

The Borneo Initiative.

INTERNATIONAL PLATFORM FOR PROMOTION OF
SUSTAINABLE FOREST MANAGEMENT IN INDONESIA



2018 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 (Sustainable Borneo Initiative Foundation) and the Indonesian Association for Forest Concessionaires - APHI. A formal partnership with the Global Green Growth Institute – GGGI – was under preparation at the end of 2018.

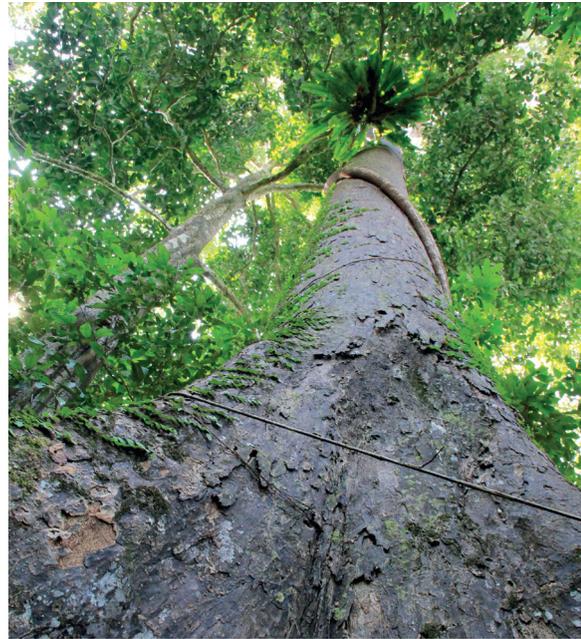
Through this annual report over the year 2018, The Borneo Initiative aims to inform a broader public about its work. This report is fully based on the financial statements 2018 as externally audited and approved by Baker-Tilly-Accountants. Operations of The Borneo Initiative Foundation in 2018 were covered by funding from the Good Energies Foundation and own resources of The Borneo Initiative Foundation.

The year 2018 marked a transition from support to FSC-certification towards a much broader and more inclusive landscape restoration approach. We gratefully recognize the generous support from Good Energies Foundation (Switzerland) that enabled us to prepare a new program and start its implementation in 2019.

The Borneo Initiative operates as a platform that collaborates with a multitude of forest management initiatives, especially those operated by the Tropical Forest Foundation, The Nature Conservancy, the GFTN program of WWF, Asia Pacific Consulting Solutions and Wana Aksara. Therefore, all achievements mentioned in this report can only be seen as the result of a joint effort.

What we want to achieve

Worldwide deforestation is responsible for almost 20% of global CO₂ emissions and Indonesia is commonly ranked in the top-5 of countries with the most severe deforestation. The country annually loses 1.3 million ha of forest (source: World Resources Institute), mainly on the islands of Kalimantan (Indonesian Borneo) and Sumatra. Notwithstanding these losses, Borneo is home to one of the last remaining intact forest blocks with 35 million ha of tropical rain forest. In



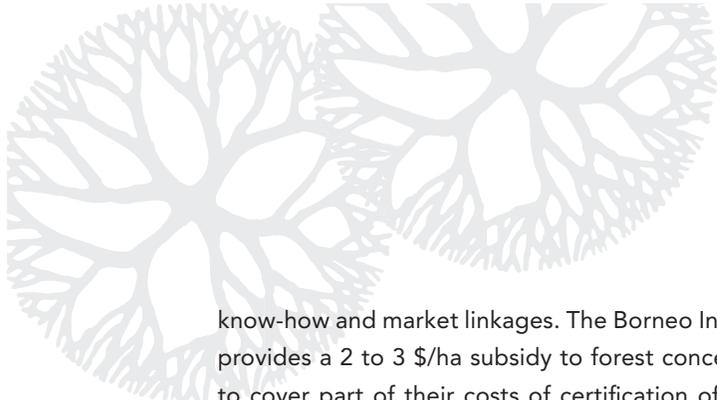
recognition of the global importance of the natural forests of Borneo, the governments of Indonesia, Malaysia and Brunei signed the Heart of Borneo Declaration in 2007. In this declaration, the governments of the three countries commit to cooperate in ensuring the effective management of forest resources and conservation of a network of protected areas, productive forests and other sustainable land-uses, thereby maintaining Bornean natural heritage for the benefit of present and future generations.

