PN-ACF-079
101495

Task Order No 806
Contract No PCE-I-00-96-00002-00

Report

Conservation Financing: Program Alternative for Nature Conservation in Indonesia

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November 1998

For
United States Agency for International Development/Indonesia

Environmental Policy and Institutional Strengthening Indefinite Quantity Contract (EPIQ)
Partners International Resources Group, Winrock International
and Harvard Institute for International Development

Subcontractors PADCO, Management Systems International, and Development Alternatives Inc

Collaborating Institutions Center for Naval Analysis Corporation, Conservation International, KNB Engineering and Applied Sciences, Inc , Keller Bliesner Engineering, Resource Management International Inc
Tellus Institute Urban Institute and World Resources Institute

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Environmental Policy and Institutional Strengthening IQC
OUT-PC806-96-00002-00

EPIQ

Sponsored by the US Agency for International Development

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The Natural Resources Management/EPIQ Program's Protected Areas Management team works with BAPPENAS and the Directorate-General for Nature Protection and Conservation (PKA) of the Department of Forestry and Estate Crops to strengthen protected areas management in Indonesia Work includes promoting partnerships among the private sector, government agencies, NGOs, and local communities, raising conservation awareness, improving conservation financing, and building institutional and human resources capacity

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Conservation Financing and Program Alternatives for Nature Conservation in Indonesia

1 The Challenge New Approaches to Conservation Finance and Nature Protection in the Era of Reform and Economic Crisis

1 1 Overview of the Paper

This paper explores a few conservation finance strategies currently being explored in order to support multi-stakeholder conservation management in Indonesia It is not a comprehensive study, as much of this work is on-going Instead, it is meant as a discussion paper for GOI counterparts, USAID and others involved in conservation management in Indonesia The following section of the paper summarizes the evolution of conservation management in Indonesia over the past decade This is followed by a look at some of the key impacts of the economic crisis and political reform movement on conservation management in Indonesia This is followed by a discussion of some conservation finance alternatives and management reforms that would need to accompany them

1 2 Current Trends in Nature Protection in Indonesia

For many years, nature protection efforts in Indonesia were oriented around a philosophy of strict preservation that provided for little or no role for local communities or enterprises This was as true for the activities of international donors, Indonesian NGOs as it was for the formal protected areas system managed by PHPA (Department of Forestry and Estate Crop's Forest Directorate General for Protection and Nature Conservation)

In the last decade, however, this old model has gradually evolved into a new management paradigm that focuses on multi-stakeholder management Initially called ICDPs, or Integrated Conservation and Development projects, new conservation management strategies attempted to build local support for conservation initiatives by providing community development projects in the buffer zones adjacent to protected areas ICDPs offered development trade-offs as an incentives to support conservation While ICDPs encouraged a more pro-active relationship between protected area managers and local communities, these communities were still considered a problem to be solved or a constraint to conservation management ICDPs seemed to be more effective than the previous strict preservation model, but failed to address broader threats to protected areas management stemming from beyond local communities Further, the ICDP approach was unable to tap into the human, technical and financial resources necessary for effective conservation management of Indonesia's protected areas system New approaches are based on identifying and mobilizing conservation management resources from a range of institutions They incorporate partnerships and contracting in order to access necessary conservation management resources, as well as bioregional planning in order to integrate protected areas management within the broader context of regional development (particularly through spatial planning) These multi-stakeholder approaches are based on the delegation of rights and responsibilities to wide range of stakeholders, including local communities and the private sector as well as regional, national and even global interests This new paradigm to conservation management is based on a pro-active stance of facilitating opportunities as opposed to overcoming constraints

A number of on-going initiatives demonstrate the value of mulit-stakeholder management Kutai National Park has facilitated a successful partnership with local businesses that contribute important financial and technical resources to several conservation initiatives such as buffer zone development with local communities and conservation education and awareness for local school children Bunaken National Park is forging relationships with dive operators in order to better monitor and manage the park's coral reefs and the threats to them In Lore Lindu National Park, a forum of local NGOs and community groups to address a wide range of community conservation and development initiatives in and around the park These examples of multi-stakeholder management demonstrate the importance of decentralized natural resources management Conservation and sustainable management is best achieved through sharing management rights and responsibilities with local stakeholders Achieving a multi-stakeholder conservation management paradigm goes beyond a change in day-to-day conservation management It also requires significant changes to financing conservation management The importance of innovative financing initiatives to support conservation management is magnified as a result the current economic crisis in Indonesia and around the world Now more than ever we must work creatively with relevant stakeholders to develop diverse funding mechanisms, manage conservation finances in a sustainable manner, and allocate these finances in a timely and flexible manner that supports effective conservation management in Indonesia

1 3 Main Impacts of the Economic Crisis on Conservation Finance and Nature Protection

The current economic crisis has resulted in increased threats on Indonesia's protected areas combined with reduced government budgets necessary to address these threats A survey of National Parks across Indonesia (conducted by AC Nielsen SRI, in collaboration with the World Bank and USAID's NRM program) shows increased incidence of encroachment, land clearing, timber extraction, gathering of non-timber forest products and hunting As threats to the conservation integrity of Indonesia's protected areas system increases, government budgets necessary to overcome these threats have been slashed by as much as 80% in dollar terms

Results of this survey are supported by observations made by NRM staff and consultants over the past two months (Additional information from this report is provided in Appendix I) Major impacts of the economic crisis seen in or reported from USAID/NRM-assisted sites in Kalimantan and Sulawesi include

1 Increased land clearing in order to grow export commodities like cocoa and coffee, as seen in Lore Lindu National Park, Central Sulawesi

2 Increased illegal logging activities to meet local market demands for wood, as seen in Kutai National Park, East Kalimantan, and Lore Lindu National Park, Central Sulawesi

3 Increased fishing to meet demand of export-oriented live fish trade, as seen in Bunaken National Park, North Sulawesi

4 Increased pressure by mining companies to obtain exploration and/or mining rights in mineral-rich parks and protected areas, as reported from Kutai National Park, East Kalimantan

