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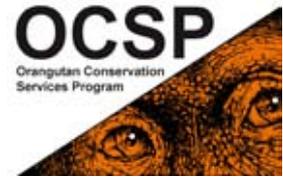
Orangutan Conservation
Services Program



ORANGUTAN CONSERVATION SERVICES PROGRAM
Financing Orangutan Habitat
Conservation
in Indonesia



Corporate Social Responsibility &
Environmental Market Mechanisms



Cover photograph: Wehea Protected Forest in East Kalimantan. Formerly a timber concession, it is thought to contain a population of some 700 orangutans.



Financing Orangutan Habitat Conservation in Indonesia

Corporate Social Responsibility and Environmental Market Mechanisms

August 2010

ACKNOWLEDGMENTS

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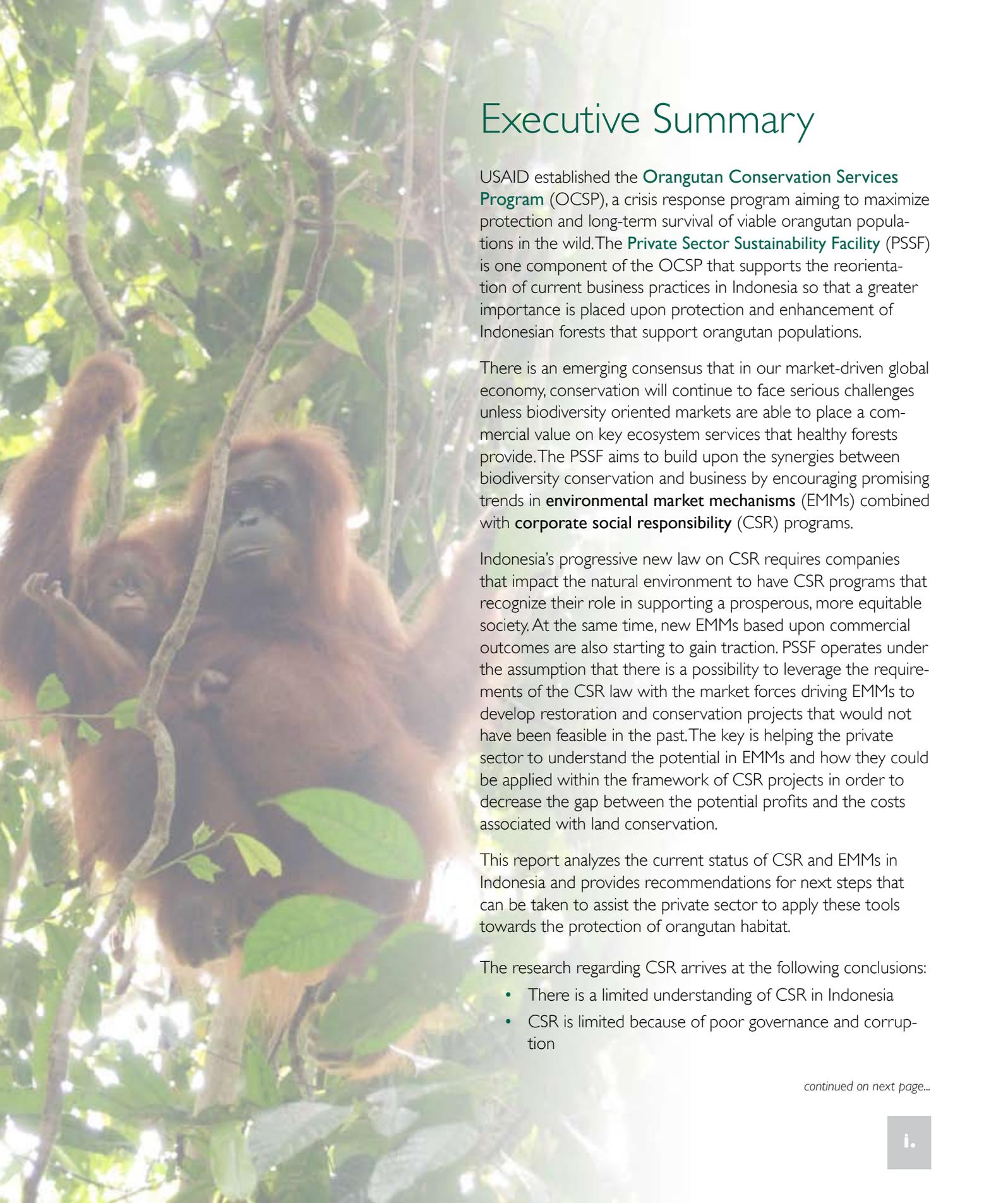
Design & photos by: **Donald Bason.**

**USAID Contract:
497-C-00-07-00016-00**

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI - the implementing contractor for the Orangutan Conservation Services Program.

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A photograph of an orangutan family in a lush green forest. An adult male orangutan is in the foreground, looking towards the camera. Behind him, a female and a young cub are visible, all perched on tree branches. The background is filled with dense foliage and sunlight filtering through the leaves.

Executive Summary

USAID established the **Orangutan Conservation Services Program** (OCSF), a crisis response program aiming to maximize protection and long-term survival of viable orangutan populations in the wild. The **Private Sector Sustainability Facility** (PSSF) is one component of the OCSF that supports the reorientation of current business practices in Indonesia so that a greater importance is placed upon protection and enhancement of Indonesian forests that support orangutan populations.

There is an emerging consensus that in our market-driven global economy, conservation will continue to face serious challenges unless biodiversity oriented markets are able to place a commercial value on key ecosystem services that healthy forests provide. The PSSF aims to build upon the synergies between biodiversity conservation and business by encouraging promising trends in **environmental market mechanisms** (EMMs) combined with **corporate social responsibility** (CSR) programs.

Indonesia's progressive new law on CSR requires companies that impact the natural environment to have CSR programs that recognize their role in supporting a prosperous, more equitable society. At the same time, new EMMs based upon commercial outcomes are also starting to gain traction. PSSF operates under the assumption that there is a possibility to leverage the requirements of the CSR law with the market forces driving EMMs to develop restoration and conservation projects that would not have been feasible in the past. The key is helping the private sector to understand the potential in EMMs and how they could be applied within the framework of CSR projects in order to decrease the gap between the potential profits and the costs associated with land conservation.

