



2020 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 has established formal partnerships with the Indonesian Association for Forest Concessionaires – APHI and the Global Green Growth Institute – GGGI. The operations of The Borneo Initiative Foundation in 2020 were covered by funding from the Good Energies Foundation, IDH – Sustainable Trade Initiative, 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 2020 as audited by Baker-Tilly- Accountants.

Summary

In January 2019, the Borneo Initiative Foundation – TBI – started the implementation of a new ten-year program to improve natural forest management, restore degraded forests and increase rural incomes in forest areas. The foundation developed a business model for forest landscape restoration that aims to increase incomes of both local communities and forest management concessions, whilst maintaining or even enhancing biodiversity. Good Energies Foundation awarded funding to TBI for a first phase in the years 2019 – 2020 to:

● **Develop Business Models**

Prepare pilot business cases for sustainable forest management that fit in a landscape approach, ensuring equitable economic growth for local communities.

● **Demonstrate Feasibility**

Show feasibility of this approach through demonstration pilots in an area of up to 650,000 ha.

● **Scale Up & Raise Funds**

Ensure upscaling of activities for the period after 2020.

The Government of Indonesia adopted important new legislation in August 2020 that provides a legal framework for the so-called 'multi-enterprise model' for forest management. This created the legal basis for the new business model that is promoted by TBI, which is based on a smart combination of logging with forest restoration, tree plantation and, in some cases, agriculture. The multi-enterprise model is increasingly attracting interest from forest management companies and their sector organization APHI (Association of Indonesian Forest Concessionaires).

The preparation of a national system for carbon trade continued throughout the year, but no new regulations were adopted in 2020. It is hoped that this will now happen in 2021. Additional revenues from carbon capture and other payments for 'nature-based-solutions' would make the business case for forest restoration and sustainable forest management much more attractive. It is not yet clear though how carbon revenues will become available for the companies and communities that create the carbon capture and/or emission reduction. With the support of FSC, we investigate the potential of developing a market for FSC-Ecosystem Services claims as an interim step towards full-fledged carbon trade.

Organizational context in 2020

The COVID19 pandemic has had a series of knock-on effects that changed the context in which the organization works. Most importantly:

- **Sense of urgency** – The COVID crisis led to an increased price volatility, whereby low prices were followed by high prices once economic activity in the region picked up. The extreme volatility further increased awareness among companies that the traditional 'logging-only' model is vulnerable. At the same time, the financial and management capacity for change has been reduced by the ongoing health crisis. TBI wants to respond to this situation by focusing – even more – on preparing companies for a transition toward Sustainable Forest Management.
- **Fundraising** – Major new programs aiming at sustainable forest management are delayed. We now expect that such new programs/funds may take another 1 – 2 years to come to maturity. Until then, we focus on obtaining smaller grants that allow us to bridge this period and continue to work towards achieving our goals.

The much-anticipated national policy decisions with regards to Carbon finance have been further delayed. Decisions with regards to the mandatory carbon market are now expected in the course of 2021 and there are indications that companies and communities could directly benefit from this market. Implementation of these new policies is not expected in 2021 though.

Main activities in 2020

The main activities in 2020 are briefly presented in the paragraphs below.

● Develop Business Models

A **forest restoration model** was developed in 2019 as a basis for business model development. Since then, the model has been extensively discussed with external experts and real-life cases have been worked out to test the model.

The model can simulate all forestry operations (including out-grower schemes with smallholder planters) and can include carbon revenues and other new revenue streams such as conservation revenues and payments for community support. The main use of the model is in the early stages of business model preparation, when a company wants to assess a range of options. The main conclusions from the application of the simulation model are as follows:

- A combination of logging and restoration typically has an IRR of 7 – 10%, which is satisfactory for development banks and green investors,
- Restoration of highly degraded (idle) concessions is only financially feasible if the company has access to carbon revenue and/or invests in large-scale tree plantation.

