

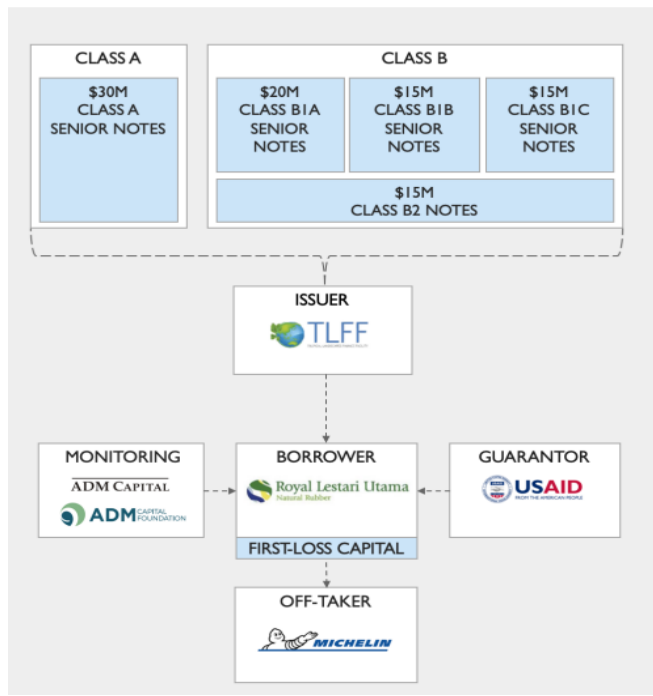
**MITIGATION  
BLENDED**

<b>PROJECT NAME</b>	<b>The Tropical Landscapes Finance Facility (TLFF): CORPORATE SUSTAINABILITY BOND FOR NATURAL RUBBER PRODUCTION<sup>1</sup></b>
<b>COUNTRY/REGION</b>	Indonesia
<b>SECTOR</b>	Agriculture, Forestry, and Other Land Use (AFOLU)
<b>PROJECT/INVESTMENT AMOUNT</b>	\$95 million
<b>DEVELOPMENT PARTNER(S)/STAKEHOLDERS</b>	USAID's Development Credit Authority (DCA), ADM Capital Foundation
<b>BENEFICIARY MINISTRY/ INSTITUTION</b>	N/A
<b>INVESTOR(S) AND FUNDERS</b>	Various institutional investors (investment grade tranche) Investors with explicit impact mandates (lower rated tranches)
<b>GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR</b>	Bilateral, Multilateral & Development Finance Institutions Philanthropy and Impact Investors
<b>PROJECT OVERALL GOAL</b>	To plant rubber trees across concession areas in Indonesia's Jambi and East Kalimantan provinces
<b>PROJECT OUTCOMES</b>	In all, approximately half of the rubber plantation (45,000 out of the total 88,000 hectares) will be set aside for conservation, restoration and community partnership programs, while the remaining area is for commercial plantations. A Wildlife Conservation Area (WCA) created in late 2017 acts as a buffer zone to stop further encroachment into the 143,000-hectare Bukit Tigapuluh National Park - one of the world's most precious ecosystems and wildlife habitats for endangered species such as the Sumatran tiger, the orangutan and the Asian elephant.
<b>ALIGNMENT WITH COUNTRY IDENTIFIED CLIMATE STRATEGIES, NDCs, ETC. (IF APPLICABLE)</b>	The TLFF is focused on two priority areas identified by the Government of Indonesia: sustainable agriculture and renewable energy.
<b>CONTRIBUTION OF THE PROJECT TO THE UN SDGs</b>	SDG13: Climate Action SDG15: Life on Land SDG8: Decent Work and Economic Growth
<b>SOCIOECONOMIC IMPACT</b>	16,000 fair-wage jobs for employees and value creation for 24k smallholders The associated Community Partnership Programme is designed to enhance the livelihoods of the 50,000 people living in and around the concessions and train 24,000 local farmers. <sup>88</sup> Additionally, it is expected that at maturity the plantation will employ 16,000 people who will see additional benefits in housing, health care and education as well as improved health from reduced fires as the company works to stem slash and burn agriculture in the concessions.
<b>ENVIRONMENTAL IMPACT (ON CLIMATE MITIGATION AND/OR ADAPTATION)</b>	The project has the potential for significant emissions reduction, as well as additional carbon sequestration from reforestation and regeneration.  27k hectares of land for conservation in RLU concessions and protection of wildlife

