



# FAIRVENTURES SOCIAL FORESTRY COMMUNITY AGROFORESTRY IN INDONESIA

Strengthening the underlying business model of an innovative restoration project with communities

## PRE-INVESTMENT

|                          |                                                                                                                                                             |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Project operator:</b> | <b>Fairventures Social Forestry</b>                                                                                                                         |
| <b>Business model:</b>   | <b>Timber agroforestry with cash crops and non-timber forest products; potential for carbon revenue</b>                                                     |
| <b>Financing:</b>        | <b>Blended financing of grants, soft loans and patient equity to establish proof of concept at significant size; debt financing for scaling operations.</b> |

## CONTEXT

In many Indonesian landscapes, including in Central Kalimantan, deforestation, slash-and-burn practices, illegal mining and large-scale agriculture have negatively affected Indonesia's forests, leaving behind degraded fallow land and a lack of income opportunities for local communities. One policy response has been to grant forest-dependent communities access to forest land through social forestry permits. However, not only has the distribution of permits been slow, but concrete economic benefits for households and communities also remain largely absent. There is therefore a need for project developers looking to utilize the social forestry scheme to create attractive economic benefits for local communities in balance with natural resource protection. This project is demonstrating such a scalable commercial model for landscape restoration with community participation on land issued through social forestry permits, and is preparing to attract additional (impact) investment.

The project aims to initially rehabilitate 4,000 hectares of degraded lands through planting fast-growing tree species and cash crops in agroforestry systems, and increasing the value of secondary forests through enrichment plantings with non-timber forest products (NTFPs). This project is a good example of a potential innovative restoration finance case that was initiated by an NGO and turned into a for-profit social venture. The operation is currently looking to secure financing to implement a successful showcase at significant size, followed by initial private investment for scaling impact on LDN and creating income opportunities for local communities.

## SMALLHOLDER/ COMMUNITY ENGAGEMENT

The project cooperates with communities that were granted a social forestry permit from the Indonesian Government. The communities provide the land for the investment case and have the right to provide the largest part of the necessary labour. In return, they receive wages and a part of the profit from the sales. The project operator also deploys staff explicitly to help communities understand their rights and responsibilities and conduct FPIC processes.

## PAYBACK/REVENUE MODEL

The investment in this project is expected to be recovered through sales revenues from fast-growing light wood after an initial growth period of seven years. Additional income is generated from the sale of intercropped agricultural crops (e.g. peanuts) and NTFPs (e.g. rattan), and sale of carbon credits (potential for sale not yet fully developed). This is combined with active protection of remaining forests. Specifically, the revenue is expected to result from:

- Sustainable timber (82%);
- Cash crops (16%);
- Carbon credits (2%);
- Potential from NTFPs (not yet included in baseline scenario)

## RISK MANAGEMENT

The project is planning to deploy several risk mitigation strategies to reduce investment risk. These include:

- Direct supply agreements with industry partners to reduce offtake risks for timber sale;
- Satellite and drone mapping to select degraded areas only for agroforestry, and active monitoring to reduce deforestation risk and fire risk;
- Diversification of revenue streams to mitigate underperformance of specific crops and risk of defaults on repayments.

Most importantly, the project operator allows for direct support of communities in the social forestry scheme, and the active management and reduction of risks in the underlying model.

## INVESTMENT

This project creates economic value from restoration of previously degraded land via commercial agroforestry, combined with active primary and secondary forest protection. The current business model of this project has a targeted internal rate of return of around 10%. The initial investment in the project amounts to €5 million, largely made up of grants, equity and soft loans. Seed funding is used to finance the development of the first 4,000 hectares. The main funding need is for growth financing to scale up to 100,000 hectares. The expected investment vehicle is a silent partnership to provide equity financing or soft loans to the project operator to finance capital and operational expenditures for growing the business. In addition, grants or public subsidies as blended finance elements would enable the model to pay for less commercial work and tasks related to the earlier proof of concept for the business.

## USE OF TECHNICAL ASSISTANCE

The focus is on cash-crop operations in the project's agroforestry approach to improve early cash flows of the model as well as to significantly improve the payback period. The technical assistance will consist of a market evaluation, defining soil conditions and fertilizer options, field testing, post-harvest processing, and financial modeling to include cash crops into the overall investment proposal. Specifically, the technical assistance provided will allow:

1. Selection of the most appropriate (shorter rotating) cash crops with strong market linkages, to ensure offtake and significantly improve cash flows to shorten the payback period and increase repayment security for investors;
2. Identification of best-practice soil preparation and fertilizer options, to reduce costs and optimize yields, as well as to ensure positive environmental impact;
3. Field testing of the project's model, specifically the use of the various cash crops identified, fertilizer options, and soil preparation under local conditions (climate, soils) to strengthen the underlying business model before seeking growth finance;
4. Provision of research on best-practice post-harvesting processes for the selected cash crops;
5. Financial modeling of the impact of an intensified cash crop approach under the current business model.