Importantly, new legislation creates the possibility to engage in forest restoration in abandoned concessions on a commercial basis, which is one of the goals of TBI for the 10-year program period.

● Demonstrate Feasibility

Feasibility is demonstrated through the implementation of demonstration pilots for forest restoration and sustainable forest management. The cases for the pilots with Sarpatim/KPW in Central Kalimantan province and Ratah Timber in East Kalimantan province have been worked out in more detail during the first semester. Work included a major social survey in Ratah Timber, that was continued notwithstanding travel restrictions and limited company staff on the ground. The two business cases are developing in different directions, whereby each is highly relevant in its' own right.

Sarpatim/KPW is preparing for a major green investment that will include tree plantation, forest restoration, reduced impact logging and possibly agro-forestry on an area

of 240,000 ha. Agro-forestry development would combine tree plantation with essential oil production from Vetiver, Citronella, and other crops. Part of the latter production would be done by the company and partly by independent smallholders through an outgrower model. The total company investment would be around 20 – 22 M USD over a period of 8 – 10 years, and an application for co-funding of further business plan development will be made with the 'Origination Facility' of the newly created Dutch fund for Climate and development (DFCD).

Ratah Timber is opting for a more modest approach and does not yet foresee a major financial investment of the kind that Sarpatim is planning. This leads to an approach that focuses on:

- 1) developing a cost-effective approach to forest restoration,
- 2) creating revenues from the FSC Ecosystems Services certification and
- 3) developing a cost-effective approach towards community support.

An obvious consequence of this approach is that it will take a long time to achieve a transformation of forest management. Yet, this approach is expected to be more feasible for the large number of companies with limited management capacity and equally limited access to external finance. Apart from the social survey at Ratah Timber, no village level activities could be implemented throughout 2020. The outcomes of the survey were much in line with the earlier survey at Sarpatim. As expected, access to land, and agro-forestry production comes up as major issues for both companies and communities. These topics will therefore get a central position in the land-use plans. Overall, community members welcome collaboration with the companies in their area but are wary of entering into joint ventures. As a result, the community-company tree plantations joint ventures will not be pursued, though they may yet come back at a later stage.

From May – October 2020, TBI and IDH carried out an assessment of carbon stocks in the forests of Kalimantan, Papua, and Aceh (Sumatra). The assessment covered all types of forest land use and allowed us to calculate potential carbon benefits for companies, (local) government and communities. Overall, the outcomes confirmed that Carbon revenues are potentially attractive for all land-use

types in the study area, including those areas that are still very much intact. As a follow-up to this study, we have started the preparation of additional pilots in Papua with two companies of the Sinar Wijaya group. While the social, ecological, economic and governance conditions are different in Papua, the same principles of sustainable forest management apply. We are therefore confident that the approach can be made to work in and around the forestry concessions on Papua. We expect that these pilots can be started in the first semester of 2021, and they are expected to greatly increase overall interest in the 'TBI approach' throughout Indonesia.

● Scale Up & Raise Funds

TBI aims to scale up through strategic partnerships with national and international organizations and through a policy dialogue. The latter is done in an indirect way, mainly through our partnership with APHI and to a lesser degree through GGGI.

TBI has continued to expand and deepen the relations with its' formal and informal partners. Here again though, the number of activities that could be implemented was greatly reduced due to the pandemic. Activities have picked up during the last quarter of the year and more regular progress is expected in 2021. The main characteristics of the partnerships are as follows:

- **GGGI** – The preparation of a joint initiative in East Kalimantan is in progress. GGGI supports the KPH at provincial level and can support the local initiative that TBI is developing with the KPH Damai (the KPH that includes Ratah Timber). The KPH are responsible for the establishment of forest management plans, but these tend to exclude the logging concessions. The aim of our collaboration is to support the KPH in including the logging concessions and to develop a coherent vision for forest management and forest restoration, including carbon stock management. The plans will also include support to forest communities around the concessions.
- **APHI** – The organization is keen to support the 'multi-enterprise' model developed by TBI, but no live meetings could be organized after March 2020. Also, limited field activities made it less relevant to organize online meetings on progress. A series of online meetings are instead scheduled for 2021 to present progress with the pilots.
- **FSC** – The relationship with FSC has intensified in 2020. Jointly, we will support Ratah Timber by trialling different restoration techniques and ensuring compli-

ance with FSC guidelines. The restoration program is briefly presented in the separate Annex. Furthermore, we will work together to create revenues from the 'FSC Ecosystem Systems (ES) certification that Ratah Timber obtained in 2018. The ES certification allows companies to obtain income from codified and certified ecosystem services. Such services include reduced carbon emissions (mainly from Reduced Impact Logging) but also revenues from biodiversity management, agroforestry, and other ecosystem services. Over time, such a system for codifying 'nature-based-solutions may well gain in importance.

- **IDH** – Both organizations started working together in 2020 to develop a long-term approach to forest restoration and sustainable forest management. Carbon revenues can potentially play a major role in this transformation, but this requires a complex structure that allows national government to achieve its' ambitious NDC (Nationally Determined Contribution to reduce carbon emissions) commitment for the sector and still be financially attractive for the private sector, communities, and local government. In this informal partnership, TBI focuses on developing the structure for preparing companies for investment, including ESG aspects.

Fundraising remained challenging throughout 2020. This is partly due to the COVID pandemic, whereby many organizations have not committed (major) new funding in 2020 as disbursements remained well below planning. Furthermore, potential donors continue to perceive logging as a destructive activity, rather than as a cost-effective way to sustainably manage forest. New revenue streams for ecosystem services have the potential to alter public perception and this should make fundraising easier. Throughout 2021, fundraising will continue to be a focus of the program team. Ongoing efforts include:

- **IDH** – Preparation of a national sustainable forest management program as presented in the paragraph above. Large potential but the program is expected to require 1 – 2 years of further preparation.
- **Precious Forests Foundation** – Preparation of a research program on forest restoration and community support. FSC International will be partner in this program that will be implemented in collaboration with Ratah Timber.
- **DFCD** – Coordination of the preparation of an investment in Sarpatim/KPW. TBI possibly to be involved in both preparation and monitoring of ESG compliance during the investment phase.



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 2020. Support under three ongoing support agreements has continued throughout 2020, but no new support agreements have been signed in 2020.

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.

Interim results 2020

Progress on the project is summarized in the table on the next page.

Project objective	Expected outcome	Indicator	End-of-project target	Achievement towards target
Prepare and pilot 3 business cases for improved sustainable forest management, conservation, and restoration in the Heart of Borneo.	A viable business and investment case is developed for forest conservation, sustainable management, and restoration in the Heart of Borneo in a manner that is economically viable and socially inclusive.	No. of ha. under pilot areas.	650,000 ha.	330,000 ha. in the ongoing pilots. Possible up to 600,000 with additional funding (IDH)
		No. of ha. prepared for restoration.	300,000 ha. Prepared for commercial tree planting and assisted natural regeneration.	50,000 ha in the ongoing pilots. Unlikely that a much larger area will be realized by the end of 2021.
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.	No. of communities impacted.	40 with a total population of 40,000.	17 communities are impacted with a total population of 20,000, 11 through a collaboration with KPH.
		No. of village-level land use plans.	10 plans developed and implemented.	6 plans are under development.
		No. of company-community joint ventures.	10 joint ventures under development.	4 land-use agreements are under preparation (replacement for the company-community JV)
Develop and agree with partners the overall organizational, strategic and partnership structure for this new phase of TBI	TBI Indonesia is a recognized and trusted partner for protecting the Heart of Borneo	No. of partnership agreements	Agreements with APHI, WWF and GGGI signed and implemented.	Partnership agreements are signed and implemented with GGGI and APHI. Collaboration on the ground with WWF in Rath Timber pilot. Partnership agreement with FSC International under preparation.
		No of training sessions and technical support	60 training sessions and 15 technical support sessions delivered	5 training sessions delivered in 2020 on revised FSC standard. Regular support sessions with companies throughout 2019 and 2020
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	USD 20M raised through a mix of grant funding, commercial loans, and direct investment from companies and communities	Limited fund raising in 2020. Unlikely that USD 20 M will be achieved by the end of 2021.

