

BNCFF

PROJECT IMPACT REPORTS

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The Blue Natural Capital Financing Facility (BNCFF) supports the development of sound, investable Blue Natural Capital (BNC) projects with clear ecosystem service benefits, multiple income streams and appropriate risk-return profiles.

This score card is part of the final assessment of the projects supported by BNCFF (2019-2021). Each score card provides an overview of a particular project, details its achievements, its success and challenges, before presenting the way forward.

Forest Carbon in Kubu Raya, Indonesia



BNCFF

Blue Natural Capital Financing Facility

Project in a snapshot

Title	Forest Carbon in Kubu Raya District, West Kalimantan, Indonesia
Country	Indonesia
Project Developer	Forest Carbon
Vision	Restore degraded tropical forest and wetland ecosystems
Overall Project goals	Develop a community based, carbon offset project to conserve mangrove forests in East Kalimantan, Indonesia
BNCFF supported activities	Focus on the Kandelia Alam (KLIA) mangrove concession of 18,203 ha in West Kalimantan, the objectives are to: <ul style="list-style-type: none">• deliver a technical carbon feasibility study• deliver a full feasibility assessment• support field operations
Main stakeholders	<ul style="list-style-type: none">• Forest Carbon• Communities of Kubu village and Sui Terus village• Government agencies
BNC focus	Blue carbon - Avoided emissions through restoration/conservation; alternative livelihoods
Duration	6 months (2020 - 2021)
Type of funding	Grant
Proof of concept	Forest Carbon draws on a solid sales track record as a project developer with the Sumatra Merang Peatland Project (SMPP), a 23,000 ha peatland restoration project in South Sumatra. Through joint marketing with Ecosphere+, the team has secured over \$10.5 million in carbon sales to pay back the initial investment of \$6.1 million from Althelia Climate Fund, with initial profits forecast for late 2021.
Links/synergies	<ul style="list-style-type: none">• contributes to UN SDGs 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land)• contributes to climate mitigation and adaptation• opportunity to adhere to the IUCN Global Standard on NbS
BNCFF Blue Print	<u>Mangroves conservation as a carbon asset: protecting habitats and empowering communities</u>

1. Project summary

Forest Carbon is a leading restoration project developer in Southeast Asia working to develop a project to conserve mangrove forests in East Kalimantan, Indonesia, which is home to some of the most important forest cover areas in the country.

This region has just under 7 million ha of tropical forests which are home to a wealth of globally significant biodiversity, and that support numerous indigenous and other local communities. More than 10% of East Kalimantan's remaining forest cover was lost over the past decade, due primarily to the expansion of oil palm plantations, timber plantations, and mining.

The development of this blue carbon project in the Kubu Raya District, which leverages international voluntary carbon markets, would allow for the full protection of the project area for 30 years and strengthen the local economy through job creation. If Forest Carbon's assessment can demonstrate a technically and financially viable project, the surrounding landscape also presents a compelling investment case, with opportunities to expand the protected area and its multiple endangered and endemic species.

2. Purpose of the engagement with BNCF

With the support of the BNCF, Forest Carbon carried out a full feasibility assessment of the Kandeliam Alam (KLIA) concession of 18,203 ha in West Kalimantan. This targeted mangrove area is currently an active licensed logging concession and under threat of clearing and timber harvesting. The adjacent Menggala Rambutan Utama concession of 20,028 ha is 80% peatland with mangrove

areas along the estuaries. The adjacent Ekosistem Khatulistiwa Lestari 14,080 ha concession has a current Ecosystem Restoration Concession license and is largely mangroves. These projects are also under evaluation for protection and restoration activities. The evaluation, including the two adjacent concessions, is part of an initiative to protect the wider landscape.

