



THEME
Forestry



GEOGRAPHY
Asia



STAGE
Implementation



INVESTMENT SIZE
US\$ 345 million



INSTRUMENTS
Debt, equity,
grant



TIME HORIZON
2018-2033



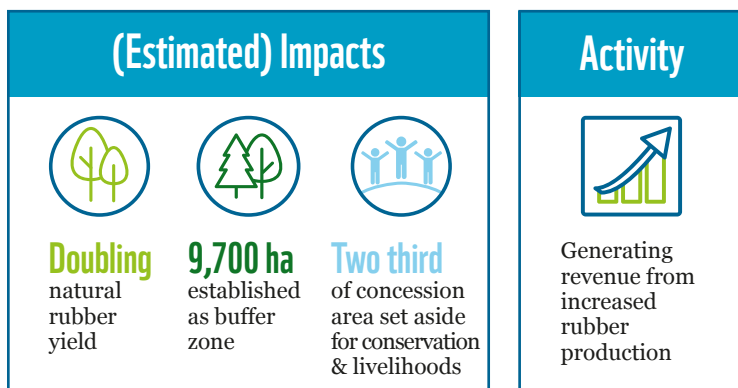


3. ROYAL LESTARI UTAMA (RLU)

Pioneering Sustainable Natural Rubber

PT Royal Lestari Utama (RLU), Tropical
Landscape Financing Facility (TLFF), &Green,
WWF-Indonesia, USAID, Bukit Tigapuluh
National Park

3. ROYAL LESTARI UTAMA (RLU)



Landscape context

PT Royal Lestari Utama (PT RLU) is a sustainable natural rubber company in Indonesia, established in 2014. It has two Industrial Forest Plantation concessions in the province of Jambi (70,000 hectares) and one concession in East Kalimantan (18,000 hectares), totaling 88,000 hectares. The concessions are part of tropical forest landscapes, including the wider Bukit Tigapuluh Sumatra landscape, which form a habitat for critically endangered fauna such as the Sumatran orangutan and elephant, and provide important ecosystem services. Yet, around half of the forest has been lost over the past two decades, mostly as a result of illegal encroachment, slash and burn practices, poaching, illegal logging and development of oil palm plantations.

THE CONCESSIONS ARE PART OF TROPICAL FOREST LANDSCAPES, INCLUDING THE WIDER BUKIT TIGAPULUH SUMATRA LANDSCAPE, WHICH FORM A HABITAT FOR CRITICALLY ENDANGERED FAUNA

Investment context

The investor climate in Indonesia is moderate. Indonesia ranks 73 among 190 in the category of ease of doing business. The government has set in place laws concerning land development with percentages dedicated to commercial crops, community livelihoods and conservation. Sustainable landscape investments in the agricultural sector are characterized by a high level of risk. A project like this

Project partners:



demands long-term funding of over 15 years. This time horizon, coupled with the difficult geographical situation, provides a large risk for most conventional financial partners. To counter these perceived risks, blended finance structures including public capital are encouraged in the early stages of transition.

Project description

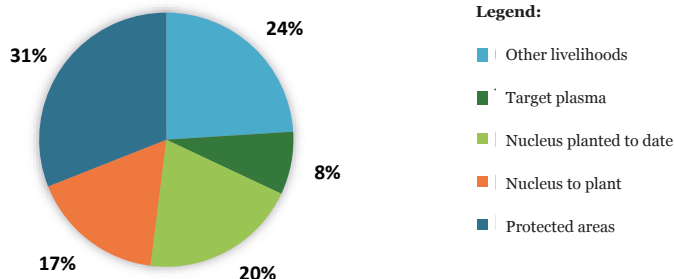
THE PROJECT GOAL WAS TO DEVELOP SOCIALLY INCLUSIVE RUBBER PLANTATIONS WHICH WILL TRANSFORM A SEVERELY DEGRADED LANDSCAPE INTO A PRODUCTIVE AREA

The project goal was to develop socially inclusive rubber plantations which will transform a severely degraded landscape into a productive area. The project does this specifically through:

- Establishing a wildlife conservation area (9,700 hectares) on the Jambi rubber concessions as a buffer to the Bukit Tigapuluh National Park;
- Setting aside High Conservation Value (HCV), High Carbon Stock (HCS) Areas and riparian areas for protection – 31% across all concessions;
- Providing direct employment to 16,000 people on the plantations and mills;
- Developing livelihood programs, including sustainable outgrower programs (plasma rubber) for 3,500 smallholders - providing training in best-practice and purchasing rubber at a slight premium.

Only 34,000 of the total concession area of 88,000 will be planted with commercial rubber and 7,000 with plasma rubber. The rest is being left for conservation, restoration and community development, and managed in collaboration with WWF.

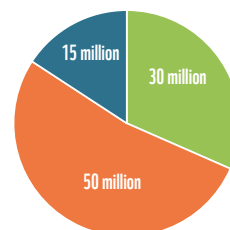
Figure 8:
Investment allocated to different activities. The largest investment was allocated to managing protected areas.



3. ROYAL LESTARI UTAMA (RLU)

Investment structure

The project has a total value of US\$345 million of which US\$100 in equity is provided by PT RLU, an Indonesian joint venture between Groupe Michelin (49%) and PT Barito Pacific (51%). US\$245 million is provided by the Tropical Landscapes Finance Facility (TLFF) through their loan fund (US\$195 million) and grant fund (US\$40 million for smallholder financing). TLFF provides a long-dated Sustainability Bond to fund PT RLU. The bond is organized by BNP Paribas and monitored by ADM Capital. It totals US\$95 million under tranche 1 and issues three classes of notes (figure 9). USAID is providing a 50% first-loss guarantee for the A shares, which allowed them to gain AAA rating, attracting institutional investors. The class B2 notes appeals to impacts funds such as &Green, which has purchased 7 year and 15-year notes of US\$23.75 million in total. Tranche 2 is projected at US\$120 million.



Legend:

- Class A
- Class B1
- Class B2

Figure 9:
Tranche 1 is issued in 3 classes of notes.

Investor	Investment (in US\$M)	Type
PT RLU	100	Equity
TLFF loan fund (tranche 1)	95	Sustainability bond
TLFF loan fund (tranche 2)	120	Sustainability bond
TLFF grant fund	40	Grant

Business model & revenue generating activities

Financial returns are being generated by increased yields from the rubber plantations. As a result of the interventions, annual rubber yield is expected to be as high as 1.7 tons per hectare - compared to Indonesia's current 0.8 tons per hectare. Michelin has committed to purchasing at least 75% of production from the plantations, which will represent 10% of all natural rubber purchased worldwide by Michelin.

MICHELIN COMMITTED TO PURCHASING 75% OF PRODUCTION FROM THE PLANTATIONS

Risks & safeguards

Risks arise from the complexity of the landscape and its challenging social dynamics. The area is already highly encroached making it even more important to carefully manage relations with the surrounding communities. Environmental risks are related to balancing agricultural intensification with biodiversity conservation, erosion control and water management. To mitigate these risks, PT RLU has developed strict commitments and has set up both a landscape protection plan and an Environmental and Social Monitoring System. The latter includes an Environmental & Social Action Plan, a Community Partnership Program and an Integrated Forest Management Plan. These additional plans aim at ensuring that business practices support sustainable use of the land across all key pillars: social, environmental and commercial.

Figure 10:

TLFF consists of a loan fund and a grant fund. The Sustainability Notes are structured following three classes which makes them appealing to a variety of investors. USAID's 50% first-loss guarantee for the A shares further attracted institutional investors.

