

The Borneo Initiative.

INTERNATIONAL PLATFORM FOR PROMOTION OF
SUSTAINABLE FOREST MANAGEMENT IN INDONESIA



2019 ANNUAL REPORT

The Borneo Initiative Foundation

Public version



Introduction

The Borneo Initiative is a Dutch non-profit foundation established in 2008 with offices in The Netherlands and Indonesia. The Borneo Initiative operates in Indonesia in partnership with the Yayasan Inisiatif Borneo Lestari and the Indonesian Association for Forest Concessionaires – APHI. A formal partnership with the Global Green Growth Institute – GGGI – was established in 2019. The operations of The Borneo Initiative Foundation in 2019 were covered by funding from the Good Energies Foundation and own resources of The Borneo Initiative Foundation.

Through this annual report, The Borneo Initiative aims to inform a broader public about its work. This report is based on the financial statements 2019 as externally audited and approved by Baker-Tilly- Accountants.

In January 2019, The Borneo Initiative started the implementation of a ten-year program to transform the forestry sector in Indonesia and to increase rural incomes in forest areas. As part of this program we developed a model for landscape restoration in Kalimantan that aims to increase incomes of both local communities and forest management concessions. The main activities throughout 2019 were:

- Prepare and start implementation of two to three pilot business cases for improved sustainable forest management covering a total area of up to 650,000 ha.
- Introduce a sustainable landscape management approach that ensures that local communities can

achieve equitable economic growth, whilst ensuring that forests and their biodiversity are maintained.

- Continuation of support to companies in the process of certification

This annual report presents the activities to date, the annual expenditure, the interim results and a medium-term outlook.

Activities to date

Company level business case preparation

Revenues in the forest sector have decreased over the years and this often leads to conversion of natural forests to agriculture. This development can only be stopped if revenues from forest management increase. To this effect, The Borneo Initiative has developed a **forest management model** that optimizes land use in combination with new revenue streams and close collaboration with communities. A first generation of this model was prepared in 2018 by Indufor (Australia) for GGGI in collaboration with The Borneo Initiative. Throughout 2019, a much more refined model has been prepared by Indufor and The Borneo Initiative in the second semester of 2019. The new version model includes cost and benefit analysis for forest restoration, intensive tree plantation by the company and /or communities on degraded lands and forest conservation.

Our model confirms the economic and financial feasibility of forest restoration in combination with logging and tree plantation. Furthermore, the model clearly

demonstrates the important role that carbon finance can play in making forest restoration feasible and the possible contribution of conservation finance and funding for tree plantation. We have applied the model to:

- Assess the potential profitability of heavily degraded concessions that are currently inactive. Our calculations show that that is being restored to become a productive forest again.
- Assess the potential profitability of restoration and tree plantation within active partner concessions – PT Ratah Timber, Sarpatim and Dwima Group.

Inactive restoration concessions

The forest management model has been applied in a number of inactive logging to estimate investment costs and potential revenues. Land-use analysis in such concessions confirms that remaining high and medium density forests are no longer large enough to allow for economical exploitation in a business-as-usual scenario and further forest degradation is. It is estimated that 30 – 40% of the concessions on Kalimantan are in the same situation and are thereby in serious risk of further – irreversible – degradation.

Our calculations confirmed the financial and economic feasibility of a diversified model. Income from tree

plantations with fast-growing native species would be the main driver of revenues and this income starts in year 8 after planting. Large areas must be replanted, and this requires an investment of 20 – 25 M EUR. Such an investment will require thorough preparation, strong commitment from the company owners and access to finance. Income from restoration (carbon credits) and from logging can considerably improve the profitability during the first eight years.

The Borneo Initiative will further refine the model, for example by making more provision for the necessary investments in management capacity in diversified concessions. Notwithstanding a positive Net Present Value (NPV) and a 9% Internal Rate of Return (IRR), it is expected that the level of investments will be considered too high by most companies and we are therefore looking at alternatives that requires fewer investments in the next few years.