The Borneo Initiative was created in 2008 to support this Heart of Borneo initiative with the mission to promote sustainable forest management in and around the Heart of Borneo, but also elsewhere in Indonesia.

Our approach

Major forest blocks in Kalimantan benefit from some form of protection. Much larger areas though, are not protected and these natural forests are subject to degradation and outright conversion to – often large-scale – agriculture. The Borneo Initiative considers that degradation and conversion of these unprotected natural forests can only be avoided by ensuring that they sustainably produce revenues.

Consequently, The Borneo Initiative adopted a business focus towards natural forest management. To this effect, the organization supports forest concessionaires managing natural forests via funding, transfer of



know-how and market linkages. The Borneo Initiative provides a 2 to 3 \$/ha subsidy to forest concessions to cover part of their costs of certification of forest management.

The foundation has been singularly successful in its promotion of forest certification. Before The Borneo Initiative became operational, the FSC-certified forest area in Indonesia amounted to just 0.9 million ha. Currently, the FSC-certified area is more than three times as large and reaches 3 million ha. An updated waiting list equivalent to 1.2 million ha (Indonesia) confirms the importance given by companies to sustainable forest management.

Over the years though, the limitations of the approach became increasingly visible as well. Communities did not benefit enough from the program, deforestation is still ongoing and decreases in biodiversity continue at alarming rates. Circa 40% of all natural forest concessions on Kalimantan are inactive and these are most prone to degradation and conversion. Such inactive concessions cannot be reached by a certification support program. In recognition of these limitations, The Borneo Initiative has developed a new approach in 2018 as basis of a new 10-year program that will start in 2019.

The new program will continue to support sustainable forest management by natural forest logging concessions. Much more than before though, The Borneo Initiative will support local communities to ensure equitable and environmentally sound development that contributes to the long-term viability of the forestlands of Kalimantan. To achieve this, the organization will adopt a tailor-made approach that aims to combine sustainable forest management with clear benefits for local communities. At the same time, The Borneo Initiative will always strive to maintain its scale of operations and result orientation.

What we did in 2018

Certification support

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 2018.

PT Wapoga Mutiara Timber Unit II (169,170 ha) graduated from CW to full FSC certification in 2018 without program support.

Two support agreements continued throughout 2018, but will be terminated in Q1 of 2019 without the companies having acquired FSC certification:

- **PT Inhutani I – Meraang** (70,700 ha).

The company was due for certification in 2015.

- **PT Hanurata Papua Barat** (234,470 ha)

The company was due for certification in 2018.

Due to slow progress, the support agreements with both companies will be terminated in the first quarter of 2019. The company may still proceed to FSC certification without further support from The Borneo Initiative.

