

FIP Private Sector Program: Strengthening Forestry Supply Chains in Southeast Asia

The Indonesia and Lao PDR FIP Investment Plans include initial plans for public and private sector programs to address the main drivers of deforestation and forest degradation:

- Spatial planning
- Forest management
- Governance

Dr. Michael Brady
FIP Pilot Meeting
Yogyakarta, September 2013

There are several market barriers to private sector forestry in the region

- Mismatch between supply and demand - not enough legal, high quality, commercially available industrial roundwood available for the wood processing industry
- Problems in access to forestry land and wood supplies due to lack of trust (between firms and communities) and problems around the concession allocation system, leading to insufficient investment and new planting of forest land
- Lack of cashflow to complete the wood harvest cycle (for communities) - even if the business case is solid, not all communities can afford to invest with a promise of returns in 8 - 14 years' time
- Lack of affordable services for community forest enterprises (CFE) around contract negotiation, general business administration and operational forest management



Market Barriers: Similarities and Differences

Barrier	Indonesia	Lao PDR
Supply and demand mismatch	H	M
Problems in access to land	L	H
Lack of cash flow	H	M
Lack of CFE support	M	H



Indonesia Project Aim and Objectives

Partner with downstream and integrated forestry lead firms to increase planted forests, enhance wood supplies, and improve E&S performance and production efficiency

1. Improve and expand the wood supply chain by working with lead firms and their upstream partners on improvement of community relations, development of new product chains, and extension-type assistance on forest operations management
2. Expand planted forests by creating innovative partnerships with community forestry enterprises around farm and plantation management, including access to finance and markets
3. Improve firm E&S performance and production efficiency by providing support in implementing E&S systems and measures, and assist in developing cost savings based on resources efficiency analysis



Lao PDR Project Aim and Objectives



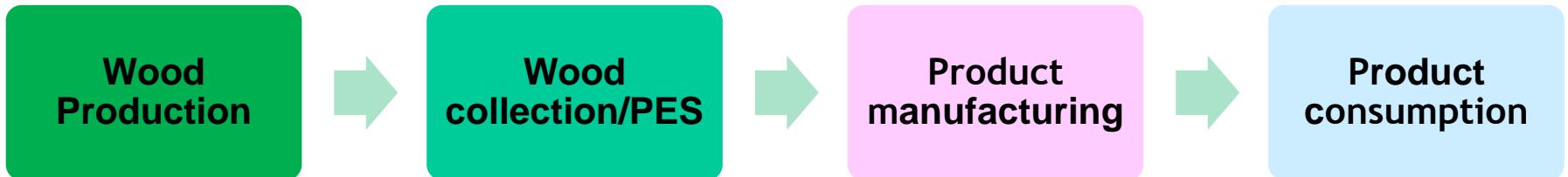
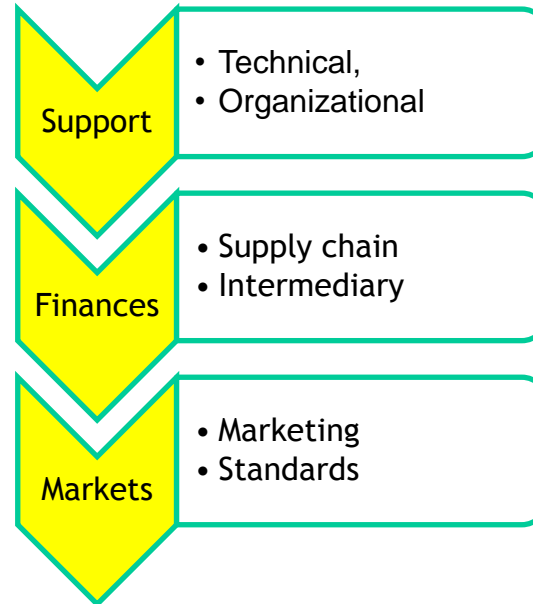
Develop successful outgrower schemes that are commercially viable and environmentally sustainable in partnership with private sector forestry companies

1. **Firm and Outgrower Partnerships** by developing a strategic community investment strategy with lead firm to work with farmers and stakeholders
2. **Capacity Building for Outgrowers** by building training competencies for lead firm to train outgrowers to plan, grow, maintain and harvest plantations
3. **Land Security for Outgrowers** by working with public land agencies and organizations to assess the potential for strengthening land security for local participating outgrowers to strengthen commitment of outgrowers
4. **Access to Finance** by providing advice to financial institutions on microfinance, mobile banking and financial literacy training to promote responsible, sustainable financial inclusion for outgrowers

IFC FIP Program Approach

Strengthening supply chains of forest and wood products sector

IFC adopts a 'Lead Firm' approach when addressing supply chains, particularly in frontier sectors



Program Structure

- 5-Year program framework
- Consultation on program proposal
- Start with pilot involving one lead firm and supply chain
- Replication involving 3-4 firms
- Use IFC systems for advisory and investment services
- Collaboration with FIP pilot country agencies, other MDBs and FIP Subcommittee



Status of Private Sector Projects

Project element	Indonesia	Lao PDR
National Investment Plan	November 2012	November 2011
Project preparation*	2012-2013	2012
Project approval - IFC	Q1 2014	February 2013
Project approval - FIP SC	Q1 2014	April 2013
Project pre-implementation*	Q1 2014	April 2013
Project implementation	Q2 2014 (1 client)	Q4 2012 (1 client)

*Address FIP safeguards & IFC performance standards



Risks

- Lack of interest from lead firms
- Lack of traction with forest communities
- Negative perception of IFC's efforts by NGOs and other stakeholders



FIP Private Sector Program Supported by

(1) IFC Safeguard Policy

1. Assessment and Management of Social and Environmental Risks and Impacts
2. Labor and Working Conditions
3. Resource Efficiency and Pollution Prevention
4. Community Health, Safety and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Indigenous Peoples
8. Cultural Heritage

FIP Private Sector Program Supported by

(2) IFC Client Engagement Policies

1. Internal Due Diligence
2. Politically Exposed Persons
3. Environment & Social Performance Standards and Action Plan
4. Public Disclosure
5. Client Fee Contributions



Group Discussion

What are the 3-4 key market barriers to the development of sustainable commercial forestry sectors in other FIP pilot countries?

- Similarities to the barriers identified for Southeast Asia pilots?
- Additional barriers?

Discussion:

Market Barriers in FIP Pilot Countries

Barrier	Indonesia	Lao PDR	Other FIP Pilots
Supply and demand mismatch	H	M	?
Problems in access to land	L	H	?
Lack of cash flow	H	M	?
Lack of CFE support	M	H	?
Other			?

Additional Slides

Program Components

Offer potential firms a suite of possible project components that can be included based on the client's needs and priorities

- 1. Strategic Community Investment**
 - relationship and investments with affected communities
- 2. Develop Additional Supply Chains**
 - enhanced livelihood opportunities
- 3. Forestry Extension Units**
 - private sector-led extension services
- 4. New Partnership Models**
 - e.g., lead firm, out-grower, in-kind loans, securitization of wood growth
- 5. Enhance Client E&S Management System**
 - compliance with the requirements of financial institutions
- 6. Resource Efficiency**
 - more efficient use of energy, water, and materials