Active concessions

The Borneo Initiative analyzed 15 active concessions on Kalimantan. This analysis showed that most active concessions include large areas that are severely degraded as a result of forest fires, agricultural encroachment and illegal logging. On average, the degraded area covers 10 – 20% of the concessions

Figure 1. Inactive restoration concession - typical Net Present value and Internal Rate of Return

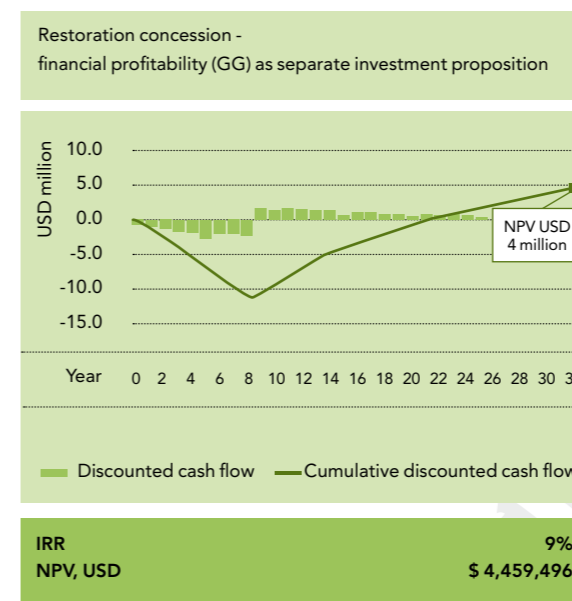
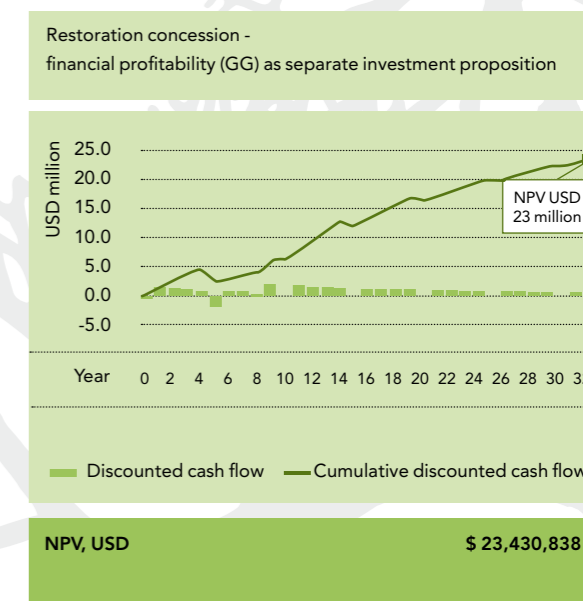


Figure 2. Active restoration concession - typical Net Present Value



area, or 5,000 – 50,000 ha. When restored, such areas can create substantial revenue for both companies and communities.

The forest management model for this type of concession is the same as the one used for the inactive concessions. Contrary to inactive concessions, active concessions derive income from selective logging right from year one. This income stream reduces, or even fully compensates, the negative cashflows that are inevitable in the restoration of inactive concessions. As a result, both the NPV and IRR are much more positive (figure 2).

Next steps - 2020

Detailed business cases for our partners Ratah Timber and Sarpatim will be prepared in the first semester of 2020, including further social and technical surveys. On the ground implementation is expected to start in June. The preparation of a third demonstration project is temporarily halted until the projects with Ratah Timber and Sarpatim are well underway.



Business case preparation – community level

Activities 2019

In May 2019 we obtained a first commitment from Dwima Group and Sarpatim, which allowed us to start desa (village) level land-use planning, including an economic analysis of possible activities. The first activities on the ground were carried out by Peter Foundation, an Indonesian organization with a strong track record in Central Kalimantan.

Together with Puter Foundation we developed a simplified approach for the business case preparation and activity planning:



Figure 3. Community Level Business Case Preparation

A social survey was carried out in Sarpatim and Dwima that covers the first three steps in the process. The survey provides information on:

- Boundaries – The survey comprises a monography of the desa, outcomes of the participatory boundary mapping, and an assessment of land claims inside concessions
- Current land-use – Including assessment of land-use by groups (young, old, men, women, vulnerable groups)
- Land use priorities – Assessment of land-use priorities by groups and by areas (zoning) with emphasis on agro-forestry / forestry

The main outcomes were as follows:

- Land pressure is found to be higher around Sarpatim than in the Dwima landscape, and this translates in a higher incidence of land claims, both between different villages and between villages and companies.
- Community interest in tree plantation as part of an agro-forestry approach is confirmed. The survey also suggests that uptake by families will be relatively slow. These outcomes are in line with the experience of Fair Ventures that is operating in a district next to the Dwima Group.