5 Reduced government funding for management to protected areas, which has resulted in reduced enforcement and patrolling, as seen in or reported from all national parks

Encroachment in the above referenced USAID/NRM sites does not seem to be driven by increased incidence of poverty, with the exception of increased incidence of gleaning on the reef flats of Bunaken National Park This is not to say that poverty, too, is not leading to encroachment of parks and protected areas Virtually all of the communities living around the above referenced park can be categorized as poor even before the crisis It can be assumed that parks and protected areas surrounded by higher population densities are experiencing more poverty-driven encroachment These parks and protected areas could be the focus of *padat karya* and other social safety net programs

Further, some encroachment issues result from local demands, from both communities as well as local government officials, to increased rights and responsibilities to local natural resources This is clearly an important indicator of the need to facilitate stronger, more positive coordination and partnerships with local stakeholders in order to achieve effective conservation management This can only be done through delegation of rights and responsibilities to these stakeholders in the short-run, and then by working with these stakeholders to develop adequate institutional capacity and human resources to manage protected areas in the medium- and long-run

Current GOI budget for effective protected areas management, and especially for facilitating multi-stakeholder management, are inadequate as a result of the current crisis Rather than waiting for GOI budgets to increase, there is a unique opportunity to decentralize management authority and financing responsibility from PHPA and to other stakeholders This crisis is an unparalleled opportunity to pursue alternative funding mechanisms, from debt-for-nature swaps to carbon swaps, to fund multi-stakeholder conservation management Additional resources could be generated to establish park and/or regional conservation management trust funds capitalized through mining royalties, and boosting tourism and other industries that rely on conservation or sustainable management of Indonesia's natural resources Recent financial support from corporate members of Friends of Kutai for conservation management activities of Kutai National Park is just one example of this

2. Current Trends in Conservation Finance for Nature Conservation

2 1 GOI Conservation Financing

Financing of protected areas management in Indonesia has occurred primarily through the GOI annual budgeting process, with Park managers submitting detailed annual budget requests for specific routine and operational activities Budget requests are passed on to the regional Kanwil Kehutanan during the third quarter if the fiscal year and eventually on to Bappenas for review and approval Approved working budgets are returned to Park managers at the start of the start of the fiscal year, with funds made available soon after that While this budget planning process works well for routine management activities, it is highly restrictive to field realities that require flexible and adaptive responses to new management constraints Park managers are unable to predict many of the threats to National Parks, and thus may be unable to adequately address them when they arise From natural disasters such as forest fires to human pressures such as large-scale land-clearing, instantaneous threat demand rapid management response The GOI annual planning process, while appropriate for routine expenses, does not provide this necessary flexibility

While PHPA maintains overall responsibility over Indonesia's protected areas system, many other government agencies and institutions are also involved in nature protection and/or biodiversity conservation Particularly at the local level, Pemda Tk I and Pemda Tk II, as well as local universities, are encouraged to actively support conservation and protected areas management These agencies and institutions are able (and sometimes do) support conservation and integrated conservation and development initiatives through their budgets Unfortunately, local government agencies are often more concerned about economic development than nature conservation (a problem that is only increased due to the current economic crisis) Further, coordination remains low This is especially true for local agency coordination with National

Park offices (which are directly linked to PHPA in Jakarta Increased coordination at the local level could lead to increased budget commitments to conservation Again, this is best achieved through the sharing of rights and responsibilities

2 2 Tourism Revenues and User Fees

Tourism contributes significant revenues to some protected areas, and very little to none in many others In both cases, the value of Indonesia's protected areas and natural beauty in general to the tourism industry is poorly understood Recent experience in Bunaken National Park clearly exemplifies this Local government officials challenged that Bunaken National Park did not contribute to the local economy, arguing that there were no revenues generated specifically from or as a result of the establishment of the park On the other hand, an NRMP survey clearly demonstrates that more than 80% of all tourists arriving in North Sulawesi come for Bunaken National Park As a result of tourist interest in the beauty of Bunaken National Park, more than ten dive centers have been established Mojor hotel chains, including the Novotel and Century, have invested in large resorts catering to divers coming to experience Bunaken National Park Other examples of small-, medium- and large-scale tourism development linked to Indonesia's natural beauty can be found across the archipelago, particularly around protected areas Thus, protected areas clearly contribute to regional development, both through generation of revenues and provision of employment opportunities

To date, user fees have not contributed significant revenues to conservation and protected areas management In most parks, the number of visitors and user fee prices are too low to generate significant funding Further, the distribution system of revenues generated from user fees does not provide adequate incentive for aggressive collection None of the fees collected is returned to the National Park office, with the revenues instead being allocated elsewhere There is excellent opportunity to re-assess user fees collection and distribution in order to support multi-stakeholder management Raising fees, especially for international tourists, could lead to the generation of significant revenues Allocating those fees equitably among stakeholders could support essential management initiatives These revenues could be specifically earmarked for adaptive management initiatives, thus offsetting the current constraints of the GOI annual budget planning

2 3 Donor Projects and Conservation Financing

Projects from the international donor community provide important financial resources to some of Indonesia's protected areas, yet, while substantial sums of money have been invested in a number of projects, long-term conservation management remains elusive A major problem with most project financing is that too much money is invested for too short a period of time Conservation management is an adaptive and on-going process, and there is a need for extensive institutional strengthening and human resources development This is long-term and incremental work, and can not be achieved in too short a period of time Project financing for multi-stakeholder management would be far more effective spread-out over a long period of time Rather than funding projects, it may be more useful to fund conservation trust funds that would be managed to meet changing conservation management opportunities and constraints of particular protected areas or regions Incremental financing through conservation trusts could initially support human resources development and institutional strengthening, then buffer zone development, and then conservation management and monitoring Such financing could offset routine expenses covered in the GOI budget, and provide flexibility for more adaptive, multi-stakeholder management