<sup>1</sup> This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

<b>ENABLING ENVIRONMENT (SUPPORTING POLICIES)</b>	N/A
<b>TECHNICAL ASSISTANCE (IF PROVIDED)</b>	24,000 local farmers will receive access to technical assistance, agricultural infrastructure, rubber tapping, extension services, guaranteed fair pricing, and integration into the RLU supply chain. A rubber smallholder program is in development under a community partnership program (CPP).
<b>FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)</b>	Guarantee on \$70m (guaranteed loan portion): \$3.5m of first losses absorbed by RLU and 50% of remainder (50% of \$66.5m) absorbed by USAID, capped at \$33.25m Credit risk reduction mechanism to encourage private investors
<b>RATIONALE FOR FINANCING MODEL/APPROACH</b>	Notes are effectively securitized and tranching to match the risk return profiles of diverse investors, ranging from impact-first investors to institutional investors in Southeast Asia (e.g., life insurance companies).
<b>FINANCIAL INSTRUMENT(S) (LOANS (COMMERCIAL/ CONCESSIONAL), EQUITY, GUARANTEE)</b>	Sustainability bond

**DIAGRAM OF THE FINANCING STRUCTURE**



**Executive Summary**

The Tropical Landscapes Finance Facility (TLFF) is a multi-stakeholder partnership between the UN Environment Programme (UN Environment), The World Agroforestry Centre (ICRAF), BNP Paribas, and ADM Capital. TLFF aims to finance local projects and companies in Indonesia that are focused on green growth and sustainable rural livelihoods, in line with the Indonesian Government priorities, the Paris Agreement and the Sustainable Development Goals.

TLFF's first transaction is a sustainability bond for PT Royal Lestari Utama (RLU), a rubber company joint venture between Michelin and a subsidiary of Indonesia's Barito Pacific Group. The transaction is the first corporate sustainability bond issued in Asia. The use of proceeds from the bond are to finance the production of sustainable natural rubber, the restoration of forested buffer zones and the implementation of a Community Partnership Programme (CPP) in Jambi and East Kalimantan provinces. RLU sought to develop a large-scale sustainable rubber plantation in an area of Indonesia suffering from deforestation, in part from encroachment. The plantation requires a long period of development, since rubber trees require 6-7 years of growth before production. A project of this nature and size requires significant upfront capital, with an extended timeline for repayment. Investors need to be comfortable with the cyclical nature of production, the tenor of the project, the creditworthiness of the borrower, as well as the risks associated with commodity volatility. Despite a growing appetite around sustainable land use and responsible financing, RLU faced significant barriers to identifying viable sources of commercial capital at a required tenor.

The scale and blended element of the sustainability bond allowed for notes to be effectively securitized and tranching to match the risk return profiles of diverse investors, ranging from impact-first investors to institutional investors in Southeast Asia (e.g., life insurance companies).

Michelin, the global tire manufacturer, will act as an offtaker of at least 75% of future production, and USAID's Development Credit Authority (DCA) provided a partial credit guarantee. The transaction was Asia's first corporate sustainability bond, with an innovative multi-tranche class structure that appeals to investors with diverse risk-return and tenor requirements. Class A notes, comprising \$30 million, were rated Aaa by Moody's and subscribed by institutional investors from Southeast Asia, such as life insurance companies.

## Analysis

<p><b>WHAT MADE THIS PROJECT SUCCESSFUL?</b></p>	<ul style="list-style-type: none"> <li>● Aligns environmental preservation and climate mitigation goals with national development priorities. Engaged with and supportive of the local community.</li> <li>● Taps into deep pools of regional institutional capital; Michelin long term offtake agreement boosted the repayment profile</li> <li>●</li> </ul>
<p><b>TO WHAT EXTENT IS THIS MODEL SCALABLE?</b></p>	<p>The sustainability/sustainability-linked/green/labelled corporate bond market has grown significantly in recent years and investor demand remains strong. The general structure is highly scalable, and it is likely that corporates will increasingly make offerings as incentives to 'green' their operations increase.</p>
<p><b>WHAT ARE THE NECESSARY CONDITIONS TO MAKE IT REPLICABLE IN OTHER COUNTRIES/REGIONS?</b></p>	<p>While natural resources tend to be location and environment specific, but the broad bond structure is replicable in other countries/regions with the use of proceeds varying according to sector or industry. Sophisticated capital markets, financial regulation and engaged corporates.</p>
<p><b>CONSTRAINTS/DRAWBACKS OF FINANCING MODEL</b></p>	<p>This sustainability bond, use of proceeds model is open to criticisms based on greenwashing, especially for an issuer in extractive industries. Investors should increase their demands on the climate-related/other sustainability objectives that are set and penalize more strongly if they are not met. In a similar vein, issuers need to set challenging targets and report transparently</p>
<p><b>LESSONS LEARNT</b></p>	<p>The structuring and launch of the sustainability bond offered a number of insights and lessons, such as:</p> <ol style="list-style-type: none"> <li>1) Demonstrating that there is demand from institutional investors for sustainable investment products,</li> <li>2) Products such as USAID's DCA guarantee are highly valued, and more similar products are needed, and</li> <li>3) Multi-stakeholder partnerships are complex, and must be managed carefully to achieve Success.</li> <li>4) Investor education is critical for esoteric structures and deal sponsors should incorporate these activities into their work planning.</li> </ol>