Next steps

A survey in and around Ratah Timber will start in January 2020 and will also be carried out by Puter Foundation.

The alignment between community and company land-use priorities will be finalized in the first semester. This alignment will focus on areas that are already used by communities and that companies have already classified as ‘non-productive’ or ‘non-forest’ areas. Coincidentally, both Sarpatim and Ratah Timber are preparing new 10-year management plans for their concessions, which allows for seamless integration of joint land-use plans in the new management plans.

The agreement on future land-use will be the basis for the preparation of a – still general – land-use plan for the desa, both inside and outside the concession. In parallel, two different models for business case development are now under preparation:

1. Company-community tree planting joint venture – Communities and companies agree on a revenue sharing model that reflects the inputs of each party in the joint effort. The JV allows for the realization of relatively large areas in a cost-effective way and can potentially create high revenues for families. This model has been tested by Ratah Timber, Dwima Group, Fair Ventures and other parties. Two limitations come up:
 - a. Revenue sharing mechanisms are the main critical issue. Often, investments are mostly borne by companies while most revenues from tree harvesting will go to individual households. Such a model cannot be upscaled, and – together with Fair Ventures – we will develop a more balanced model in 2020.

b. Fast-growing tree species can only be harvested after 8 years which is much later than perennial agricultural crops such as oil palm and cocoa. Additional agricultural income from crops with shorter cycles (groundnuts, cassava, rice etc.) can improve the business case considerably and must be an integral part of the approach. Combined expertise in forestry and agriculture is rather rare though in Indonesia

2. Household agro-forestry – Because of the problems encountered in joint venture management, The Borneo Initiative will also develop a model for household agro-forestry development without revenue sharing mechanism. This model will be proposed as an alternative to the JV. Such a model has a lower overall investment and reduced area coverage. The simplicity of the model is expected to attract more households though. The model would still be based on a combination of tree plantation, NTFP development and agricultural development. Different options – rubber rehabilitation, spices, fruits (rambutan, durian etc.) are being considered.

Governance and partnership development

Governance

The Government of Indonesia now promotes diversified and sustainable forest management, but practice is not yet aligned with this vision. Throughout 2019, we have identified governance issues that positively or negatively influence innovation in the forestry sector. The major stumbling blocks have been assessed and we work with our partners GGGI and APHI (see below) to address these issues.

Certification support

Activities 2019

Since the start of its operations, The Borneo Initiative signed a total of 50 support agreements, covering a total area of 5.2 million ha. 27 FSC and 4 CW (Controlled Wood) certificates are held by a total of 28 companies on 31 December 31st 2019.



Support under three ongoing support agreements has continued throughout 2019, but no new support agreements have been signed in 2019.

Next steps

Numerous companies remain interested in FSC certification and some are pursuing certification at their own costs. Limited external support can considerably speed up the process though and bring in companies that need more technical and financial support to go through the lengthy certification process. For that reason, The Borneo Initiative will continue its' efforts to raise funds for FSC certification for companies. More than before, we will also raise funds for certification support for smallholders. It is expected that a limited number of new support agreements can be signed in early 2021.

Partnership development

Considerable time was spent throughout 2019 to build partnerships.

Most importantly:

- An agreement was signed early in 2019 with the Global Green Growth Institute – GGGI, focusing on collaboration with the Government of Indonesia at national and provincial level. Together with GGGI we approach both national government and international parties that are interested in promoting sustainable forest management.
- The partnership with APHI – the Indonesian Association of Forest Concessionaires – is now being oriented towards the revitalization of the forestry sector with a strong emphasis on creating new revenue streams, including carbon finance. APHI represents forest enterprises and can play an important role in removing disincentives to sustainable forest management.
- A partnership with FSC International is under preparation which will promote sustainable landscape management both at household and company level.
- The Borneo Initiative continues to work together with WWF (mainly at local level in East Kalimantan) and TNC (mainly on carbon issues).
- Fair Ventures and The Borneo Initiative are preparing a collaboration on community agro-forestry that is expected to start on the ground in 2020.