3. Conservation Financing for Multi-Stakeholder Management

The goal of conservation financing for multi-stakeholder management is to capture significant commitments for long-term financing of priority conservation as well as conservation and development initiatives across Indonesia There is no single best mechanism for generating funds, nor is there a best mechanism for managing and distributing these funds The key lies in mobilizing a diversity of conservation financing resources, and managing and distributing them in an equitable manner among productive stakeholders

Conservation financing should continue to come through the GOI annual budget, specifically for routine operational expenses for conservation management User fees for protected areas should be raised, with revenues distributed among conservation management stakeholders in order to address adaptive management initiatives the GOI budget may not capture Donor initiatives may want to explore a new strategy of funding long-term, incremental conservation management initiatives rather than large-scale but short-term projects Additional financing mechanisms, including debt-for-nature swaps and carbon emission offsets through Joint Implementation (JI) Partnerships with local, natural-resource extractive or tourist-based industry should be facilitated in order to provide both necessary funding as well as other relevant technical resources

Management and distribution of funds should clearly support the delegation of rights and responsibilities necessary for effective multi-stakeholder management Local or regional conservation trusts are potential mechanisms for managing and dispersing conservation funds among stakeholders over the long-run Additional alternatives include a range of partnerships, from NGO forums, to stakeholder forums, to public-private partnerships In all cases, required leadership skills include facilitation, conflict resolution and business management above the biological sciences

The sections below explore some innovative conservation financing and management mechanisms

3 1 Conservation Financing

3 1 1 Debt for Nature Swaps

A debt-for-nature swap is a conservation financing instrument that works by cancelling external debt in exchange for the mobilization of domestic resources for conservation or integrated conservation and development management Since Conservation International facilitated the first swap in Bolivia in 1987, more than $1,000,000,000 of debt has been converted to local conservation initiatives in more than thirty countries around the world

A Debt-for-Nature Swap is a potential financing tool for protected areas management because

1 It reduces national debt and contributes to strengthening the economy, while reducing potential over-exploitation of natural resources A heavy debt burden adds significant pressure to non-sustainable rates of resource exploitation Reduced debt leads to reduced pressures, and

2 It converts external debt obligations into productive local investments toward conservation, and ensures necessary funding for protected areas management activities

The debt-for-nature swap concept was developed during the Latin American debt crisis of the 1980s At the time, many Latin American countries had a significant proportion of their sovereign debt due to private sector creditor banks Indonesia's current debt profile is significantly different than this, with most of the sovereign debt (valued at more than $60,000,000,000) due to sovereign creditors Private corporate debt (valued at more than $70,000,000,000) is owed to private creditors, including both domestic and international banks and other financial institutions

The NRM program is currently conducting a feasibility study for the debt-for-nature swaps in Indonesia This feasibility study is looking at both sovereign and private debt conversion opportunities, assessing political risk and transaction costs, and getting a sense among creditors, debtors and investors of the level of interest in debt-for-nature swaps as a conservation financing instrument Early indications show strong support for this work, both through sovereign and private debt buy-back or swap mechanisms

Funds derived from debt-for-nature swaps can be used to fund a variety of initiatives, from routine protected areas management to the establishment of conservation management training programs Funds derived from swaps could also be used to endow local or regional conservation trust funds There is also strong interest in exploring the use of debt swaps and buy-backs for funding both development and social-safety net initiatives

Additional information on Debt-for-Nature swaps, including diagrams of three party swaps and bilateral buy-backs, is provided in Appendix II

3 1 2 Carbon Offsets and Joint Implementation

Carbon offsets through Joint Implementation is a conservation financing instrument developed during the 1992 Rio Earth Summit and strengthened during last year's Kyoto Conference in Japan The basic idea of carbon offsets and joint implementation is for a company emitting CO2 to trade the responsibility to reduce emissions by paying for the maintenance of an offsetting carbon sink Thus, a public utility company operating in the United States or Europe may choose to support a conservation or forest rehabilitation initiative in Indonesia as a swap for the continued right to emit CO2 Carbon offsets and Joint Implementation does not contribute to global conservation, but offsets the impact of CO2 emissions

Establishing carbon offsets and joint implementation in Indonesia could be done with companies operating within Indonesia or anywhere else in the world Incentives for companies to join such a partnership are currently not very strong, as few countries strictly enforce and monitor CO2 emissions The few examples of carbon offsets and joint implementation are usually initiated by companies trying to convey high environmental and social standards of corporate responsibility

Funds derived from carbon offsets and joint implementation could fund a range of forest conservation and/or forest rehabilitation management activities in Indonesia NRM will explore new opportunities from this mechanism over the next year

3 1 3 Private Sector Partnerships

Private sector partnerships provide excellent opportunities to generate financial and technical resources necessary for conservation management, as well as to broaden overall understanding of and commitment to conservation among Indonesia's diverse stakeholders in conservation management Natural resource extracting industries operating adjacent to and tourism-based industries reliant on local protected areas are the most logical targets for private sector partnerships Natural resource extracting companies are encouraged to join such partnerships in order to 'give something back' as well as to build their images of good corporate citizens Tourism-based industries often rely on local protected areas for their business Joining conservation management partnerships enable tourism-based companies the opportunity to buy-into local conservation management and to become an active stakeholder

Private sector partnerships can contribute significantly to protected areas management in Indonesia, but it is important to facilitate such partnerships in a manner that balances conservation management objectives with corporate objectives The Friends of Kutai Model supports this Eight corporate members of Friends of Kutai have been reluctant to contribute to National Park management, and the Kutai National Park manager had been frustrated with the progress of this partnership Through facilitating a more open dialogue and exploring the possibility of the formation of a formal Friends of Kutai *yayasan*, NRM was able to convince all parties of the mutual benefits derived from this partnership As a result, Friends of Kutai partners contributed Rp 1,500,000,000 to a range of multi-stakeholder conservation management activities for Kutai National Park This is a significant contribution, as it clearly exceeds the GOI annual budget for the park and it also provides park management greater flexibility in addressing management constraints A similar partnership is being established with tourism-based companies operating in and around Bunaken Again, incentive to participate in partnerships rests in the sharing of rights responsibilities among stakeholders