This report analyzes the current status of CSR and EMMs in Indonesia and provides recommendations for next steps that can be taken to assist the private sector to apply these tools towards the protection of orangutan habitat.

The research regarding CSR arrives at the following conclusions:

- There is a limited understanding of CSR in Indonesia
- CSR is limited because of poor governance and corruption

continued on next page...

- CSR offers flexibility by providing options for a variety of partnership structures
- New international standards and certification systems can be applied within CSR programs
- In the future, CSR programs could provide significant resources for habitat conservation

The report draws the following preliminary conclusions regarding EMMs:

- The market in EMMs will continue to grow for the foreseeable future
- REDD has high potential, but it will be at least five years before it attracts significant private investment
- PES schemes are underutilized and deserve more attention
- When developing conservation projects, consider simpler EMMs first
- Conservation projects can use several EMM's on one landscape

Based upon these conclusions, the report makes the following recommendations for next steps:

1. Develop an EMM "Toolbox" to facilitate the private sector in understanding and applying EMMs
2. Support the Ministry of Forestry to understand EMM options for Indonesia
3. Explore the potential of the "CSR+" concept



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Acronyms

AMCHAM	American Chamber of Commerce
A/R	Afforestation/Reforestation
AusAID	Australia Agency for International Development
BAPPENAS	National Development Planning Board
BBOP	Business and Biodiversity Offsets Program
BRITCHAM	British Chamber of Commerce
CDM	Clean Development Mechanism
CSR	Corporate Social Responsibility
DAI	Development Alternatives, Inc.
DNS	Debt for Nature Swap
EMM	Environmental Market Mechanisms
FLENS	Government of Indonesia's Forest Law Enforcement National Strategy
FOMAS	Ministry of Forestry Forest Monitoring and Assessment System
FORDA	Forest Research and Development Agency
HCVF	High Conservation Value Forest
HPH	Forest Concession
IBL	Indonesia Business Links
IFCA	Indonesian Forest Carbon Alliance
IUPJL	Permit for Environmental Services
KADIN	Indonesian Chamber of Commerce
KEHATI	Indonesia Biodiversity Foundation
KPH	Forest Management Unit
LSM	Nonprofit Organization
MoF	Ministry of Forestry
NGO	Non-Governmental Organization
OCSP	Orangutan Conservation Services Program
PES	Payment For Environmental Services
POTICO	Palm Oil, timber, carbon offsets
PSSF	Private Sector Sustainability Facility
REDD	Reduced Emissions from Deforestation and Degradation
REL	Reference Emission Level
RSPO	Roundtable on Sustainable Palm Oil
RUPES	Rewarding Upland Poor for Environmental Services
TBL	Triple Bottom Line
TDR	Transfer of Development Rights
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development

I. Introduction

Recent experience with market-based approaches to control carbon dioxide emissions and other pollutants (via carbon markets) provides a basis to believe that market approaches can be developed that generate benefits for business while helping to protect forests, the biodiversity found within them and the ecosystem services they provide. A number of international organizations and universities are working to develop tools that can be used by businesses to incorporate the full value of ecosystem services into business decision-making. For example, Stanford University is developing a computer program to assist companies to understand the full impact of their business operations on human well-being and biodiversity, thus minimizing a wide range of risks while simultaneously promoting sustainable development.¹

The Private Sector Sustainability Facility (PSSF) aims to build upon the synergies between biodiversity conservation and business by encouraging promising trends in environmental market mechanisms² (EMMs) combined with corporate social responsibility (CSR) programs. Environmental market mechanisms represent market-based approaches to investing in the environment and the services it provides. They are distinct from CSR programs, which are designed to mitigate the negative impacts of a business's operations.

Indonesia's progressive new law on CSR³ requires certain companies to have CSR programs that recognize their role in supporting a prosperous society and healthy natural environment. Companies are beginning to see the business case for avoiding negative impacts on ecosystems and biodiversity where possible, and if impacts are unavoidable, reducing, mitigating and/or compensating for them appropriately. At the same time, new EMMs based upon commercial outcomes are also starting to gain traction. PSSF operates under the assumption that there is a possibility to leverage the requirements of the CSR law with the market forces driving EMMs to develop restoration and conservation projects that would not have been feasible in the past. This approach could be referred to as "CSR+" to indicate that landscape scale conservation projects can benefit from a combination of CSR and EMM projects in order to develop larger and more sustainable conservation projects. (See section IV "Next Steps" for more on CSR+). The key is helping the

¹ <http://www.naturalcapitalproject.org/toolbox.html>

² EMMs are conservation finance mechanisms, eg: carbon credits, offsets, payments for environmental services, land swaps, debt-for-nature swaps etc....

³ Law number 40/2007 on Limited Liability Companies.

private sector to understand the potential in EMMs and CSR and how they might be applied on their own or in ways that compliment each other.

This report presents an overview of the current status of CSR and EMMs in Indonesia and recommendations for next steps to assist the private sector apply these tools to protect orangutan habitat. The first section provides a summary of CSR in Indonesia including the current status and trends. This is followed by an overview of EMMs that are currently used in Indonesia as well as a short review of some promising EMMs that could also be developed in Indonesia. The final section presents recommendations including a proposal for how CSR and EMMs could be used together to support orangutan habitat conservation efforts in Indonesia.



II CSR in Indonesia

What is CSR?

The idea of corporate social responsibility stems from the understanding that businesses should be accountable for the negative impacts of their operations on surrounding communities and the environment. Generally speaking, the term “CSR” refers to environmental as well as social responsibility, however some groups use the term “**Corporate Environmental Responsibility**” (CER) for programs that focus on environmental issues only.⁴ There is no single definition of CSR, although it is possible to distinguish between two general approaches. Traditional approaches view CSR as primarily philanthropic activities that are designed to spend a certain percentage of a business’ profit. Newer approaches are more integrated and take into consideration a wide range of stakeholders’ interests (including indirect stakeholders) along with the negative impacts of business operations. Under this approach, corporate performance is measured against the “**triple bottom line**” (TBL): profit, people and environment.