Interim results

Progress on the project is summarized in the table below.

Table 1. Interim results

Project objective	Expected outcome	Indicator	Status
Prepare and pilot 3 business cases for improved sustainable forest management, conservation and restoration in the Heart of Borneo	Viable business and investment case are developed for forest conservation, sustainable management and restoration in the HoB that is economically viable and socially inclusive	Area under pilot areas	2 pilot under preparation for an area of appr. 400,000 ha. Total area of 650,000 ha can be reached by end of project
		Area prepared for restoration	Appr. 210,000 ha of restoration area identified inside 3 pilots. Additional restoration areas are identified inside currently inactive concessions. Restoration management expected to start in 2020 on a minor proportion of these areas
Develop and start implementation of a sustainable land use management plan at village level	Land use management in and around piloted forest concessions is improved	Nr. of communities impacted Nr. of village-level land use plans Nr. of company-community joint ventures	The preparation of detailed land use plans will start in Q1 of 2020. A confirmation or review of the targets will take place during the first semester of 2020. Based on preliminary outcomes of social surveys, it is expected that fewer company – community joint ventures will be created
Develop and agree with partners the overall organizational, strategic and partnership structure for this new phase of The Borneo Initiative	TBI Indonesia is a recognized and trusted partner for protecting the Heart of Borneo	Nr. of partnership agreements	Partnership agreements with APHI, and GGGI are signed and implemented. Collaboration on the ground with WWF, TNC, FSC and Fair Ventures. Formal agreements may be signed with these organizations in 2020
		# of training and technical support	No formal training sessions have yet taken place. Technical support sessions with companies have taken place throughout 2019
Secure funding for launching the first 5-year phase of TBI's 10-year initiative	There is secured blended finance for the TBI program and its key local and global partners	\$ raised	Fundraising efforts took place throughout 2019. It is likely that the targets can be reached in the course of 2020 and first semester of 2021

Long term outlook

Business case development at company level in 2019 confirmed the feasibility of both concepts:

- Restoration concession – We estimate that 40% of the concessions on Kalimantan is idle and under threat of total forest loss. The business model calculations for this type of concessions show that a combination of tree plantation and natural forest restoration is potentially viable.
- Diversified active concession – The combination of logging with restoration and tree plantation increases profitability and makes companies less vulnerable to fluctuations in timber prices.

Both concepts have the potential to increase the profitability of the concessions and thereby contribute to the survival of the forests of Kalimantan. The Borneo Initiative will therefore continue to focus on promoting both models. At the same time, both concepts require major investments and increased management capacities. Critical issues that we will address are access to finance, HR development, relationship with communities, processing and marketing.

Business case development at household level is less advanced and will be a major focus from 2020 onwards. Critical issues that we will address in the coming years:

- The community-company Joint Venture (JV) model for tree plantations allows for quick implementation and high quality of operations. Revenue sharing agreements are almost always problematic though. The Borneo Initiative will therefore also develop an alternative model that is not linked to a JV.
- There is increasing demand for certain types of NTFP, but this hardly ever translates into successful supply chain development. The Borneo Initiative will focus on establishing partnerships with trustworthy supply chain partners and supporting companies in producing the right quantities and qualities at the right time and price.
- Support to agricultural development will be limited to agro-forestry development. This may include activities such as cocoa and/or coffee under shade and annual crops in young tree plantations. Here again, we will focus on establishing links with supply chain partners to obtain high quality support and limit the The Borneo Initiative contribution to a period of 2 – 3 years.

- Obtaining secure access to land is increasingly important. For now, The Borneo Initiative is focusing on improving land access inside concessions. In the coming years, we would increase our focus on land access outside concessions, such as social forestry areas and hutan adat (traditional forestland)

We increasingly think that new revenue streams for concessions can play a major role. So-called ‘Nature Based Solutions’ can create new revenue streams for the forestry sector and for rural communities. For forest management companies this would mean additional revenue or even the replacement of revenue from timber. Much development needs to happen on the ‘demand’ side. Major American and European companies are making commitments, but these pledges must yet be developed into an actual demand. It’s the same on the supply side: there is certainly a strong interest from forest management companies, but this must still be translated into a well-defined supply of services/products. Already, we see that many parties are setting up companies that want to act as broker between supply and demand. The Borneo Initiative and partner APHI have a direct link to the concession holders and we would therefore want to work on developing models for the supply side.