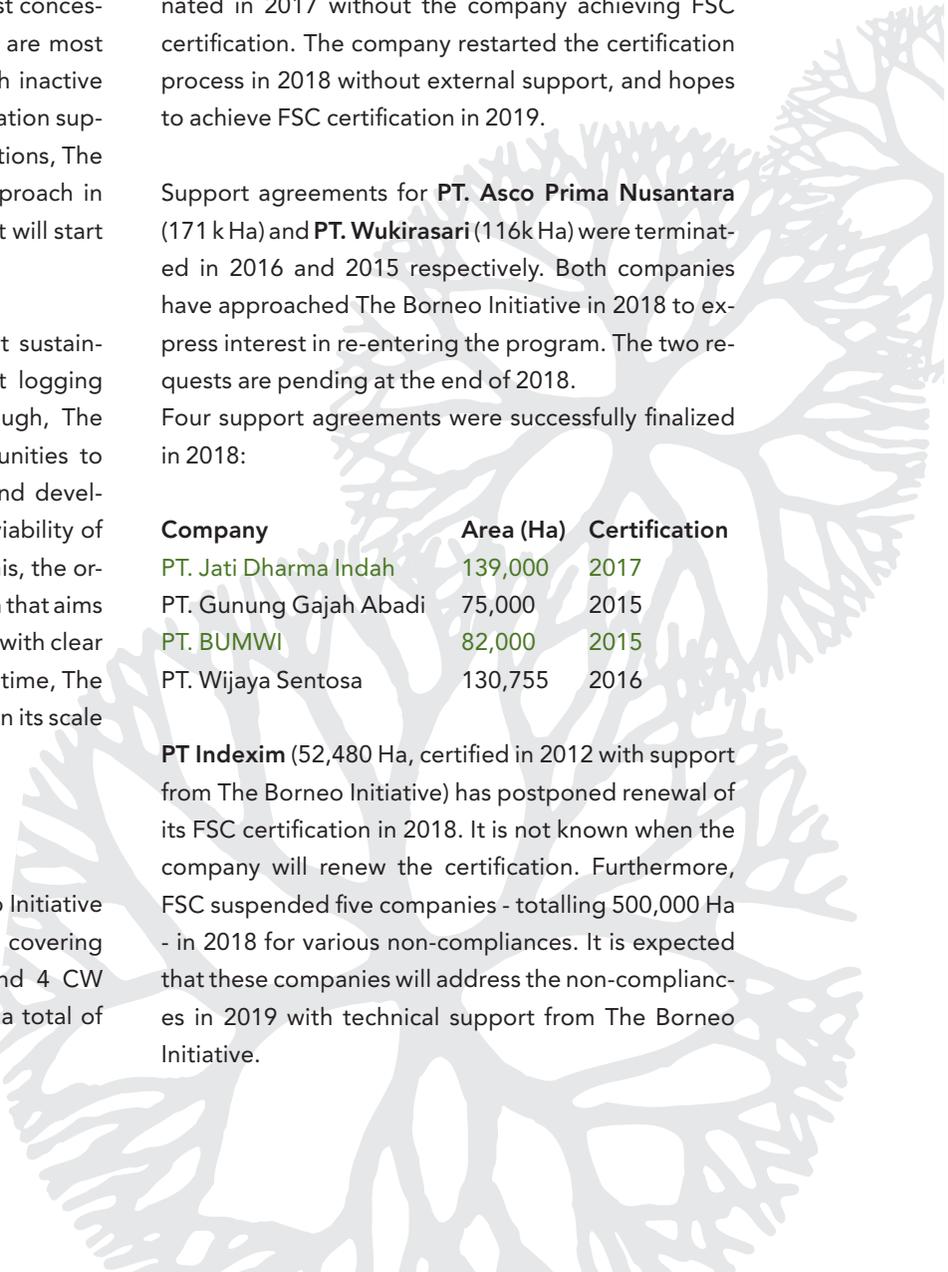
The support agreement with **Sumalindo IV** was terminated in 2017 without the company achieving FSC certification. The company restarted the certification process in 2018 without external support, and hopes to achieve FSC certification in 2019.

Support agreements for **PT. Asco Prima Nusantara** (171 kHa) and **PT. Wukirasari** (116k Ha) were terminated in 2016 and 2015 respectively. Both companies have approached The Borneo Initiative in 2018 to express interest in re-entering the program. The two requests are pending at the end of 2018.

Four support agreements were successfully finalized in 2018:

Company	Area (Ha)	Certification
PT. Jati Dharma Indah	139,000	2017
PT. Gunung Gajah Abadi	75,000	2015
PT. BUMWI	82,000	2015
PT. Wijaya Sentosa	130,755	2016

PT Indexim (52,480 Ha, certified in 2012 with support from The Borneo Initiative) has postponed renewal of its FSC certification in 2018. It is not known when the company will renew the certification. Furthermore, FSC suspended five companies - totalling 500,000 Ha - in 2018 for various non-compliances. It is expected that these companies will address the non-compliances in 2019 with technical support from The Borneo Initiative.



Market links

Regular trade exchange events were supported throughout the year. Most importantly:

- The Borneo Initiative – FSC – APHI jointly conducted the Trade Encounter Event in March 2018 in Jakarta
- APHI deployed the Indonesia Timber exchange - ITE - platform to facilitate timber trading from APHI members

APHI has developed an online platform - Indonesian Timber Exchange-ITE – that is similar to a platform that was developed by BV RIO. The latter is a negotiations platform to promote the trading of timber products from legal and or certified sources creating transparency, efficiency, and liquidity to this market. Both parties are aware of the overlap this creates and APHI has announced a collaboration agreement with BV RIO.

FSC wants to strengthen its lead in market links through the organization of trade events and is increasing staff capacity. The Borneo Initiative would reduce its involvement accordingly, to increase involvement in peer-to-peer support, for which there is great demand. This change supposes that The Borneo Initiative increases its advisory capacity, either in-house or through arrangements with external organizations / persons. Companies to which assistance was provided in 2018 included Lamtech and Sitra Holding.