The key to understanding this approach is the recognition that CSR **goes beyond philanthropy**. It is about the need for firms to internalize their negative externalities. This requires direct one-to-one offsets or changes in practices in order to mitigate negative impacts. For instance, business activities that destroy or degrade orangutan habitat should be matched by direct, one-to-one offsets that enhance, protect or create equivalent areas of habitat.

Box 1: Definition of CSR

“Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.” (Harvard CSR Initiative website: http://www.hks.harvard.edu/mrcbg/CSRI/init_define.html)



⁴ Often, CSR programs are implemented through public relations departments and are referred to as “Community Engagement”, “Community Engagement”, or other similar terms.

Why do CSR?

Generally, businesses engage in CSR on a voluntary basis to enhance the following benefits:

- Public image and reputation
- Minimized environmental and social risks
- Access to capital
- Acceptance in community
- Operational efficiencies and cost savings
- Relationships with government officials and legislators
- Access to media coverage
- Ability to recruit and retain staff⁵

CSR in Indonesia

CSR has gained support in Indonesia over the past decade as a result of a combination of international and local influences. Internationally, the role of the private sector in mitigating the impact of their activities has become the driving force behind many initiatives from nonprofits that advocate for more pressure on businesses to shoulder their responsibilities, either directly through in-house CSR projects or indirectly by supporting social and environmental programs run by civil society organizations. International corporations have served as a model by implementing CSR programs in several locations within Indonesia as part of their efforts to offset the negative impacts of operations and to maintain good relations with local communities and government officials.

In addition, as an increasingly freer media and more transparent forms of governance have exposed serious environmental and social problems that cannot be addressed by government and civil society alone, it has become clear that the private sector must be involved in the solution. Indonesian NGOs have started advocating for more effective CSR policies and programs (See Box 2). National level associations like Indonesia Business Links (IBL) and the Indonesia Biodiversity Foundation (KEHATI) focus on promoting CSR through policy advocacy and outreach/educational campaigns. The Ford Foundation, AusAID and

⁵ According to a PriceWaterhouse Coopers report, 90% of new graduates look for employers with strong environmental and social credentials (PriceWaterhouseCoopers Presentation 2010 "Managing Tomorrow's People: The Future of Work until 2020").

USAID have all contributed to the movement to promote CSR and are members of IBL. Individual consulting firms like A+ CSR in Bogor are beginning to play a more significant role as smaller firms look for ways to outsource their CSR programs because they lack in-house capacity.



Box 2: Groups Promoting CSR in Indonesia

- Indonesia Business Links
- PIRAC (Public Interest and Advocacy Center)
- A+ CSR
- The Business Watch Indonesia
- YPB (Foundation for Sustainable Development), the Indonesian Chapter for LEAD (Leadship for Environment and Development)
- AMAN
- The Indonesia Biodiversity Foundation (KEHATI)
- Association of Philanthropy Indonesia
- National Center for Sustainability Reporting
- National Committee on Governance
- Universitas Trisakti, Masters Degree in CSR

Indonesia's CSR Law

In response to the increasing awareness of the potential of CSR, the Government of Indonesia passed a law in 2007 that makes CSR mandatory for businesses operating in the natural resource sector: Law 40/2007 on Limited Liability Companies defines CSR as “A commitment of the Company to play a role in sustainable economic development to enhance the quality of life and the environment, which is beneficial to the Company, local communities and societies in general.”⁶ **In short, all companies that operate in any field related to natural resources must institute CSR programs.** Failure to do so can result in sanctions. The law applies to companies who are directly exploiting natural resources as well as those who are only indirectly impacting the environment. CSR costs are to be budgeted as an expense and deducted from Gross Income (Pohan at 6).

⁶ Indonesia Company Law no. 40/2007

It is worth noting that there is currently no requirement that companies directly offset their negative impacts.⁷ The law requires simply that companies accept their “*social and environmental responsibilities*” without clarifying whether those responsibilities derive from general moral obligations or more specifically from actual business operations. For illustration, a mining company operating in orangutan habitat could fulfill its CSR commitment by building schools or health facilities. However, if the “*triple bottom line*” approach to CSR were applied, the company would be required to offset its negative impact on orangutan habitat by creating or protecting habitat nearby.

Further details regarding implementation must be stipulated in future regulations. For instance, whether companies must directly mitigate their negative impacts with one-to-one offsets needs to be established. Also, there is no indication of how much CSR is enough under the 2007 law. According to recent statements by Abdul Kadir Karding, Chairman of the House of Representatives Commission VIII for Religious Affairs, Social Affairs and Women’s Empowerment, “*Each company interprets how to implement CSR because the standards are not clear in Law Number 40 Year 2007 about Limited Liability Company whether it is based upon profit, sale or others. There must be clear, strict and direct rules.*” (A+ CSR 2010) The Indonesian Chamber of Commerce (KADIN) has suggested that the government require companies to pay 2.5% of their profits. The question of enforcement is also not addressed by the 2007 law, but enforcement is likely to happen at the local level since historically CSR projects have been implemented in partnership with local governments. The Governor of East Kalimantan is quoted as saying that his province will strictly enforce the law and that companies operating there should pay close attention to the CSR programs.

To date, no companies have been charged with violating the terms of the law, either at the national or local level. CSR will remain essentially voluntary until implementing regulations are produced which may not be in the near future given that they were supposed to be drafted within three months of the issuance of the original law in 2007. Indeed, some argue that the current political order under President Yudhoyono seems to lack motivation to make CSR mandatory. (Rosser and Donni 2010) One important implication therefore, is that current CSR advocacy and support programs should focus on market-based drivers to incentivize businesses.

⁷ See A+ CSR (2010) for a discussion of this issue in the context Law No: 40/2007 on Limited Liability Companies.



Box 3: CSR & Conservation

CSR programs offer several advantages for habitat conservation:

- **Flexibility:** CSR can support a wide range of projects and program types.
- **Innovation:** The lack of profit motive means CSR can be applied to new and untested projects that are too high-risk for private investment.
- **Aggregation:** CSR can be used in combination with other types of funding resources (EMMs).