In summary, The Borneo Initiative sees a perspective for sustainable forest management inside concessions that combine logging with conservation, restoration and tree plantation. Over time, new revenue streams can lead to an important positive shift in the sector, whereby such revenues could sometimes replace revenues from logging. At community level, we see a perspective for tree plantation in combination with targeted support to selected NTFP and agricultural commodities. The latter two require partnerships with supply chain partners.

Financial report

2.1 Balance sheet at 31 December 2019 (after allocation of the result)

All amounts are in €			
	2019	2018	
ASSETS			
NON-CURRENT ASSETS			
1. Tangible fixed assets	2,256	-	
CURRENT ASSETS			
2. Receivables			
Other accrued receivables	6,087	7,638	
	6,087	7,638	
3. Cash at bank	371,156	345,257	
	379,499	352,895	
LIABILITIES			
4. Reserves and funds			
Appropriation reserve certification	-	40,065	
Appropriation funds	103,435	-	
Other reserve	198,364	237,328	
	301,799	277,393	
5. Short-term liabilities			
Accounts payable	6,213	2,644	
Tax liability	4,552	1,410	
Other liabilities and accrued costs	66,935	71,448	
	77,700	75,502	
	379,499	352,895	
2.2 Statement of income and expenditure	Actual 2019	Budget 2019	Actual 2018
6. Funding	500,000	500,000	-
7. Activity costs	289,852	471,100	354,765
Result of activities	210,148	28,900	-354,765
Organization costs			
8. Staff costs	90,295	100,900	76,005
9. Depreciation costs	538	-	-
10. Other costs	95,051	44,650	66,877
	185,884	145,550	142,822
Operational results	24,264	-116,650	-497,647
11. Financial income and expenses	142	-	5,420
Result	24,406	-116,650	-492,227
Allocation of the result			
Appropriation reserve certification	-		-43,985
Appropriation fund	103,435		
Other reserve	-79,029		-448,242
	24,406		-492,227

The Borneo Initiative Status Map 2019

FSC certified forest concessions in Indonesia



Legend

- FSC certified concessions

●

FSC in progress concessions

●

Conservation areas

○

Other logging concessions

■

Forest cover

■

Non forest
1.

Logging concessions from Ministry of Forestry 2018
2.

Forest cover from Ministry of Forestry 2019
3.

Indonesian base map 2013, Geospatial information agency (BIG)
4.