Outlook for 2019 and beyond

The conversion of forestland to agricultural plantations has led to an unprecedented expansion of large-scale oil palm plantations and related economic growth. While rural communities have to some extent benefitted from this development, rural poverty has remained persistent throughout Kalimantan. At the same time, large-scale agricultural expansion has diminished traditional livelihoods and substantially increased pressure on remaining forestlands for logging, hunting and smallholder agriculture. This development has been particularly problematic for more vulnerable community members who cannot easily find employment in the plantation sector.

The Borneo Initiative is convinced that the continued rapid loss of natural resources calls for a transformation of the logging sector that MUST be combined

with an increase of rural incomes. To achieve this, we have prepared a program that aims both at local communities and forest management concessions. This approach consists of five components:

- **Production • Conservation • Restoration • Inclusion • Governance**

Based on this approach, The Borneo Initiative has prepared a 10-year program that will start in 2019. During the first two years, we will:

- Start three pilot projects 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.

The introduction of Social Forestry Partnerships will be a key component of the new program and illustrate how The Borneo Initiative aims to combine community and corporate interests. The Social Forestry Partnerships are tree planting joint ventures between communities and logging concessions. Both parties will contribute to the Social Forestry Partnership and share the revenues. The partnership is set up in such a way that:

- A company and a community sign an agreement whereby land inside the concession is attributed to families for reforestation with fast-growing tree species.
- Tree planting is staggered to ensure that each year an income is generated from forestry
- Agroforestry during the initial years of plantation adds produce and income
- Timber production suits the needs of the concession holder.

Next to the Social Forestry Partnerships and other innovative program components, The Borneo Initiative aims to maintain and improve support to FSC certification.

As before, we want to stay an organization that is lean and flexible. Therefore, we will, more than ever, build and cherish our partnerships. We aim to maintain our existing long-term partnerships and add partnerships with communities, local government and institutional partners.

Financial report

Balance sheet at 31 December 2018 (after allocation of the result)



	2018	2017	€ €
ASSETS			
NON-CURRENT ASSETS			
1. Tangible fixed assets	-	1,012	
CURRENT ASSETS			
2. Receivables			
Other accrued receivables	7,638	2,853	
	7,638	2,853	
3. Cash at bank	345,257	862,758	
	352,895	866,623	
LIABILITIES			
4. Reserves and funds			
Appropriation reserve certification	40,065	84,050	
Other reserve	237,328	685,570	
	277,393	769,620	
5. Short-term liabilities			
Accounts payable	2,644	5,805	
Tax liability	1,410	5,031	
Other liabilities and accrued costs	71,448	86,167	
	75,502	97,003	
	352,895	866,623	

