLLF to invest into the projects
- Multiple TLLF funds can be created, each investing in different sectors

The schematic shown here is indicative and may be subjected to further revision.

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Tropical Landscape Loan Facility

The TLLF will be limited to making loans to banks or other credit worthy institutions to on-lend to qualifying projects and infrastructure development, or to lend directly to such projects if it is commercially prudent to do so. The financing will be entirely from the issuance of Bonds that match anticipated project cashflows.

The objective of the TLLF is to provide access for Banks and projects to much needed long-dated finance, which is an essential catalyst for projects that will help stem adverse Tropical Landscape changes in Indonesia and improve the livelihood of the poor living in provinces where land degradation is an issue and local governments are supportive of restoration.

Management and Governance

The TLLF will be managed by a Tropical Landscape Investment Steering Committee (Advisor) whose role will be:

- Support the origination and structuring of projects that meet TLLF objectives. Loan size is expected to be USD 15-50 million; equity capital for each project will be provided by private sector companies. (For example, there are several specialist Alternative Energy funds that have already shown interest in working with the TLLF).
- Maintain relationships with local Banks and help develop lending capacity and understanding in the TLLF target sectors.
- Ensure all projects meet the highest ESG standards, managing to at least the IFC Environmental and Social Performance Standards
- Oversee the Tropical Landscape Technical Assistance Fund (TA Fund), which will operate in parallel to but distinctly from, the TLLF.

Technical Assistance Fund

The TA Fund, which will support investments, primarily in the landscape arena, will be operated by the UN Multi-Partner Trust Fund and will be managed by a Jakarta-based Secretariat.

Land Rehabilitation/ Rural Livelihoods -

Training and capacity building workshops for farming communities aiming toward farming techniques that improve crop productivity and maintain environmental quality. A few examples are as follows:

- Forest and peat fire prevention, rehabilitation/restoration of degraded land
- Smallholder development (independent producers) and managing cooperatives sourcing and replanting (oil palm seedlings)
- Traceability technology, both to support corporate efforts to map their supply chain, provide farmers with information about needed inputs and to help enforce boundaries relative to planted land.

Energy -

- Support for on-grid/off-grid renewables generation (hydro, solar etc.) in rural communities
- Capacity building – vocational training in remote villages to maintain and repair renewable energy infrastructure
- Social impact – community building (education, community spaces, infrastructure) Information and Communication Technology (ICT)
- Renewable energy infrastructure can also be used to enhance communities, such as using solar panels to build a sheltered community space, electrify schools and clinics

Measuring the Results

All investments will be managed at least to IFC Performance Standards, considered the best available for environmental, social and governance risk identification and mitigation. ADM Capital manages two funds for the IFC and already adheres to IFC Standards for these funds. They do not, however, provide specific guidance for the overall facility in terms of metrics for environmental and social performance. Based on the pipeline, through rigorous MRV managed by the Technical Assistance Fund (see below) we intend to capture the performance of the TLB/TLLF looking at measures such as tons of GHG / CO₂ emissions avoided, forest canopy cover retained and/or restored, income and jobs created, households supplied with energy, private sector leverage. Additionally, we intend to invest in provinces that are working already with Indonesia's Peatland Restoration Agency as a way of rewarding real commitment to restore degraded peatland and avoid the cycle of slash and burn that produces Indonesia's annual haze. Thus, via the TLB/TLLF we will be supporting and encouraging collaborative action among business, government (both local and national) and communities.

We believe that the TLB/TLLF will demonstrate ways of working effectively with the private sector to reduce deforestation. It will also provide additional evidence around viability of investments to private sector investors who require track records of performance before investing. Establishing proof-of-concept partnerships and building a body of experience around this will make a significant contribution to international efforts to slow deforestation.

Finally, the demonstration effect and catalytic impact will also make an important contribution to the delivery of climate finance more widely. Developed countries have committed to mobilise up to US\$100bn annually by 2020 to help developing countries to mitigate and adapt to climate change.

Funding cannot come from the public sector alone, and effective ways to work with the private sector in support of this objective are needed. The TLB/TLLF represents just such an initiative.

MORE ABOUT THE PARTNERS:

ADM CAPITAL AND ADM CAPITAL FOUNDATION (ADM + ADMCF): ADM Capital is a Hong Kong-based Investment manager founded in 1998 and is currently managing approximately USD1.2bn through a series of closed end and open end funds. Invested in 16 Emerging Market economies, since inception ADM has raised and deployed USD2.3bn into 137 portfolio companies with 99 fully realised investments. ADM's experienced 50-person team operates out of six offices: Hong Kong, Istanbul, Mumbai, London, Kiev and Almaty. In 2006, the ADM partners established ADMCF to support critical research and impact-driven approaches to promoting equity and environmental conservation in Asia. The Foundation works across Asia on issues such as marine ecology, the nexus between forestry and development and the intersection between water, food and energy. ADMCF has a nine-year track record with over US\$18m applied to innovative work with 40 partners in 10 Asian countries.

BNP PARIBAS: BNP Paribas has a presence in 75 countries and has more than 185,000 employees, including 145,000 in Europe. It ranks highly in its two core activities: Retail Banking & Services (comprised of Domestic Markets and International Financial Services) and Corporate & Institutional Banking. In Europe, BNP Paribas has four domestic markets (Belgium, France, Italy, and Luxembourg) and BNP Paribas Personal Finance is the leader in consumer lending. BNP Paribas is rolling out its integrated retail banking model across the Mediterranean region, in Turkey, in Eastern Europe, and throughout a large network in the western part of the United States. In its Corporate & Institutional Banking and International Financial Services activities, BNP Paribas also enjoys top positions in Europe, a strong presence in the Americas, and solid and fast-growing businesses in the Asia-Pacific region.

UN OFFICE FOR REDD+ COORDINATION IN INDONESIA (UNORCID): Until recently, the United Nations Office for REDD+ Coordination in Indonesia (UNORCID) was the focal point for REDD+ activities of the UN system in Indonesia. On the global level, UNORCID encouraged and promoted a coordinated international response to challenges and opportunities for climate change mitigation and adaptation in Indonesia

IDH THE SUSTAINABLE TRADE INITIATIVE (IDH): IDH brings together businesses, governments, NGOs and other stakeholders and builds coalitions that invest in sustainable production of internationally traded agricultural commodities. In Indonesia, among others, we drive production-protection initiatives through our landscapes program, taking into account commodities such as palm oil, forestry, coffee, cocoa and aquaculture.

THE INITIATIVE FOR SMALLHOLDER FINANCE (ISF): A multi-donor and investor platform for the development of financial services for the smallholder farmer market. ISF was launched in May 2013 with the intention of making marked progress toward closing the gap between the \$450 billion in smallholder financing demand and the current \$10-20 billion supply. The ISF's primary role is to act as a "design catalyst." The emphasis is on mobilizing additional financing for smallholders and seeding replication of innovative models in new markets.

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