The Future of CSR in Indonesia

Regardless of whether implementing regulations are issued for Indonesia's CSR Law, CSR programs will continue to expand and the number of projects will increase. Not only is this indicated by the growth over the last decade but also by the ever larger number of supporting organizations engaged in capacity building activities including training programs for businesses as well as education programs at local universities, most notably perhaps Universitas Trisakti's Master Degree in CSR. Also of significance is the rise in participation of local businesses in various sustainability and reporting initiatives. For example, 164 companies and organizations have signed the UN's Global Compact, up from only 23 in 2006.⁸ In 2010, KEHATI is launching the first Socially Responsible Index (SRI) in Indonesia on the Jakarta Stock Exchange. By tracking the performance of companies with sustainable business practices, the SRI will provide information to investors who are interested in knowing about the impacts of their portfolio investments, especially on the environment and sustainability.⁹

Another trend is a shift towards more environmental projects as part of CSR programs. There has been a general perception in Indonesia that CSR addresses social issues, however this seems to be changing as a result of work by environmental groups as well as organizations that are concerned with the well-being of people who live in the forests. In addition, the growing global and regional awareness regarding the

⁸ As the largest sustainability and corporate citizenship organization in the world, the Global Compact is a set up 10 principles that guide businesses in aligning their operations with goals of the international community in the areas of human rights, environment, labor and anti-corruption. [http://www.unglobalcompact.org/participants/search?keyword=&country\[\]=83&business_type=all&cop_status=all&organization_type_id=&commit=Search](http://www.unglobalcompact.org/participants/search?keyword=&country[]=83&business_type=all&cop_status=all&organization_type_id=&commit=Search)

⁹ "Indonesia's First Socially Responsible Investment Index." December 23, 2009 <http://www.csrdigest.com/2009/06/indonesias-first-socially-responsible-investment-index/>

important role of protected forests and climate change has found strong support in Indonesia. According to a recent regional survey, climate change and environmental concerns top the list of issues to be addressed in East Asia over the next ten years.¹⁰

However, several factors continue to impede CSR program development. Poor governance combined with high levels of corruption are cited by Ibu Yanti of Indonesia Business Links as major obstacles.¹¹ Lack of consumer awareness about ethical corporate practices means that companies are not incentivized by the market - this is especially true for local companies. In addition, the diversity of cultures in Indonesia means that considerable efforts are required to design programs that fit within the cultural and social paradigms of local communities.¹²

CSR – Preliminary Conclusions

Understanding and Perceptions

CSR is a relatively new corporate strategy and is still evolving to fit specific social, economic and geographic contexts. It is, therefore, of little surprise that it is not widely understood in the business community in Indonesia. Several misperceptions need to be addressed by CSR promoters before it can be successfully implemented in Indonesia:

- I. There seems to be some confusion stemming from the term “*corporate social responsibility*” itself which leads people to believe that projects should be social in nature.¹³ For instance, mining and timber companies often develop CSR projects that focus on building health and education facilities instead of redressing environmental harms. Although health and education projects might be part of such a project, there seems to be a lack of natural resource companies working on reforestation or conservation projects.

¹⁰ CSR Asia (2009). “*The Future of CSR: 2009 Report*.” (http://www.csr-asia.com/report/report_CSRin10_2009.pdf)

¹¹ Koester, Yanti Triwadiantini. “*Corporate Social Responsibility in Indonesia: building internal corporate values to address challenges in CSR implementation*.” Paper presented at the Seminar on Good Corporate and Social Governance in Promoting ASEAN’s Regional Integration, 17 January 2007, ASEAN Secretariat, Jakarta, Indonesia.

¹² Ibid.

¹³ Personal interview with CIFOR staff who wished to remain anonymous.

2. CSR is often confused with philanthropic activities, and indeed the application of these two types of activities is often indistinguishable. Activities taken as part of a CSR program should instead be closely related to and offset the negative impacts of a company's business operations. For example, mining companies should conduct more thorough forest rehabilitation projects than what is currently required under Indonesian law. Forestry companies should plant more trees than required, etc.
3. Studies conducted globally have shown that most major forest and pulp companies equate CSR with Sustainable Forest Management (SFM).¹⁴ While SFM often promotes habitat conservation, this is not always the case. According to these studies, international forestry companies also associated CSR with employment practices, certification of products and recycling materials. None of these activities necessarily mitigates negative impacts in a one-to-one manner and therefore may need to be included as part of a broader CSR program

Programs that seek to create opportunities for orangutan habitat conservation through working with the natural resource sector should, therefore, consider the need to educate corporate management about a broader definition of CSR which includes a wider range of practices more directly related to their core operations.

Poor Governance/Corruption

Fragile governance institutions, corrupt officials and a weak justice system make it difficult for businesses to operate in Indonesia in general – CSR projects are no exception. According to several sources, local government officials are prone to view CSR projects as a source of funding for government coffers. Apparently, this view leads to a large amount of CSR project funding being diverted to non-CSR purposes and as a result never reaches local communities and other local purposes for which it was intended.

¹⁴ Vidal, Natalia G., and Robert A. Kozak. "Corporate responsibility practices in the forestry sector: definitions and the role of context." *The Journal of Corporate Citizenship*. 31 (Autumn 2008): 59(17).

CSR - A Path Forward

As the concept of CSR matures within the Indonesian context, new partnership arrangements have been created to address needs of specific projects. The most common forms include:

- **Individual firm endeavors:** One example of this is Kaltim Prima Coal, which has developed a scholarship program for residents in Kutai National Park to pay for primary through high school education. For qualified students, there are opportunities for scholarships to undergraduate universities.
- **Firm-NGO partnership:** For instance, The Nature Conservancy and the timber company Pt. NARKATA have collaborated on spatial planning in order to protect critical habitat in and around the companies concessions.
- **Public-private partnerships:** For example, Bumi Resources has entered into an MoU with the local government in East Kalimantan to develop conservation action plans based upon Orangutan Best Management Practices.
- **Public-NGO-Private partnerships:** For instance, The Indonesian Orangutan Forum (FORINA) helps facilitate contributions from the private sector, government and the NGO community in conserving orangutans while providing guidance on how best to implement the government's Orangutan Action Plan.