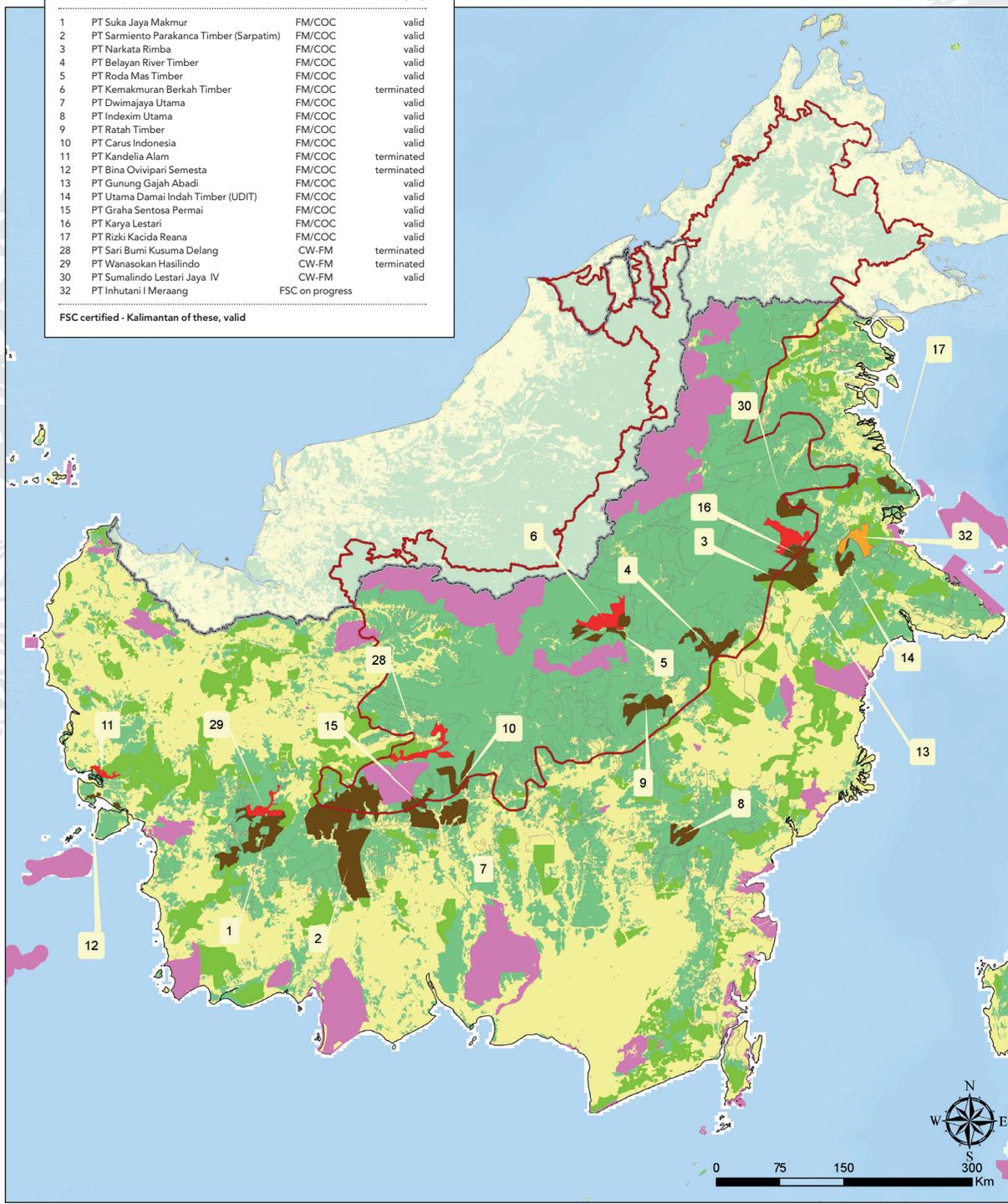
Statement of income and expenditure	Actual 2018	Budget 2018	Actual 2017
6. Funding	-	-	-
7. Activity costs	354,765	281,451	366,877
Result of activities	354,765	281,451	366,877
Organization costs			
8. Staff costs	76,005	80,059	88,241
9. Depreciation costs	-	-	1,542
10. Other costs	66,877	86,850	64,015
	142,822	166,909	153,798
Operational results	-497,647	-448,360	-520,675
11. Financial income and expenses	5,420	-	-3,080
Result	-492,227	-448,360	-523,755
Allocation of the result			
Appropriation reserve certification	-43,985		-81,672
Other reserve	-448,242		-442,083
	-492,227		-523,755

Forest concessions supported by The Borneo Initiative (Dec 2018)