3 2 Managing Conservation Finances

3 2 1 Local and Regional Conservation Trust Funds

Local and regional conservation trust funds can support multi-stakeholder conservation management in a number of ways Trust funds can support long-term, incremental funding opportunities Through endowment funds, revolving funds or sinking funds, significant amounts of money necessary for effective conservation management are made available for a long period of time This is important as it enables stakeholders to develop long-term conservation management visions, and to then take the necessary steps, without being rushed by project or donor constraints, to achieve that vision This may mean substantial change in activities over time, from human resource development and training at the start of initiative, to buffer zone development in order to generate necessary local support, and then to biodiversity management and monitoring in order to measure the level of success

Local and regional conservation trust funds also support multi-stakeholder conservation management through the management of funding decisions through the funds' board of directors Formation of such boards can include representatives from a range of government and non-government (civil society) institutions, and thus ensure transparency and equity among stakeholders The formation of these boards can also achieve high levels of technical expertise necessary for guiding long-term conservation initiatives with adequate scientific and socio-economic knowledge

Additional information on conservation trust funds is provided in Appendices III and IV

Conclusions and Recommendations

Multi-stakeholder management offers an efficient and equitable approach to strengthened conservation management of Indonesia's protected areas system Such a management paradigm has been evolving in Indonesia over the past decade, and the sense of urgency for facilitating multi-stakeholder conservation management has grown as a result of the current economic crisis

Important steps for achieving multi-stakeholder conservation management includes

1 The delegation and sharing of rights and responsibilities among all stakeholders Each stakeholder's involvement should be perceived as an opportunity rather than a constraint This may include revision of relevant legislation and policy It also includes developing appropriate mechanisms to encourage coordination among government agencies

2 Provide adequate guidance and incentives for the development of partnerships Well-facilitated partnerships can provide important financial and technical resources necessary for effective conservation management Adequate incentives need to be provided in order to encourage involvement

3 Alter GOI financing for protected areas management by using the annual GOI budget cycle to fund routine operational expenses, and using adequately raised user fees, to be managed by National Park offices as well as local stakeholders, for more adaptive management initiatives

4 Work with the donor community to change their funding paradigm Expensive, short-term projects do not work It may be better to fund long-term, incremental initiatives managed by local stakeholders

5 Explore alternative conservation financing mechanisms, including but not limited to debt-for-nature swaps and carbon offset Joint Implementation

6 Explore alternative models for managing long-term, multi-stakeholder conservation finance initiatives, including but not limited to regional and local conservation trust funds

Appendix I: Indonesia's Economic Crisis and its Impacts on Protected Areas Management

1 Introduction

The current economic crisis sweeping across Indonesia and the rest of Southeast Asia has resulted in a number of negative impacts on the conservation management of Indonesia's protected areas system This paper presents a qualitative look at these problems based on recent experiences in USAID/NRM-assisted sites in Kalimantan and Sulawesi The main conclusion is that the economic crisis has led to increased encroachment into protected areas with reduced financial resources necessary to adequately address these threats

Major impacts of the economic crisis seen in or reported from USAID/NRM-assisted sites in Kalimantan and Sulawesi include

1 Increased land clearing in order to grow export commodities like cocoa and coffee, as seen in Lore Lindu National Park, Central Sulawesi

2 Increased illegal logging activities to meet local market demands for wood, as seen in Kutai National Park, East Kalimantan, and Lore Lindu National Park, Central Sulawesi

3 Increased fishing to meet demand of export-oriented live fish trade, as seen in Bunaken National Park, North Sulawesi

4 Increased pressure by mining companies to obtain exploration and/or mining rights in mineral-rich parks and protected areas, as reported from Kutai National Park, East Kalimantan

5 Reduced government funding for management to protected areas, which has resulted in reduced enforcement and patrolling, as seen in or reported from all national parks

Discussion

Indonesia's current economic crisis has resulted in increased encroachment into a number of National Parks in Kalimantan and Sulawesi This encroachment occurs by local communities living in and around the parks, voluntary transmigrants in search of cheap land and/or natural resources, as well as companies seeking to expand mining operations A discussion of four examples of encroachment into protected areas is presented below

1 Increased land clearing in order to grow export commodities like cocoa and coffee, as seen in Lore Lindu National Park, Central Sulawesi

Large tracts of forest in Lore Lindu National Park are being cleared to grow export crops such as cocoa and coffee This includes forest area adjacent to villages located in the Park's buffer-zone being cleared by local communities, as well as forest area located in more remote parts of the Park being cleared by voluntary transmigrants reportedly from South Sulawesi While the clearing of forest for planting export commodity crops is not new to Lore Lindu National Park, the intensity of land clearing over the past year has magnified tremendously The reason for this, according to local farmers is not increased incidence of poverty but rather economic incentive The devaluation in the Rupiah during the economic crisis, compounded with high global market prices for many commodities due to last year's El Nino weather phenomenon has made the price of these commodities very attractive in Rupiah terms Small farmers see or hear about other farmers becoming rich from their export commodities, and search for cheap, fertile land in order to plant their share of the wealth While these farmers know they can not make legal claim to National Park land, lack of enforcement and patrolling by rangers, which has intensified during the economic crisis due to reduced government budgets, does not deter them

2 Increased illegal logging activities to meet local market demands for wood, as seen in Kutai National Park, East Kalimantan, and Lore Lindu National Park, Central Sulawesi

Illegal logging in Kutai and Lore Lindu National Parks has increased significantly during the current economic crisis Contacts report that domestic wood supply for local construction has shrunk dramatically and, as a result, the price has gone up As in the above case of clearing land for farming cash crops, encroachment for illegal logging results from growing economic opportunity and reduced fear of enforcement or prosecution In Lore Lindu National Park, an NRM film crew was chased out of the Park while trying to film illegal logging According to the loggers, at least some of the Park's rangers were involved in this in order to compensate their salaries

In one case in Lore Lindu National Park, reportedly condoned illegal logging by a Village Head may also be linked to an expression of local rights over forest resources According to second-hand reports, the Village Head of one buffer zone village formally announced that each household in his village could clear up to 5 hectares of National Park land for their benefit