FSC certified list, December 2019, <http://info.fsc.org>

Id	Company Name	License Area (Ha)	Certification Status	Province	Supported By
1	Pt Inhutani Ii Semamu	71.375	FSC in Progress	Kalimantan Timur	TBI
2	Pt Inhutani Ii Malinau	29.040	FSC in Progress	Kalimantan Timur	TBI
3	Pt Rizki Kacida Reana	55.150	FM/COC	Kalimantan Timur	TBI
4	Pt Sumalindo Lestari Jaya Iv	63.550	FM/COC	Kalimantan Timur	TBI
5	Pt Aditya Kirana Mandiri	42.700	FSC in Progress	Kalimantan Timur	TBI
6	Pt Wanabhakti Persada Utama	44.402	FSC in Progress	Kalimantan Timur	TBI
7	Pt Karya Lestari	49.123	FM/COC	Kalimantan Timur	TBI
8	Pt Narkata Rimba	65.925	FM/COC	Kalimantan Timur	TBI
9	Pt Belayan River Timber	97.500	FM/COC	Kalimantan Timur	TBI
10	Pt Sumalindo Lestari Jaya Ii	267.600	FSC in Progress	Kalimantan Timur	TBI
11	Pt Kemakmuran Berkah Timber	82.810	Terminated	Kalimantan Timur	TBI
12	Pt Roda Mas Timber	69.620	FM/COC	Kalimantan Timur	TBI
13	Pt Inhutani I Meraang	70.700	FSC in Progress	Kalimantan Timur	TBI
14	Pt Sumalindo Lestari Jaya V	61.645	FSC in Progress	Kalimantan Timur	TBI
15	Pt Ratah Timber	85.261	FM/COC	Kalimantan Timur	TBI
16	Pt Sari Bumi Kusuma Delang	60.700	Terminated	Kalimantan Barat	TBI
17	Pt Carus Indonesia	72.170	FM/COC	Kalimantan Tengah	TBI
18	Pt Graha Sentosa Permai	44.970	FM/COC	Kalimantan Tengah	TBI
19	Pt Dwimajaya Utama	127.300	FM/COC	Kalimantan Timur	TBI
20	Pt Utama Damai Indah Timber	49.250	FM/COC	Kalimantan Timur	TBI
21	Pt Gunung Gajah Abadi	74.980	FM/COC	Kalimantan Timur	TBI
22	Pt Sarmiento Parakantja Timber	216.580	FM/COC	Kalimantan Tengah	TBI
23	Pt Suka Jaya Makmur	171.300	FM/COC	Kalimantan Barat	TBI
24	Pt Wanasokan Hasilindo	49.000	Terminated	Kalimantan Barat	TBI
25	Pt Indexim Utama	50.734	FM/COC	Kalimantan Tengah	TBI
26	Pt Kandelia Alam	18.130	Terminated	Kalimantan Barat	TBI
27	Pt Bina Ovipari Semesta	10.100	Terminated	Kalimantan Barat	TBI
28	Pt Gorontalo Citra Lestari	45.097	FM/COC	Gorontalo	TBI
29	Pt Gema Nusantara Jaya	29.058	FM/COC	Gorontalo	TBI
30	Pt Telagabakti Persada	61.056	FM/COC	Maluku	TBI
31	Pt Gema Hutani Lestari	148.450	FM/COC	Gorontalo	TBI
32	Pt Multi Wahana Wijaya	139.000	FSC in Progress	Papua Barat	TBI
33	Pt Bintuni Utama Murni Wood Industries	82.120	FM/COC	Papua Barat	TBI
34	Pt Hanurata Papua Barat	417.570	FSC in Progress	Papua Barat	TBI
35	Pt Wijaya Sentosa	130.755	FM/COC	Papua Barat	TBI
36	Pt Bina Balantak Utama	298.710	FM/COC	Papua	TBI
37	Pt Wapoga Mutiara Timber Unit Ii	169.170	FM/COC	Papua	TBI
38	Pt Sari Bumi Kusuma (Unit I Dan Ii)	147.600	CW-FM	Kalimantan Tengah	Non TBI
39	Pt. Erna Djuliawati	184.206	FM/COC	Kalimantan Tengah	Non TBI
40	Pt Jati Dharma Indah Plywood Industries	139.470	FM/COC	Papua	TBI
Total - FSC Certified (Valid)					2.898.275
Total - FSC in Progress					1.144.032
Total Area					4.042.307

Abbreviations

APHI	Asosiasi Pengusaha Hutan Indonesia (Indonesian Forest Concession Holders Association)
APCS	Asia Pacific Certification Solutions
CW	Controlled Wood
FSC	Forest Stewardship Council
WWF	World Wide Fund for Nature
GFTN	Global Forest & Trade Network
PT	Perseroan Terbatas (Limited Liability Company)
TBI	The Borneo Initiative
TFF	Tropical Forest Foundation
TNC	The Nature Conservancy
HoB	Heart of Borneo
GGGI	Global Green Growth Institute



Organisation

The Borneo Initiative runs its activities from two offices in the Netherlands and in Indonesia.

Head office

De Corridor 7
3621 ZA Breukelen, the Netherlands
Email: info@theborneoinitiative.org

Indonesia office

Chubb Square, 8th Floor, # 814
Jl. M.H. Thamrin No. 10,
Jakarta Pusat 10230, Indonesia
Email: sekretariat@theborneoinitiative.org
Office phone: +62 21 3000 6718

Colofon

Pictures: The Borneo Initiative, Alain Compost
Design: Studio 10, Tineke Kooistra
Printer: drukkerij MullerVisual, Mijdrecht

This annual report is printed on 250gr FSC paper.