	Name concession	License Area (ha)	Certified Area (ha)	Coach	PHPL	CW certificate	FSC certificate	Certification status
1	PT Suka Jaya Makmur	171.340	171.340	TFF	good		2011	valid
2	PT Sarmiento Parakanca Timber (Sarpatim)	216.580	216.580	TFF	good		2011	valid
3	PT Narkata Rimba	41.540	65.925	TFF	good		2011	valid
4	PT Belayan River Timber	97.500	97.500	TFF	good		2012	valid
5	PT Roda Mas Timber	69.330	69.330	TFF	good		2012	valid
6	PT Kemakmuran Berkah Timber	82.810	82.810	TNC	good		2012	terminated
7	PT Dwimajaya Utama	127.300	127.300	TFT	good		2012	valid
8	PT Indexim Utama	52.480	50.734	TFF	good		2013	valid
9	PT Ratah Timber	97.690	85.261	GFTN	good		2013	valid
10	PT Carus Indonesia	72.170	72.170	TFT	good		2014	valid
11	PT Kandelia Alam	18.130	18.130	GFTN	average	2015	2015	terminated
12	PT Bina Ovipipari Semesta	10.100	28.220	GFTN	average	2015	2015	terminated
13	PT Gunung Gajah Abadi	74.980	74.980	TNC	good		2015	valid
14	PT Utama Damai Indah Timber (UDIT)	49.250	49.250	TNC	good		2017	valid
15	PT Graha Sentosa Permai	44.970	44.970	WA	good		2017	valid
16	PT Karya Lestari	49.123	49.123	TNC	good		2018	valid
17	PT Rizki Kacida Reana	55.150	55.150	TNC	good		2018	valid
17	FSC certified - Kalimantan		1.254.500					
14	of these, valid		1.153.560	92%				
19	PT Gema Hutani Lestari	148.450	148.450	TFF	good		2013	valid
20	PT Telaga Bhakti Persada	63.405	61.056	TFF	good		2016	valid
21	PT Bina Balantak Utama	298.710	298.710	TFF	good		2016	valid
22	PT Cloudy Bay (PNG)	148.900	148.900	TFF	n.a.		2013	terminated
23	PT Gorontalo Citra Lestari	46.170	46.170	TFF	good		2017	valid
24	PT Gema Nusantara Jaya	27.985	27.985	TFF	good		2017	valid
25	PT Bintuni Utama Murni Wood Industries (BUMWI)	82.120	82.120	GFTN	good		2015	valid
26	PT Wijaya Sentosa	130.755	130.755	WA	average		2016	valid
27	Jati Dharma Indah Plywood	139.470	139.470	GFTN	good		2017	valid
28	PT Wapoga Mutiara Timber Unit II	169.170	169.170	TFF	average	2016	2018	valid
28	FSC certified - overall		2.507.286					
24	valid		2.257.446	90%				
29	PT Sari Bumi Kusuma Delang	60.700	41.445	TFF	average	2013		terminated
30	PT Wanasokan Hasilindo	49.000	49.000	TFF	average	2013		terminated
31	PT Sumalindo Lestari Jaya IV	63.550	63.550	GFTN	good	2017		valid
3	CW certified only		153.995					
2	valid		63.550	41%				
31	FSC or CW certified		2.661.281					
26	valid		2.320.996	87%				
32	PT Hanurata Papua Barat	234.470	-	TFF	good			
33	PT Inhutani I Meraang	70.700	-	TNC	good			
2	in process to certification	305.170						
32	Total coverage - Indonesia	2.817.551						
33	Total program coverage	2.966.451						

ID	NAME	CERTIFICATION STATUS	LICENSE AREA (HA)
1	PT Suka Jaya Makmur	FM/COC	valid
2	PT Sarmiento Parakanca Timber (Sarpatim)	FM/COC	valid
3	PT Narkata Rimba	FM/COC	valid
4	PT Belayan River Timber	FM/COC	valid
5	PT Roda Mas Timber	FM/COC	valid
6	PT Kemakuran Berkah Timber	FM/COC	terminated
7	PT Dwimajaya Utama	FM/COC	valid
8	PT Indexim Utama	FM/COC	valid
9	PT Ratah Timber	FM/COC	valid
10	PT Carus Indonesia	FM/COC	valid
11	PT Kandelia Alam	FM/COC	terminated
12	PT Bina Ovvipani Semesta	FM/COC	terminated
13	PT Gunung Gajah Abadi	FM/COC	valid
14	PT Utama Damai Indah Timber (UDIT)	FM/COC	valid
15	PT Graha Sentosa Permai	FM/COC	valid
16	PT Karya Lestari	FM/COC	valid
17	PT Rizki Kacida Reana	FM/COC	valid
28	PT Sari Bumi Kusuma Delang	CW-FM	terminated
29	PT Wanasokan Hasilindo	CW-FM	terminated
30	PT Sumalindo Lestari Jaya IV	CW-FM	valid
32	PT Inhutani I Meraang	FSC on progress	

FSC certified - Kalimantan of these, valid



The Borneo Initiative Status Map 2018

FSC concessions in Kalimantan

Legend

- Country boundary
- FSC certified concessions (1.51 mil. ha)
- FSC in progress concessions (0.07 mil. ha)
- FSC terminated concessions (0.21 mil. ha)
- Other logging concessions (16.24 mil. ha)
- Forest plantations (5.5 mill. ha)
- Conservation areas (1.3 mil. ha)
- Forest cover Kalimantan (28.2 mil. ha)
- Non forest Kalimantan (22.5 mil. ha)



HoB boundary (modified by TBI) 23.27 mil. ha

Kalimantan total area: 53.7 mil ha

1. Logging concessions from APHI, 2016
2. Forest plantations from Ministry of Forestry 2013
3. Forest cover from Ministry of Forestry 2015
4. Conservation area from Ministry of Forestry 2016
5. FSC certified list, December 2018, <http://info.fsc.org>



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.

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