Each of these arrangements has strengths which can be tailored to address the needs of specific CSR goals. For instance, large companies may be well equipped to handle programs on their own, thereby not requiring outside involvement and oversight. On the other hand, in order to be effective, some CSR activities might only function at a scale too large to be handled by an individual firm, thus necessitating government and/or nonprofit involvement. In addition, many corporations lack expertise beyond their corporate mission and require the skills and technology of outside partners.

New standards and certifications

With the increase of monitoring and evaluation by a wide range of actors including internal auditing, regulatory compliance reporting, government enforcement and private watchdog groups, businesses are increasingly under pressure to mitigate negative impacts and maintain higher performance standards. New strategies to address this issue include certification, audit schemes, eco-labeling services and industry-wide codes of conduct that signify adherence to specified standards, practices or principals. In many cases, such standards can serve as useful components of CSR programs. Examples include:

- The Indonesia Ecolabelling Institute (LEI)
- Roundtable on Sustainable Palm Oil (RSPO)
- Forest Stewardship Council certification
- Global Reporting Initiative
- Rainforest Alliance's Smartwood program
- International Standardization Organization (ISO 26000 on social responsibility to be published in 2010)
- Equator Principals

Resourcing habitat conservation through CSR

The amount of resources potentially available as a result of Indonesia's new CSR law is significant, although currently there are no estimates available. CSR may be used in combination with EMMs, providing certain conditions are met. Those conditions are outlined in Section IV of this report. However, Section III will first discuss the main EMMs that are currently applied in Indonesia as well as others that are in the process of being developed.



TABLE I: Overview of Requirements for EMMs

	Adoption Programs	DNS	PES	Land Swaps	Offsets	Carbon Credits
High Upfront Costs						
High Levels of Investor Outreach						
Technical Mechanism requires Experts						
Perverse Incentives						
Additionality						
No Leakage						
Legal Framework						
Financial Audits						
Long term Monitoring						
Trust Fund						
Government Participation						

III. Environmental Market Mechanisms

Private sector actors are the driving force in determining the pace and nature of resource use, but they also represent one of the largest opportunities as investment partners for habitat conservation. Market-based mechanisms such as regulatory compliance markets for carbon, voluntary carbon markets, payment for environmental services and biodiversity offsets represent approaches to investing in the environment and the services it provides. Many forms of ecosystem valuation that have emerged over the past decade at the international level could benefit Indonesia's biodiversity conservation efforts, particularly for orangutan habitat. Within the Indonesian context there exists notable and exciting environmental market mechanism initiatives, but these are still relatively stand-alone and unexplored. However, with careful planning and creativity, this pool of EMMs can form the basis from which pioneering programs that link the promotion of orangutan survival to CSR can be identified and built upon.

Each of the following EMMs could be used in combination with CSR programs to raise money for landscape scale orangutan habitat conservation projects. They range from simple mechanisms, to moderately complex, to the highly complex. (See Table 1)

Simpler Mechanisms

Adoption Programs

Adoption programs have been used for an array of conservation initiatives including habitat conservation or species protection. Adoption programs are based upon a simple formula wherein a purchaser makes payments to "adopt" units of the designated product and the income from these payments is used to implement the program. The advantage of using this mechanism is the fact that it is relatively simple while at the same time being highly flexible.

Examples of adoption programs exist in Indonesia including:

- Conservation International's Upper Cilewung Watershed Project (also PES)
- Green Radio's (with Conservation International) Tree adoption program in Gunung Gede Pangrango National Park

- Yayasan Orangutan Indonesia Tree Adoption Program and Learning Center Adoption Program
- Seaturtle.org Wildlife Adoption Program
- WWF's Orangutan Adoption Program

TABLE 2: Summary of Opportunities and Constraints of Adoption Programs

Opportunities	Constraints
<ul style="list-style-type: none"> • Existing programs in Indonesia can serve as models • Wide range of conservation goals can be “adopted” including orangutans, habitat protection or tree planting • Good tool for awareness-raising campaigns • Access to wide range of donors because adoption price is flexible and can be very low, meaning that individuals can adopt • Simple concept is easy to market • Foreign as well as local donors can participate 	<ul style="list-style-type: none"> • Adoption prices are often low, so potential funds are limited • Requires high level of outreach due to need to attract many adopters • Risk of unfavorable media because of public nature of adoption campaigns

Moderately Complex Mechanisms

Debt-for-Nature Swaps

Debt-for-Nature Swaps (DNS) work by canceling foreign debt in exchange for conservation of natural resources. Since the mid-1980s when Conservation International and the World Wide Fund for Nature implemented the first DNSs, they have been used around the world. In 2008, Indonesia and the United States entered into a DNS under the Tropical Forest Conservation Act that forgives \$20,000,000 of debt in exchange for increased forest conservation in Sumatra. Money that would have been spent to repay the debt is put into a trust fund that is then used for habitat protection. It is possible that these funds could be used in coordination with CSR funds on orangutan sites in Sumatra. A second US-Indonesia DNS was in negotiations in early 2010.

TABLE 3: Summary of Opportunities and Constraints of DNS

Opportunities	Constraints
<ul style="list-style-type: none"> Existing programs in Indonesia can serve as models Large funding pools because of significant debt Funds can be applied to a wide range of projects and conservation goals 	<ul style="list-style-type: none"> International political negotiation is time consuming Political backlash from parties who believe debt should be forgiven or postponed Administrative and management costs can be high Highly technical language limits number of people who can be involved Large amount of funds can be difficult to manage (may require independent trust fund)

Payments for Environmental Services

Payments for Environmental Services provide funding for a range of environmental services by tapping those who benefit from them. Placing a value on environmental services and determining ownership rights creates a new market where those services are compensated.

Setting up a PES scheme often requires substantial initial investment of time and money. Institutional capacity and legal frameworks should be evaluated to ensure that the overall context is conducive to supporting the scheme. Potential projects need careful vetting to determine their likelihood of success.

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Box 4: Definition of PES

Payments for environmental services are “voluntary transactions in which a well-defined eco-system service (or a land use likely to secure that service) is bought by a (minimum of one) buyer from a (minimum of one) provider if and only if the provider continuously secures the provision of the service (conditionality)”. (Wunder 2005)

There are several steps involved with establishing PES projects.