3. Main outputs and results achieved with BNCF support

Full feasibility assessment completed, and main findings include:

- A carbon offset project in the 18,864 ha PT KLIA concession would be legally, technically, and financially feasible against VCS standards.
- The project would produce a conservatively estimated ~2.5 million Verified Carbon Units (VCUs) over the first ten year starting in 2021. If launched in 2021, the first verification of credits is estimated to occur in Q2 of 2022 and produce an estimated annual average of 250,945 VCUs each year. These numbers will allow the project to achieve CCB Gold status for climate impact.
- Using indicative assumptions on project costs and revenues starting from January 2021 through 2030, the project could potentially generate ~\$12.5 million USD in gross revenues before accounting for project costs and ~\$6.6 million USD in net cash flow at the current market rate of \$4 per ton in the first year with the carbon price increasing year on year by \$0.50 if 85% of the produced credits were to be sold.

- These calculations assume the use of VCS methodology VM0007, which is optimal for mangroves and has been implemented successfully by multiple proponents in Indonesia to develop large scale wetland restoration projects. This methodology allows for a combination of activities to produce credits, including Reducing Emissions from Deforestation and Degradation (REDD), Wetland Restoration and Conservation (WRC) Conservation of Tidal Wetlands (TW) and Assisted Regeneration and Reforestation (ARR).
- During the 30-year crediting period the protection a project in PT KLIA could produce 10,963,930 VCUs, with TW and WRC project activities generating the most credits (69%) followed REDD (31%). The estimates provided can be considered conservative and could potentially increase.
- From a biodiversity perspective, the project can likely achieve Gold status under the Climate Community and Biodiversity (CCB) standard. The presence of Irrawaddy Dolphins and Proboscis Monkeys means the site contains “trigger” species under the CCB standard to qualify for exceptional biodiversity benefits from endangered species protection activities.
- The time to breakeven with the project is approximately six years, which requires that the right investor partner be identified to develop the project.

4. Success and challenges

The full feasibility assessment of the Kandelia Alam (KLIA) concession was successfully completed. Findings from the assessment are being shared with consortium partners from IDH (Sustainable Trade) which is evaluating the site from a concessionary finance perspective. Due to exponential growth in global carbon markets, the purchase price of the concession was raised significantly by the owner, from a previously agreed upon \$850,000 to over

\$3m. This impacted the financial viability of the project during the latter part of the feasibility stage. Forest Carbon was able to successfully transition the project opportunity to a donor focused consortium to tap into less commercial financing sources. Discussions with the larger consortium are ongoing to launch the project and further engage local communities.



5. Looking beyond BNCFF

Next steps include:



SOCIAL AND LIVELIHOOD

- Proper community engagement will be crucial to long-term success and the project will need to expand the number of communities engaged and consulted on project activities if CCB standards are to be met and non-permanence risk minimized. PT KLIA will need to identify a sub-set of surrounding communities that either directly use or depend on the project area in some way. For community risk to be minimized these communities will need to be included in the Free, Prior, and Informed Consent (FPIC) process and engaged as part of in long-term community development efforts.



LEGAL AND FINANCIAL

- From a legal perspective, PT KLIA will need to acquire the necessary approvals and understand the reporting compliance required by the Ministry of Environment and Forestry (MoEF) under a Multi Business License (MBL) to trade carbon. If an MBL is acquired PT KLIA will be the first company to acquire this type of license and will be well placed to set a high-level precedent for how such license types can be utilized. In any case, the project proved to be feasible and have a strong legal foundation to secure long-term restoration operations.
 - The right investor partner will need to be identified to develop the project.
 - Officially launch the project and seek verification of first credits.
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FOREST
CARBON

Disclaimer: The BNCFF provides assistance to projects on their path to becoming sound, investable Blue Natural Capital (BNC) businesses with clear ecosystem service benefits, multiple income streams and appropriate risk-return profiles. Beyond the support provided, IUCN and the BNCFF donor(s) bear no responsibility for the development of these projects, their ultimate bankability or sustainability, their investors, donors, and funding arrangements, unless otherwise noted.

Photo courtesy by the Project Developer.

Since its launch in 2018, the BNCFF has become a global brand name in Ocean Impact Finance. After screening over a hundred proposals, it has supported a suite of blue Nature-based Solutions (NbS) pioneer projects with grant funding.

<https://bluenaturalcapital.org/supported-projects/>

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Ministry of the Environment, Climate
and Sustainable Development