



# IFC in Indonesia – Adding Value along the Furniture Supply Chain

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# What is the International Finance Corporation?

- the private sector arm of the World Bank Group.
- mission to strengthen the private sector to alleviate poverty
- through
  - providing financing to private sector..... at commercial rates
  - providing technical assistance and advisory services
- “frontier” markets
- “demonstration effect” — leading the way in defining and implementing better management practices
  - Corporate governance
  - Financial management
  - Environment and social

# Environmental and Social Performance Standards

- The standards we require and assist our investees to attain
- example of best practice
- Revised April 06, after worldwide consultation
- These standards form the backbone of the *Equator Principles*
- In forestry
  - Client must be certified/using certified material
  - Or in a stepwise approach
  - Any credible, 3<sup>rd</sup> party certification scheme

<http://www.ifc.org/ifcext/enviro.nsf/Content/EnvSocStandards>

# Development Impact

- **Sustainable development of the Forest Products Sector (FPS) can:**
  - **Drive economies**
  - **Provide employment**
  - **Alleviate poverty**



But...

- Projects in tropical natural forests are risky, difficult, and time-consuming
- IFC can only invest where the enabling environment for private sector investment is conducive

So, where enabling environment is not yet conducive to direct investment

- IFC & donor-funded programs for SME support
- Direct capacity building in small firms
- Some facilitation of lending
- Improvement of enabling environment for the private sector (overlap with World Bank)

# Adding value along the Indonesian furniture supply chain

***Creating business opportunities for Small and Medium sized enterprises (SMEs), through***

- ⇒ ***procure environmentally friendly timber***
- ⇒ ***run efficient, innovative businesses***
- ⇒ ***reach the right market***

# Value Chain Approach



# Goals, Activities and Results



## Goals

- Create sources of sustainable/certified wood, to supply furniture industry
- Increase production of sawn timber from *fast growing* plantation species

## Activites

- Assisted 50 000 Ha *Acacia mangium* plantation into GFTN membership, then FSC
- Assisting company to produce more sawn timber, capturing greater value added than chipping for pulp

## Results

- Massive increase in demand for and sale of companies' sawn timber
- Interest from international retailers (IKEA) with potential for investment

# Goals, Activities and Results



## Goals

- Facilitate business benefits for SMEs through access to appropriate (green) materials and markets
- Keep business alive through use of alternative, faster growing species

## Activities

- Created reliable drying schedules for various *Acacia mangium* thicknesses
- Developed and 'trained trainers': 4 modules in working with Acacia (drying, laminating, design and finishing)
- 191 individuals trained in trends and design for international market
- Production Planning and Inventory Control – basic CoC

## Results

- Manufacturers equipped to work with raw material they previously couldn't
- 20 partner manufacturers now using Acacia timber
- >\$1 000 000 acacia furniture sales, repeat orders

# Goals, Activities and Results



## Goals

- Fuel and meet demand for products made from certified timber
- Increased acceptance of 'non traditional' species

## Activities

- Promoted certified Acacia products with 20 partner manufacturers at international furniture fairs
- Demonstrating Acacia as an acceptable (if partial) substitute for teak
- Working closely with NGOs

## Results

- Increased market acceptance of Acacia furniture products
- Convinced many that Indonesia can produce responsibly, retained business
- Great interest in Acacia for flooring

# What next?

- Find more sustainable/certified sources
- Encourage increased production of sawn wood
- Create a 'Timber Yard' – method to ensure regular, affordable supply of green timber available to SMEs
- Provide further business assistance
  - Niche marketing
  - Design and quality control
  - Production Planning and Inventory Control
- Provision of financing to SMEs through local banks
  - to encourage production/use of certified wood
- Exit!