3 Increased fishing to meet demand of export-oriented live fish trade, as seen in Bunaken National Park, North Sulawesi

The devaluation of the Rupiah has also made the export-driven live fish trade more attractive to fishermen, and this is leading to increased fishing pressures in and around Bunaken National Park Early in the economic crisis (December 1997 through March 1998) there were live fish holding cages located within the National Park, just off Manado Tua island Initially approved by the local Dinas Perikanan, National Park staff requested them to move out of the Park While the holding cages may no longer be located within the Park, there are continued reports of illegal fishing In September 1998, two dive operators reported that each night two to three fishing vessels using nets fished off some of the most pristine coral reefs fringing Bunaken Island These dive operators also report that, during the economic crisis, there has been a dramatic reduction in large fish sitings during dives The live fish trade for export markets has increased due to higher prices in Rupiah terms Foreign fishing vessels operating illegally in Indonesian waters with highly subsidized Indonesian fuel exacerbate this Low operating costs and high profit margins make illegal fishing a real threat for Bunaken and other marine protected areas in Indonesia

Seaweed cultivation for export continues on the reef flats off of Nain island as well as the reef flats off the coast of the southern portion of Bunaken National Park While providing necessary economic opportunity to the Park's buffer zone communities, seaweed cultivation continues to have a negative impact on the Park's mangrove forests as mangrove wood is used for cultivation stakes and drying floors necessary for seaweed cultivation The price of seaweed has risen sharply in Rupiah terms as a result of its devaluation during the economic crisis While this resulted in an initial influx of seaweed farmers and an increase in production, a disease or virus that has substantially reduced overall production has offset this

Gleaning of reef flats adjacent to villages has reportedly increased during the economic crisis A number of non-fishing households can no longer afford to buy fish due to local inflation, and thus rely on gleaning to meet their protein needs This is the only example of increased pressure on a protected area's resources resulting from poverty that we have encountered in our work in Sulawesi and Kalimantan

4 *Increased pressure by mining companies to obtain exploration and/or mining rights in mineral-rich parks and protected areas, as reported from Kutai National Park, East Kalimantan*

Mining exploration and exploitation rights in mineral-rich parks and protected areas has been a contentious issue in Indonesia for many years, and has been exacerbated during the current economic crisis Even though global market prices for their commodities are relatively low, the mining industry has proven to be the most resilient industry in Indonesia during the current economic crisis As a result, the mining industry is responsible for raising a growing share of much-needed foreign exchange for Indoneisa As Indonesia struggles to overcome this economic crisis, it is likely that there will be growing reliance on mining and other resource exploitation-based industries to lead the way to recovery In an effort to increase capacity, there will be growing pressure to convert mineral-rich deposits in Indonesia's parks and protected into economically productive COWs Unlike the above mentioned encroachment issues which can be managed through local responses, the issue of mining in parks and protected areas is a broader economic issue that must be carefully deliberated at both the national and local levels

It should also be noted that mining companies (as well as other major natural resource extracting-based companies) operating around Kutai National Park, through the Friends of Kutai forum, have provided important financial assistance to park management Commitments from Friends of Kutai corporate members this year total about Rp 1,500,000,000 to support conservation management activities including forest rehabilitation (necessary after last year's devastating forest fires), buffer zone development, as well as conservation education and awareness This contribution is especially welcome due to the reduced GOI budget for the National Park resulting from the economic crisis

5 *Reduced government funding for management to protected areas, which has resulted in reduced enforcement and patrolling, as seen in or reported from all national parks*

As encroachment into Indonesia's parks and protected areas is increasing due to the economic crisis, PHPA's financial resources for managing these problems are decreasing The reduced GOI budget means inadequate funding for pro-active management of parks and protected areas Average budget requests for Rp 800,000,000 per park were reduced to Rp 300,000,000, then chopped an additional 35% During the same time, inflation has soared to nearly 80% Park managers have barely enough money to meet only their most basic operating costs Routine activities, from enforcement and patrolling to community awareness activities have been cut all together or at least slashed significantly There is no way to meet the growing threats of encroachment, and this is leading to reduced performance among park staff Inadequate salaries and compensation packages may be leading some staff to engage in secondary business/employment opportunities Park and protected areas management is weakening at a time when it needs to be strong

Conclusion.

The impact of Indonesia's current economic crisis on USAID/NRM-assisted National Parks in Sulawesi and Kalimantan shows growing incidences of encroachment combined with reduced capacity to manage this Encroachment tends to be motivated by an opportunity from the rural poor to capture windfall incomes from export commodities as well as to meet local demand for export commodities The value of these products in Rupiah terms has jumped dramatically primarily as a result of the currency's devaluation In at least one case, encroachment may be linked to the current '*reformasi*' or 'forest to the people' debate A Village Head condoning forest clearing within a National Park exemplifies this

Encroachment in the above referenced sites does not seem to be driven by increased incidence of poverty, with the exception of increased incidence of gleaning on the reef flats of Bunaken National Park This is not to say that poverty, too, is not leading to encroachment of parks and protected areas Virtually all of the communities living around the above referenced park can be categorized as poor even before the crisis It can be assumed that parks and protected areas surrounded by higher population densities are experiencing more poverty-driven encroachment These parks and protected areas should be the focus of *padat karya* and other social safety net programs

Current GOI budget for effective protected areas management are inadequate as a result of the current crisis Rather than waiting for GOI budgets to increase, we should take this as an opportunity to decentralize management authority and financing responsibility from the government and to other stakeholders This crisis should be seen as a unique opportunity to pursue debt-for-nature swaps to fund conservation management, establish park and/or regional conservation management trust funds capitalized through mining royalties, and boosting tourism and other industries that rely on conservation or sustainable management of Indonesia's natural resources Above cited financial support from corporate members of Friends of Kutai for conservation management activities of Kutai National Park is just one example of this

Appendix II: Debt for Nature Swaps in Indonesia:

A Debt-for-Nature Swap is defined as the cancellation of external debt in exchange for the mobilization of domestic resources for conservation

Since the first Debt-for-Nature Swap in 1987, more than $1,000,000,000 of debt has been converted to local conservation initiatives in a diversity of countries around the world including Bhutan, Bolivia, Bulgaria, Colombia, Costa Rica, Ecuador, Madagascar, Mexico, Nepal, Philippines, Poland and Zambia

A Debt-for-Nature Swap is a potential financing tool for protected areas management because

1 It reduces national debt and contributes to strengthening the economy, while reducing potential over-exploitation of natural resources A heavy debt burden adds significant pressure to non-sustainable rates of resource exploitation Reduced debt leads to reduced pressures, and

2 It converts external debt obligations into productive local investments toward conservation, and ensures necessary funding for protected areas management activities

A **Debt-for-Nature Swap** is one of many kinds of financing instruments commonly practiced debt conversions, including

Debt for Cash
Debt for Financial Instruments
Debt for Counterpart
Debt for Equity
Debt for Assets
Debt for Offsets and
Debt for Policy Reform

*A **Debt-for-Nature Swap** does not trade debt for sovereignty over a nation's natural resources Rather, a Debt-for-Nature Swap trades debt for investment in the conservation management of a nation's natural resources*

Fundamentals of a Debt-for-Nature Swap

Three-step Financing Transaction

1 The purchase of debt by an international NGO or a commercial investor of a debt (at a discount rate from face value) owed by the government to an external creditor
or
The cancellation of debt owed by the government to another government (as per the Tropical Forest Conservation Act)

2 The exchange of that debt by the debtor government for a payment of local currency, financial instruments paid in local currency (like bonds) or assets at a premium over the purchase price (though usually also at a discount from face value, and

3 The use of those proceeds or assets to finance conservation/protected areas management activities in the debtor countries

The process for completing a Debt-for-Nature Swap includes

1 Preparation and submission of a debt conversion application by the investor to the central bank or ministry of finance of the debtor country,

2 Authorization of the transaction by the debtor government,

3 Purchase of debt to be converted by the investor, and

4 Tender of the debt being converted by the investor and disbursement of the proceeds to the beneficiary of the swap

Benefits of Debt for Nature Swaps

Debtor Government
1 Reduction of hard currency debt at a discount in local currency, and
2 Encouragement of priority investments

Creditor
1 Immediate partial payment of debt in hard currency

Investor
1 Leverage of investment through debt conversion premium

GOI Considerations for Debt-for-Nature Swaps

1 Establishment of a formal debt conversion/Debt-for-Nature Swap program versus ad hoc transactions (INDRA as a possible lead organization)

2 Application and approval process Organizations, projects and types of claims eligible for debt conversion,

3 Terms of conversion Financial terms as well as macroeconomic considerations,

4 Implementation of conversions Financing and budgeting of debt conversions, as well as control/reporting mechanisms, and

5 Use of funds generated from Debt-for-Nature Swaps Balancing Indonesian policy initiatives with Creditor and/or Investor objectives

Case Studies Debt-for-Nature Swaps at Work in Colombia and the Philippines

(adapted from Spergel, Barry Profiles of Three Environmental Funds WWF/US April 1995)

Parameters\Fund	Colombia: Ecofondo	Philippines: Foundation for the Philippine Environment
Fund Endowment	US $18,000,000	US$ 22,000,000
Purpose of Fund	Conservation and sustainable development of key areas (watersheds, urban areas), environmental education, research, and NGO capacity building	Community-based natural resources management, research, policy development and NGO capacity building
Source of Funding	Endowment funded by debt-for-nature swaps by USAID and CIDA, as well as by grants from local and international NGOs and the Colombian government/	Endowment funded by debt-for-nature swaps by USAID (99%) and Bank of Tokyo (1%)
Fund Allocation	34 grants totaling US$ 1,950,000 in 1994	157 grants totaling US$ 3,500,000 between 1992 and 1994
Principal Source of Technical Assistance in Fund Design	Colombian government, local NGOs, TNC, and WWF-US	WWF-US, USAID, Philippine government, 'Philippine Business for Social Progress,' Philippine NGOs and academic institutions

Parameters\Fund	Colombia Ecofondo	Philippines Foundation for the Philippine Environment
National Representatives on the Fund's Board of Directors	5 voting members from Colombian NGOs and 2 from Colombian government	6 voting members from Philippine regional NGOs, 4 voting members from business, academia and civil society, and one *ex-oficio* non-voting member from the Philippine government
International Representatives on the Fund's Board of Directors	None, but USAID and CIDA have established separate accounts within Ecofondo over which they retain some authority	1 voting board member (on an 11 member board) from an international NGO chosen during regular elections, for 1992-94, WWF-US was elected as the international board member
Institutional Mechanisms to Increase Grass-Roots Participation in Fund Governance	A 'General Assembly' of 297 NGOs and 27 government agencies meet annually to approve the annual budget and set broad policy, there are also 11 Regional Councils being established	3 Regional Advisory Committees comprised of NGOs and local community organizations nominate candidates to the board, and comment on project proposals, programs and policies
Legal Structure	Private non-profit corporation established under Colombian law	Private non-profit organization established under Philippine law
Investment Policy	The Fund's capital is invested locally by private Colombian investment firms	The Fund's capital is invested in local currency special series Philippine government bonds paying an adjustable rate approximately 4% above inflation
Auditing Requirements	Annual audit of the Fund by a well-known international accounting firm	Annual audit of the fund as a whole, as well as of each funded project by Philippine and US government-accredited accounting firms
Principal Fund Beneficiaries	Environmental NGOs working independently or in collaboration with the Colombian government	Grassroots NGOs and peoples' organizations, national NGO networks, and academic institutions

New Opportunities Tropical Forest Conservation Act

On 28 July 1998, President Bill Clinton signed the Tropical Forest Conservation Act This legislation sets aside $325 million over the next three years for the promotion of Debt-for-Nature swaps through the reduction of sovereign debt to countries that have endangered tropical forests