Lessons learned and long-term outlook.

TBI set out to develop business models for the forestry sector that can bring benefits for concession holders, communities, and the environment at large. Notwithstanding delays caused by the COVID 19 pandemic, we are on track to achieving this goal and third-party interest in our work increases. As befits the experimental nature of our project, there have been important lessons learned. The two most important groups of lessons learned are briefly presented below.

- **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. Both concepts have in common that they require major investments and increased management capacities. TBI will support its' partners in addressing access to finance, HR development, relationship with communities, processing, and marketing.

From preparation to implementation - Implementation was slower than expected. One of our three initial partner company groups had to drop out in 2019 for reasons that were unrelated to the project. We obtained effective commitment from the two other companies, but this took much more time than scheduled. High level support was obtained early enough, but this did not automatically lead to approval and/or support from operational and financial management. This again resulted considerable delay in the community level work, since prior commitment from the companies on all details of support services (nature, quantity, quality) and land availability (duration, land preparation etc.) was needed before community engagement could start in earnest. Both pilots are now entering a decisive phase and we are positive about the outcomes by the end of 2021. The pilots were always intended to be the start of a longer engagement on the ground and there remain 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. TBI will therefore also develop an alternative model that is not linked to a JV.
- Obtaining secure access to land is increasingly important. For now, TBI 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)

In parallel to the pilots, we are promoting the Forest Restoration model with donor organizations, green investors, and development finance institutions. Interest is high, but investors and finance institutions are wary of the reputational risk of an association with the logging industry and the low levels of profitability in the sector. We trust that the investment plan for Sarpatim, and to a lesser degree for Ratah Timber, will help us to show how a sustainable investment could take shape. At the same time, we are also investigating the potential of a model that would solely depend on a combination of forest restoration and conservation.

In summary, TBI sees a perspective for sustainable forest management inside concessions that combine logging with forest restoration, conservation, 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.