**PROJECTED IMPACT**

**Short term**

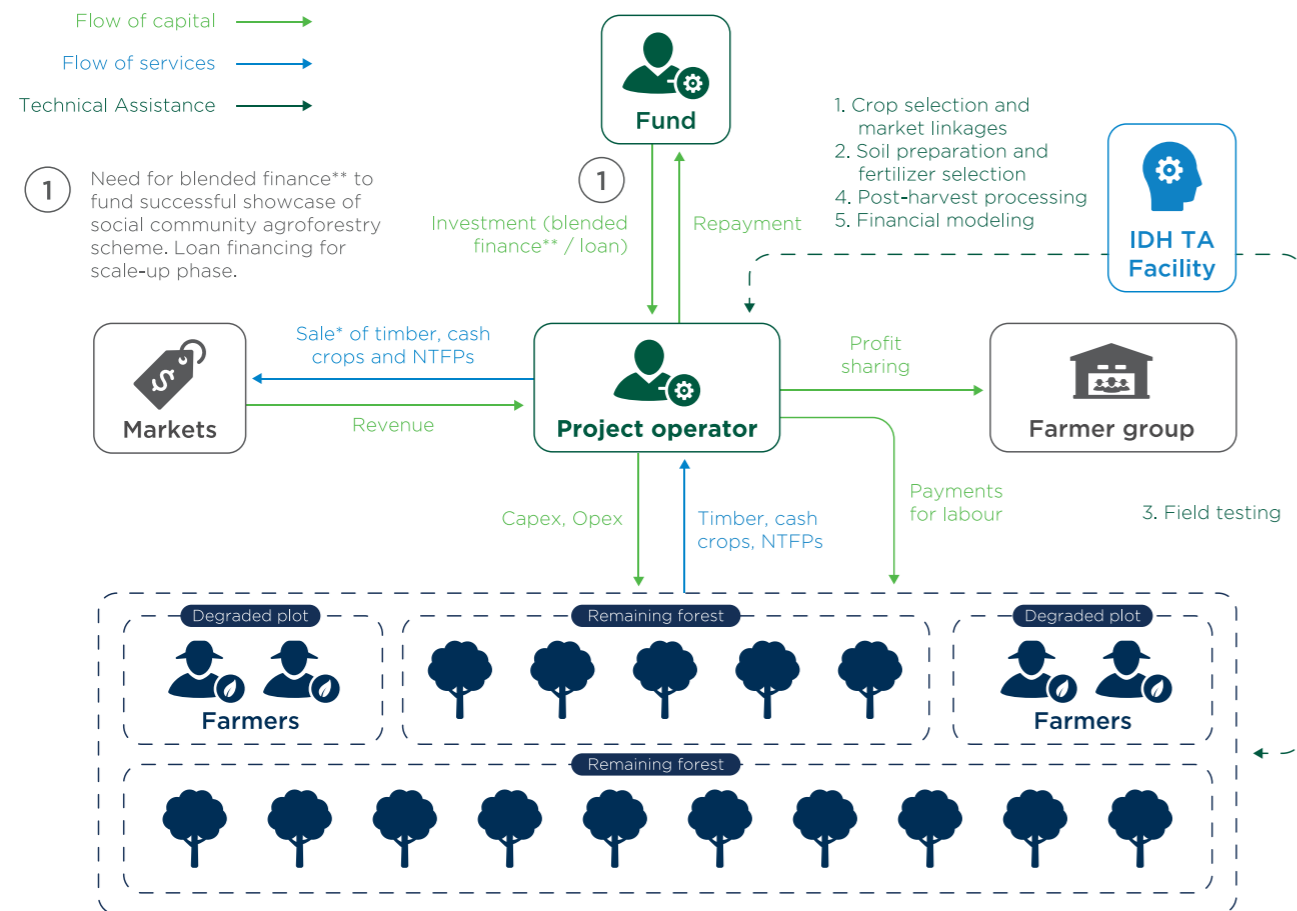
- 1,500 hectares of degraded area reforested through agroforestry, and measurably improved soil fertility and soil organic carbon (SOC) content;
- 1,500 hectares of secondary forest managed as protected areas with enrichment plantings of NTFPs in suitable areas;
- 1,000 hectares of primary forest protected, contributing to the conservation of biodiversity in the area, and restoration of key ecosystem services (erosion control, moisture cycle, microclimate);
- Job creation and income generation for local communities.

**Longer term**

- 11,000 additional hectares of agroforestry, sustainable forest management, and forest protection in five years, and another 85,000 hectares in ten years;
- Sequestration of up to 212,880 MtCO<sub>2</sub>e<sub>q</sub> from restoration (excluding carbon stores in protected forests);
- Project benefits extended to up to 50,000 residents;
- Replication of the project's model by other actors.



**EXPECTED FLOW OF CAPITAL AND SERVICES**



\*Carbon income not depicted as not yet fully integrated in projected revenue model  
 \*\* Innovative financing structure of grants, soft loans and (patient) equity