Eligibility criteria includes a range of political factors such as a democratically elected government and strong human rights track record

Debt reduction is based on sovereign debt to the US government (USAID and PL-480)

Local currency funds obligated to tropical forest conservation resulting from debt reduction will be controlled by Board of Directors in the host country This Board of Directors must be comprised of a majority of local private citizens representing local environmental, academic and community groups, plus a minority of government members and at least one US government member

Options for pursuing Tropical Forest Conservation Act debt reduction for Indonesia's conservation of tropical forests are currently being studied as part of the Debt-for-Nature swap feasibility study presented below

Next Steps NRM's Debt for Nature Swap Feasibility Study

While Debt-for-Nature swaps may offer important opportunities for reduced debt and increased financing for conservation management in Indonesia, there is a lot of information gathering and analysis necessary prior to a first swap In light of this, NRM has just initiated a Debt-for-Nature Swap Feasibility Study The highly experienced Study Team will work with relevant stakeholders to explore possible opportunities and constraints, and to commence a long-term process of building consensus among relevant stakeholders

A summary of the Terms of Reference for this work is presented below

The consultants will work with NRM consultants, USAID staff, government officials and other relevant stakeholders to conduct a feasibility study for debt-for-nature conversion for financing conservation including protected areas management in Indonesia The feasibility study will be the first of three stages in implementing a debt conversion If the feasibility study indicates that debt-for-nature conversions are a viable financial mechanism for conservation financing in Indonesia, the next step will be to conduct workshops to educate local stakeholders and create a support base for the concept of debt-for-nature conversion The final step will encompass the implementation of the strategy devised in the feasibility study with the execution of one or several transactions

This study will evaluate the conditions for debt-for-nature conversions in Indonesia There are three prerequisites for a debt conversion the existence and availability of debt, the availability of funds to purchase the debt and/or the desire of the creditors to part with the debt, and the political will in-country to open a debt conversion window

The Indonesian component of the study must include an analysis of Indonesia's debt market, an estimate of the transaction costs for executing conversions, and an estimate of the human resources and/or technical skills necessary for executing conversions The study should provide a brief assessment to determine whether the financial climate in the region is sufficiently stable to make debt conversions worthwhile The study must also address the political risks of attempting to open a debt conversion window, and as a corollary, identify the individuals or institutions within the Indonesian government who would be willing to promote the idea of implementing conversions Finally, we should also investigate the possibility of debt conversions conducted exclusively with the private sector

A Washington based analysis will identify sources of bilateral, multilateral debt and commercial debt, and evaluate the advantages and disadvantages of working with the respective creditors The Washington team will also work closely with brokers to monitor debt prices and begin the process of identifying potential donors (either of debt or of funds to purchase debt)

A preliminary report will be submitted to and reviewed by a " Review Team" at the end of the study Comments and input will be taken into account and included into the final report prior to its submission by the end of November

Prepared by Reed Merrill, Protected Areas Management Advisor and Efian Effendi, Protected Areas Finance Specialist

Appendix III: Twelve Steps for Establishing a Conservation Fund

(Adapted from Spergel, Barry, WWF-US, 1995)

Establishment of a conservation fund requires twelve specific steps A brief outline of each of these steps is presented below

Step 1 ***Introduce the concept of an environmental fund to key stakeholders, including government officials and representatives***

1 Describe what has been done with conservation funds in other countries
2 Discuss possible uses of a conservation fund for supporting specific conservation management objectives (for example, National Parks management) in Indonesia
3 Preliminary analysis of opportunities and constraints to establishing conservation funds in Indonesia
4 Assess level of interest and support, and ensure this is adequate to proceed

Step 2 ***Identify principal objectives of the conservation fund Examples include***

1 Support to a particular National Park or protected area
2 Support a group of National Parks and/or protected areas in a particular region (such as Irian Jaya or Eastern Indonesia)
3 Support the entire National Park or protected areas system of Indonesia
4 Support specific en situ or ex situ conservation management functions
5 Strengthen the capacity of government agencies and/or NGOs involved in conservation

Step 3 ***Form an interim organizing committee composed of principal stakeholders such as***

1 Relevant government agencies (PHPA, LH, Finance, Tourism, Bappenas, office of President, provincial and local officials)
2 Indonesian university and research institutions (LIPI)
3 Local, national and international NGOs involved in protected areas management
4 Potential donors
5 Representatives from local community groups from area concerned

Important identify an individual or organization to take lead responsibility for convening meetings and coordinating the organizing process

Step 4 *Hold meetings to discuss and then answer the following questions*

1 What type of activities and projects will the fund support?
2 Which government agencies and NGOs should be represented on the fund's governing board?
3 Should there be special advisory boards or councils to provide technical support?
4 Should there be regional boards or councils to ensure broad-based consultation and participation?
5 What mechanisms can be established to ensure more direct involvement by local communities living in and around protected areas?
6 What should the relationship of the fund be to government agencies, particularly PHPA?
7 How will the fund be related to the Biodiversity Conservation Action Plan for Indonesia?
8 How will the fund be related to existing protected areas management programs?
9 What kind of in-country financing mechanisms are available (e g user charges, entrance fees, special ear-marked taxes, fines, one-time or annual appropriations from the state budget, etc)
10 Should the fund be established as an endowment in perpetutiy (using only interest and dividends, and leaving the principal intact), as a sinking fund (using interest and dividends as well as principal for a specified period of time), or as a revolving fund?