- I. **Define the environmental service(s):** The first step in identifying a project is to define the service being provided.

2. **Identify sellers and buyers:** Sellers are the providers of environmental services. Provision of the service can depend on significant activities (like reforestation) or may be a matter of refraining from activities (eg: logging) and their potential benefit streams. A seller should have clear legally recognizable control over the resource that is to be protected, either through land title or licenses, concessions, or traditional (*adat*) control over the land. Purchasers include those who gain directly from the services, for example a water company that wants to preserve the quality of the water it sells will pay for watershed protection.
3. **Incorporate local communities:** Working with local communities is key to implementing PES projects. There are several factors to consider: what approaches need to be taken in approaching communities? To what extent should the local power dynamics be supported? Who will benefit under the scheme - ie are certain groups marginalized within communities?
4. **Assess value:** the basis for determining the value of environmental services is the concept of “*mutually beneficial bargaining*” whereby the buyer and seller allocate an environmental resource in a manner that is socially and economically efficient. In practice, this will depend in large part upon the institutional and social context within which negotiations occur. For example, local communities may not be aware of the value of their services and therefore not able to negotiate a fair price. Conversely, they may have unrealistically high perceptions of the value of the resource.
5. **Determine form of benefit:** Another important consideration is the issue of payment. Direct payments of cash to communities may lead to conflict within communities as some people or groups and other groups feel marginalized or deprived. Alternative forms of payment may be more beneficial to the community overall, like establishment of health clinics or schools.

Internationally, PES schemes have proven to be quite successful. Annual growth of PES markets averages 10-20% a year (Carroll 2008). PES is not new in Indonesia, with the first pilot projects appearing a little

over a decade ago. Since then, several types of PES projects have been started:

1. Biodiversity has been protected by creating a buffer zone for a community-based medicine plantation through land use rights and in-kind rewards to communities (e.g. Meru Betiri NP).
2. Carbon stocks have been enhanced and protected through restoration and conservation of ecosystems with the goal to sell carbon credits on the voluntary or compliance markets.
3. Landscape beauty has been conserved through tourism concessions and managed via a joint venture between a local private company and TNC, in collaboration with local communities and a National Park (Komodo).
4. The RUPES program (Rewarding Upland Poor for Environmental Services) has a wide range of programs across the archipelago (and throughout the region) focusing on either carbon, watersheds, biodiversity or a combination of the three.

TABLE 4: Environmental Services

	Forests	Cultivated Land
Environmental Goods	Food Fresh water Fuel Fiber	Food Fuel Fiber
Regulating Services	Climate regulation Flood regulation Disease regulation Water Purification	Climate regulation Flood regulation Disease regulation Water Purification
Supporting Services	Nutrient cycling Soil formation	Nutrient cycling Soil formation
Cultural Services	Aesthetic Recreational Spiritual Education	Aesthetic Educational

(Source: Forest Trends 2008)

TABLE 5: Summary of Opportunities and Constraints for PES

Opportunities	Constraints
<ul style="list-style-type: none"> • Creates a new market of potential buyers in those who benefit from environmental services • International market growth is good at 10-20% a year • Institutional and legal frameworks already largely in place in Indonesia • Existing projects in Indonesia and the region provide useful models • Buyers can be local or international 	<ul style="list-style-type: none"> • High start-up costs • Difficulty in determining value of services • Lack of clear property rights can inhibit investment • Projects fail when local community needs and aspirations have not been met • As the reality of their complexity has become more obvious, the initial enthusiasm and momentum behind these types of projects has waned

Land Swaps

The newest EMM to appear in the Indonesian market is the Land Swap. By shifting destructive land use activities from high-priority conservation areas to lower-priority ones, land swaps can be used to protect the pristine areas. Typically, this is achieved using contractual agreements between NGOs and private companies. Under the agreements, companies agree to move their operations from one site to another while simultaneously relinquishing development rights to the original site. The NGO assists with locating already degraded sites for relocated businesses as well as negotiating with government agencies for new concessions and permits.

In Indonesia, the World Resources Institute is currently operating a large land swap project “POTICO” (Palm oil, timber, carbon offsets) which diverts palm oil plantations from forests to already degraded lands. POTICO anticipates that some of the costs associated with the swap will be offset by carbon credits. Businesses (especially oil palm plantations) that are concerned about offsetting their negative impacts on forested lands as part of their CSR requirement might be interested in participating in a land swap project. The Government of Indonesia has indicated its interest in developing its own land swap program in response to a study commissioned by BAPPENAS in 2010 which proposed a land swap mechanism that could contribute significantly the government’s GHG reduction targets (Simamora 2010).

TABLE 6: Summary of Opportunities and Constraints for Land Swaps

<p>Opportunities</p> <ul style="list-style-type: none"> • Offers an elegant solution to protecting forests and reusing degraded land 	<p>Constraints</p> <ul style="list-style-type: none"> • Not a source of funding, land swaps usually require additional funding - can be in the form of carbon credits • Degraded lands are often used by local communities so special attention must be paid to their rights and needs
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Offsets

Offsets are mechanisms that have been applied in other countries and would probably work well in Indonesia. At the most basic level, offsets are activities that are intended to mitigate unavoidable negative impacts of development projects on the natural environment. They can be used for a wide variety of goals like protecting wetlands, species or biodiversity. There are also private investors who are interested in the possibility of developing offsets that can be sold to developers, as well as multi-stakeholder initiatives like the Business and Biodiversity Offset Program (BBOP), Biodiversity Neutral Initiative (BNI),¹⁵ and work by the International Council on Mining and Metals.



Box 5: Definition of Biodiversity Offsets

“Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development and persisting after appropriate prevention and mitigation measures have been implemented.” (From BBOP website¹⁶)

The goal of offsets is to compensate for destructive activities to such an extent that there is no net loss, or even to promote net positive impact on the environment. For example, for each hectare of land that is damaged or destroyed, developers may purchase offsets in an amount that provides for conservation of the equivalent area or more. Typical activities that qualify for offsets include:

¹⁵ http://www.biodiversityneutral.org/index_content.html

¹⁶ <http://bbop.forest-trends.org/pilot.php>

- Protecting high-conservation value forest
- Improving forest conservation in areas where illegal deforestation is occurring
- Working with rural communities to address the drivers of biodiversity loss
- Establishing migration corridors for wild animals

As a stand-alone tool, offsets are simple and flexible and have a high potential to be successfully implemented in Indonesia. Indonesia's current regulatory framework is adequate to support their application, the only risks being the problems associated with private investment in Indonesia generally.