Annex A. Finance

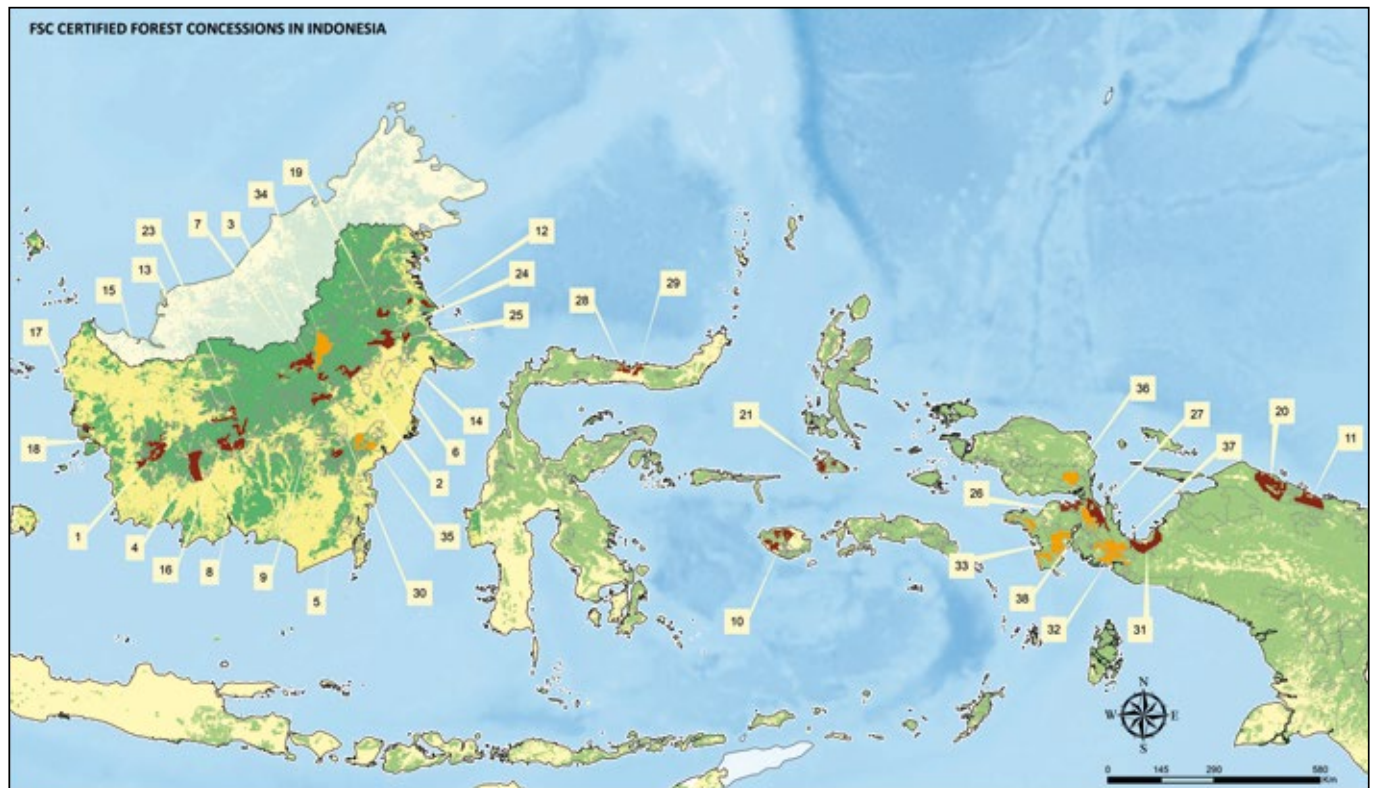
2.1 Balance sheet at 31 December 2019 (after allocation of the result)

All amounts are in €	2020	2019
ASSETS		
NON-CURRENT ASSETS		
1. Tangible fixed assets	1,334	2,256
CURRENT ASSETS		
2. Receivables		
Other accrued receivables	2,802	6,087
	2,802	6,087
3. Cash at bank	424,589	371,156
	428,725	379,499
LIABILITIES		
4. Reserves and funds		
Appropriation funds	266,493	103,435
Other reserve	113,906	198,364
	380,399	301,799
5. Short-term liabilities		
Accounts payable	345	6,213
Tax liability	4,678	4,552
Other liabilities and accrued costs	43,303	66,935
	48,326	77,700
	428,725	379,499

2.2 Statement of income and expenditure	Actual 2020	Budget 2020	Actual 2019
6. Funding	548,400	500,000	500,000
7. Activity costs	317,430	437,100	289,852
Result of activities	230,970	62,900	210,148
Organization costs			
8. Staff costs	65,815	101,900	90,2955
9. Depreciation costs	922	-	538
10. Other costs	81,938	44,350	95,051
	148,675	146,250	185,884
Operational results	82,295	-83,350	24,264
11. Financial income and expenses	-3,695	-	142
Result	78,600	-83,350	24,406
Allocation of the result			
Appropriation fund	163,058		103,435
Other reserve	-84,458		-79,029
	78,600		24,406

The Borneo Initiative Status Map 2020

FSC certified forest concessions in Indonesia



Legend

- FSC certified concessions (2.82 mil. ha)
- FSC in progress concessions (1.21 mil. ha)
- Other logging concessions (36.82 mil. ha)
- Forest cover (91 mil. ha)
- 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>