Step 5 *Contact donor agencies to*

1 Explain the proposal to establish a conservation fund
2 Discuss donor experiences with other funds
3 Invite donors' participation in the process of designing and organizing the fund
4 Identify any constraints or conditions that donors might have regarding their involvement (and potential financial support), and how to address them
5 Determine levels of interest among donors to support the fund
6 Explore possible mechanisms for donor financial support such as
   - Debt-for-nature swaps using sovereign and/or commercial debt
   - Debt conversions using government debt
   - Direct donor grants to the fund
   - Donor co-financing of particular projects and activities in the fund
   - Technical assistance and in-kind donations

Step 6 *Discuss institutional structure of the fund with Indonesian legal experts and organizing committee to determine set-up of the fund as*

1 Private trust
2 Private non-profit foundation
3 Parastatal organization
4 Part of an existing government agency
5 NGO
6 Part of an existing NGO

7 Institution created by special legislative act or executive decree
8 Autonomous fund existing within an existing international institution such as UNDP
9 Private foundation legally established in another country

Step 7 ***Discuss with financial management with financial experts in order to determine to keep the fund's assets in local or foreign currency, and whether to manage the funds inside or outside the country, or as some combination based on***

1 Inflation and currency risk
2 Comparative risks and returns of different types of investments (such as interest bearing bank accounts, government bonds, stocks, mutual funds), both in Indonesia and overseas
3 Political implications of investing the assets outside of Indonesia
4 Potential risk of the government appropriating the fund's assets for other purposes if the assets are kept in the country, and whether there is any risk of the country's foreign creditors seizing the fund's assets if these assets are located overseas

Step 8 ***Review, discuss and modify the results of Steps 1 through 7 through a series of meetings involving as many as possible of the following groups, either separately or together***

1 Interim organizing committee
2 Officials and staff from relevant government agencies and departments
3 Education and research institutions involved in studying conservation biology, resource economics, sociology, anthropology, etc
4 Broad group of NGO representatives
5 Representatives of donor groups planning to provide significant financial support
6 Local government officials, local community leaders and local NGOs (possibly through a series of regional or provincial meetings)
7 Relevant private sector groups, including those with operations adjacent to National Parks or protected areas (such as mining and forestry) or with a reliance on National Parks or protected areas for the success of their business (such as tour operators, hotels and others from the tourism industry)

Step 9 ***Finalize and register all necessary legal documents, including***

1 Charter, Deed of Trust or Articles of Incorporation
2 By-laws
3 Any parliamentary legislation or administration rulings required to establish the fund or to grant it tax exempt status

Step 10 ***Select the first members of the fund's governing board, and convene meetings of the board to discuss and decide on***

1 Election of officers
2 Establishment of special committees such as investment committees, or scientific or technical advisory committees)
3 Investment strategy
4 Selection of investment manager
5 Hiring of executive director and support staff
6 Procurement of office space and equipment
7 First year (and longer term) workplans with specific goals, monitoring and evaluation strategy, and timetables
8 Communication strategy for disseminating information about the fund, including its purposes, procedures, policies, governing structure, and fund allocation procedures
9 Setting-up accounting and auditing system, including hiring of outside auditing firm

Step 11 ***Design and implement a fundraising strategy, including***

1 Take necessary steps to obtain funds from donors who have already expressed strong interest
2 Initiate discussions with in-country offices of other donor agencies
3 Fundraising trips overseas to visit the head offices of donor agencies
4 Raise money from private foundations, corporations and individuals, both in Indonesia and overseas
5 Seek donations of goods and services, including technical assistance

Step 12 ***Establish a funds allocation program, including***

1 Criteria of organizations eligible to apply for funding
2 Selection criteria of activities and projects eligible for funding
3 Process and procedures to be used for review and selection of proposals
4 Reporting requirements, including criteria for monitoring and evaluation
5 Role and responsibilities of the fund's management and staff during project implementation by fund recipients

Appendix IV:
Advantages and Disadvantages of Various Fund-Governing Structures:

Funds Associated with Government Agency	Funds with Governing Board Composed Entirely of NGOs	Funds with Mixed Government and NGO Governing Board
Advantages 1 Can be a tool for implementing national conservation strategies and effecting policy change 2 Can provide a way to organize and coordinate official development assistance for the conservation sector 3 Can provide support for under-funded government responsibilities such as National Park operating and project costs 4 Can be a recipient for ear-marked taxes, fines and permit fees	**Advantages** 1 Likely to be responsive to local needs and based on popular participation 2 Promotes values of democratization, decentralization and local participation 3 Able to integrate grass-roots economic and social development with conservation management programs 4 Well suited for institutional strengthening of local NGOs, and providing support to local grass-roots projects *5 Can serve as a vehicle for private donations (individual, corporate and foundation)* 6 Responsive to current donor trends of decentralization, democratization and participation	**Advantages** 1 Can serve to institutionalize partnerships between the public and private sectors, replacing previous patterns of confrontation 2 Can combine most of the advantages of the other two types of governing structures while avoiding many of their limitations 3 Likely to result in projects that are sustainable in the long-run, by combining local initiative with government support 4 Utilizes NGO strengths in adaptive management and flexibility with government's strength in overall institutional depth 5 Responsive to current donor trends of decentralization, democratization and participation

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Funds Associated with Government Agency	Funds with Governing Board Composed Entirely of NGOs	Funds with Mixed Government and NGO Governing Board
Disadvantages 1 Personnel, programs and policies can be subject to sudden political changes 2 Can be top-down in approach, and insufficiently responsive to local needs 3 NGO and local community suspicion of and reluctance to work with the government 4 Can be bureaucratic and restricted by civil service rules and government pay scales 5 Donors may be reluctant or unable to fund strictly government-managed activities	**Disadvantages** 1 Difficult to reach consensus on programs, policies and implementation with diverse group of NGOs 2 Difficult to influence national conservation management policy without being more closely and formally associated with the government 3 Generally unable or unwilling to fund government responsibilities including National Park operating and project costs, which may be essential to biodiversity conservation 4 Generally unable to serve as recipient for government-levied taxes, fines and permit fees	**Disadvantages** *1 **Local communities may be confused about whether or not to regard the fund as an official government organization*** 2 Likely to suffer from lack of focus especially if purposes and project criteria are not clearly specified at the outset 3 If the NGO side always has a clear majority, the government may not take the fund as seriously or commit as many resources as it would to a government fund, if the government side always has a clear majority, the NGOs may be taken for granted and they may simply focus on getting short-term funding for their own projects

(Adapted from Spergel, Barry, WWF-US, 1995)