In the future, regulated offset programs that aggregate offsets in order to protect large areas of land, often referred to as "*conservation banking*,"¹⁷ could be mandated by the Indonesian government to offset specific negative impacts to the environment.

Alternatively, a banking system could be developed as part of a voluntary program. For instance, the Roundtable on Sustainable Palm Oil (RSPO) is considering mandating biodiversity offsets as part of its global standards for sustainable palm oil (See Box 6).



Box 6: Potential RSPO Voluntary Biodiversity Banking in Indonesia

In response to negative media attention to the impact of palm oil development in tropical forests, the RSPO is considering adopting a biodiversity offset program that would start on a voluntary basis with the goal of shifting towards a regulated or semi-regulated system. According to New Forests, an international private developer of offsets, the Indonesian Ministry of Forestry is interested in pursuing the concept and may be drafting a set of preliminary regulations. The USAID-sponsored Business and Biodiversity Offsets Program (BBOP) has also been promoting the concept in Indonesia.

¹⁷ Modeled after the wetlands mitigation banking system that was developed in the United States starting in the 1980s to offset unavoidable negative impact on wetlands, conservation banking systems have been successfully implemented in several countries. At the most basic level, conservation banks function by creating an asset (like a species), establishing a method to measure that asset (like a breeding pair) and then arranging for that asset to be bought or sold through market transactions. It is not possible to establish a conservation bank in Indonesia at this point because of the lack of legal framework.

TABLE 7: Summary of Assessment Opportunities and Constraints for Offsets

Opportunities	Constraints
<ul style="list-style-type: none"> • Flexible mechanism can use a range of conservation services • Global market valued between \$1.8 and 2.9 annually (Madsen <i>et al.</i> 2010) • International technical support through organizations like BBOP • OCSP's paper audit can serve as a model in Indonesia • Many international corporations are familiar with offsets 	<ul style="list-style-type: none"> • Upfront investment needed to develop accounting system • Time lag before they become effective • Trust fund mechanism must be created to manage the funds • Lack of necessary legal framework prohibits development of real conservation banking scheme in Indonesia at this time

Highly Complex Mechanisms

Carbon Credits

Most likely the largest class of potential EMMs in Indonesia are carbon credits. However, carbon markets for forestry remain at the early stages of development, both internationally and in Indonesia. Carbon credits provide the financial mechanism that is used to offset emissions that contribute to global climate change. Each credit represents a reduction of green house gas (GHG) emissions below a “business-as-usual” scenario. By placing a value on the carbon that is contained in trees and soils (especially peat), credits may be bought by parties who wish either to (1) offset their emissions in order to comply with UNFCCC, (2) engage in trading on the voluntary carbon markets or (3) implement philanthropic or CSR activities. The income stream from sale of the credits is divided between various stakeholders to pay for costs of developing and maintaining forest carbon projects.

Currently, two types of carbon credits exist for forestry projects:

1. Afforestation/Reforestation (A/R) credits for planting trees are bought and sold on the “*compliance*” market through the UNFCCC’s Clean Development Mechanism (CDM)
2. Voluntary carbon credits for reforestation, afforestation and avoided deforestation are sold through “*voluntary*” markets

A third set of credits for avoided deforestation and degradation are subject to discussions as part of the current round of UNFCCC framework negotiations. **Reduced Emissions through Deforestation and Degradation (REDD)** projects may become part of the new framework that will begin after 2012 when the current Kyoto framework expires. Credits from REDD transactions will most likely be sold as part of the compliance market.



Box 7: Pricing Forest Carbon

Estimated prices required for forest carbon projects to be successful vary. Agus Purnomo, Head of the secretariat of Indonesia's National Council on Climate Change, has stated that the current \$2-4 per ton of emissions price range discussed for forest carbon credits may be "*competitive for many land uses*" (Purnomo 2009). However, according to The Nature Conservancy, a price of \$16 per ton of emissions would be enough to make forest conservation more lucrative than forest degradation (Venter *et al.* 2009). According to another study, a price of \$1.63 to \$4.66/ton of CO₂ is needed to compensate owners of peat lands under the REDD scheme (Venter *et al.* 2009). However, average carbon credit prices on the voluntary market in 2008 ranged from \$4.43/t CO₂ to \$7.32/t CO₂, below most of these figures (Hamilton *et al.* 2009).

Successful forest carbon projects require strong legal and institutional frameworks that cover a wide spectrum of issues. The Government of Indonesia is proactively engaged in establishing institutions to address these issues:

National Policy Institutions

The Government of Indonesia has shown support for forest carbon projects by creating national-level institutions designed to help with policy development and implementation of carbon credit schemes:

1. Indonesia Forest Carbon Alliance (IFCA) was established in 2007 as a joint government-development partner group tasked with analyzing the existing legal framework regarding the forest sector
2. National Commission on Climate Change (Presidential Decree 46/2008)
3. Ministry of Forestry Working Group on Forest and Climate Change (SK. 13/Menhut II/2009)
4. Focused research within Forest Research and Development Agency (FORDA)

5. National Working Group on REDD to be in charge of implementing REDD projects (by end of 2009) ("REDD Commission")

National Monitoring and Enforcement Institutions

1. Government of Indonesia's Forest Law Enforcement National Strategy (FLENS)
2. Ministry of Forestry Forest Monitoring and Assessment System (FOMAS)

National Trust Fund

Indonesia Climate Change Trust Fund has been established at the National Development Planning Board (BAPPENAS). This fund manages grants from developed countries and donor agencies.

Reference Emission Level (REL)

The Ministry of Forestry is working on determining the best options for establishing a REL.