Map produced by The Borneo Initiative
June 2021

FSC Certified

Id	Company Name	Province	License Area (Ha)
1	PT Suka Jaya Makmur	West Kalimantan	171,340
2	PT Belayan River Timber	East Kalimantan	97,500
3	PT Roda Mas Timber	East Kalimantan	69,330
4	PT Sarmiento Parakanca Timber (Sarpatim)	Central Kalimantan	216,580
5	PT Indexim Utama	Central Kalimantan	52,480
6	PT Narkata Rimba	East Kalimantan	41,540
7	PT Kemakmuran Berkah Timber	East Kalimantan	82,810
8	PT Dwimajaya Utama	Central Kalimantan	127,300
9	PT Ratah Timber	East Kalimantan	97,690
10	PT Gema Hutani Lestari	South Moluccas	148,450
11	PT Wapoga Mutiara Timber Unit II	Papua	169,170
12	PT Rizki Kacida Reana	East Kalimantan	55,150
13	PT Sari Bumi Kusuma Delang	West Kalimantan	60,700
14	PT Gunung Gajah Abadi	East Kalimantan	74,980
15	PT Wanasokan Hasilindo	West Kalimantan	49,000
16	PT Graha Sentosa Permai	Central Kalimantan	44,970
17	PT Kandelina Alam	West Kalimantan	18,130
18	PT Bina Ovivipari Semesta	West Kalimantan	10,100
19	PT Sumalindo Lestari Jaya IV	East Kalimantan	63,550
20	PT Bina Balantak Utama	Papua	298,710
21	PT Telaga Bhakti Persada	North Moluccas	63,405
22	PT Cloudy Bay (PNG)	PNG	148,900
23	PT Carus Indonesia	Central Kalimantan	72,170
24	PT Karya Lestari	East Kalimantan	49,123
25	PT Utama Damai Indah Timber (UDIT)	East Kalimantan	49,250
26	PT Bintuni Utama Murni Wood Industries (BUMWI)	West Papua	82,120
27	PT Wijaya Sentosa	West Papua	130,755
28	PT Gorontalo Citra Lestari	Gorontalo	46,170
29	PT Gema Nusantara Jaya	Gorontalo	27,985
30	PT Sumalindo Unit V	East Kalimantan	61,645
31	PT Jati Dharma Indah Plywood	West Papua	139,470
Total			2,820,473

FSC Certification in progress

32	PT ASCO Prima Nusantara	West Papua	171,270
33	PT Hanurata Papua Barat	West Papua	234,470
34	PT Sumalindo unit II	East Kalimantan	267,600
35	PT Balikpapan Wana Lestari	East Kalimantan	140,845
36	PT Yotefa Sarana Timber	West Papua	123,565
37	PT Kaltim Utama	West Papua	161,670
38	PT Wukirasari	West Papua	116,670
Total			1,216,090

Annex B. Organization

The Borneo Initiative is a 'Stichting' with the purpose of counteracting deforestation and forest degradation in Asia, in particular in Indonesia, but also elsewhere in the world, and to that end promoting sustainable forestry. The foundation attempts to achieve its purpose by functioning as a platform for all parties involved in the field of forestry in the widest sense. Those involved include forest owners, forest managers, timber traders, processing companies and wood consumers, local and national governments, non-governmental organisations and other interest groups in the field of sustainable forestry and sponsors hereof.

RSIN..... 819910351
Legal form..... Stichting (comparable with Foundation)
Statutory name Stichting The Borneo Initiative
Corporate seat..... Amsterdam
Visiting address De Corridor 7, 3621ZA Breukelen
Internet address www.theborneoinitiative.org
Email address info@theborneoinitiative.org
First entry in Business Register..... 23-09-2008
Date of deed of incorporation 01-07-2008
Activities SBI-code: 94996- Other idealistic organizations

The Stichting is governed by a board consisting of the following members:

Robbert Jan Dekker Member
Dammy Evertse Treasurer
Jesse Kuijper Executive Board
Jean-Pierre Sweerts..... Chair
Jan Vet Secretary

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

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Initiative