Legal Control over Environmental Benefits

Carbon credits are legal creations because they depend upon creation of an ownership right in carbon or related environmental service. In Indonesia, project developers of CDM forest carbon projects must hold either a permit for environmental services (IUPJL) which give rights to environmental services, including carbon, for 30 years or a IUPHHK-HT timber concession. In 2007, the Ministry of Forestry added production forests to the types of forest that can qualify for IUPJL permits (Government Regulation No 6/2007 Articles 1 and 61; Government Regulation No.3/2008 Article 33). Carbon ownership does not have to be linked to land tenure. The important questions related to land tenure include how carbon ownership might vary across different land tenure types (eg: state, community, private) and how benefits from the sale of credits are to be distributed.

Reform of Forest Law

A number of regulations already exist which support the implementation of carbon credit projects:

1. Spatial Planning Act 26/2007 requires local governments to revise spatial plans

2. Regulations for licensing of forest land for environmental services (PP 6/2007 and PP 3/2008)
3. Strengthened community access to forest lands through community forest, village forest and HTR

Enabling Legislation

Indonesia has been proactive in developing enabling legislation for carbon projects.

1. Indonesia ratified the Kyoto protocol December 2004
2. Procedures for forestry CDM projects set forth in MoF Decree PI4/Menhut/2004
3. The Designated National Authority for CDM projects was established July 2005

REDD Specific

Indonesia is the first country to pass REDD implementation regulations with the issuance of the Ministry of Forestry regulation in May 2009. The regulation established who can become a REDD project proponent, which forest areas qualify and the application process for getting projects approved by the Ministry of Forestry. This regulation was followed up with a benefits sharing regulation in July 2009.



Box 8: REDD Regulations

Permenhut 68/2008 established the procedures for REDD demonstration projects

Permenhut 30/2009 set forth the basic requirements for implementing REDD projects

Permenhut 36/2009 lays out the procedures for the commercial use of carbon including how benefits should be shared

Because Indonesia is one of the largest emitters of GHG's in the world as a result of logging and forest fires, the potential market for carbon credits is huge.¹⁸ However, various factors have hindered Indonesia from producing significant results including the need for clear legal rights to carbon and other environmental benefits; secure land title;

¹⁸ Estimated \$736 million dollars a year for a 5% reduction in deforestation. (Barr *et al.* 2010)

proof of additionality, permanence, and minimized leakage; high project development costs, and the need for effective benefits sharing schemes. Globally, carbon markets have performed well although they were negatively impacted by the financial crisis. Overall, the markets are expected to start climbing again, especially after demand increases when the post-Kyoto framework begins to take effect. The entry of the United States into the market would help offset a predicted decline in demand for credits from the European Union. Funding and investment can come from the private as well as the public sector.

TABLE 8: Opportunities and Constraints of Forest Carbon Credits

Opportunities	Constraints
<ul style="list-style-type: none"> • Potentially large source of international funding • Government of Indonesia is proactively developing institutional and legal framework as well as taking a lead in committing to greenhouse gas reduction 	<ul style="list-style-type: none"> • Must prove additionality, permanence, minimize leakage • High project development costs • Insecure land title • Lack of clear property rights to carbon • Unclear and overlapping authority between national and local level government authorities • Uncertainty about post-2012 framework

Other Potential EMMs

Other notable EMMs that might be given further consideration for development in Indonesia include:

- Forest-backed Bonds are bonds which leverage public investment in forest values and ecosystem services with private investment. They can be used as a type of bridge financing to support sustainable development projects that would not otherwise occur due to profit demands in the private sector. Bonds are longer-term and lower yield than other EMMs, but are secured by the forest itself, thus reducing risk. In 2007 the IFC commissioned a feasibility analysis which concluded that they were a viable financing option for sustainable development projects.¹⁹

¹⁹ [http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/p_ForestBackedBonds_ExecSummary/\\$FILE/Executive+Summary+Final+Draft+Proof+of+Concept+Study.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/p_ForestBackedBonds_ExecSummary/$FILE/Executive+Summary+Final+Draft+Proof+of+Concept+Study.pdf)

- **Land Trusts** are nonprofit organizations that conserve land through either owning legal title to the land or through conservation easements. They have been one of the most effective conservation tools in the United States. Part of the reason they are so successful is that they can be used to protect any type of land, as long as there are parties who are willing to fund the costs. According to the Land Trust Alliance website, there are more than 9 million acres of land protected through land trusts in the US.²⁰ In Indonesia, the National Land Agency is promoting the use of land trusts on their website²¹ and there is an organization called the Orangutan Land Trust which is channeling money from many sources towards the goal of protecting orangutan habitat.²²
- **Transfer of development rights** (TDR) is a mechanism that is widely used in the United States for the purpose of containing sprawl. TDRs function by exchanging land use rights from areas with low density to areas of higher density. For example, landowners in a watershed area where development is not prohibited could sell those “*development rights*” to a landowner in an urban area where the land is zoned for limited development. In this way, an apartment developer is to increase the square footage of their buildings by paying the watershed landowner not to develop his or her land. Although there is no legal framework for TDRs in Indonesia, it is worth exploring its usefulness as a model for different types of transfers that could be based upon timber concessions rather than building development.

EMMs - Preliminary Conclusions

1. The market in EMMs will continue to grow for the foreseeable future

As demonstrated by the table below, the current size of EMMs has reached only a fraction of their potential size on a global scale. With the emergence of so many mechanisms to monetize nature resources still in nascent stages of development, it would be reasonable to expect that as these processes mature, greater revenue will be generated to finance natural resource management and protection. Exploring a range of mechanisms early in order to identify which work best within a given

²⁰ (<http://www.landtrustalliance.org/conservation/documents/what-is-land-trust.pdf>)

²¹ <http://www.bpn.go.id/faq-1.aspx>

²² http://www.forests4orangutans.org/?page_id=2

orangutan habitat context, but perhaps focusing on simpler tools first (see conclusion number 4 below), should provide an opportunity to truly capitalize on the potential revenue generation of these mechanisms once they begin to take root.

TABLE 9: Potential EMM Market Growth

Environmental Market Mechanism	Size as of 2008 (US\$ per annum)	Potential Size 2010 (US\$ per annum)	Potential Size 2050 (US\$ per annum)
Carbon Sequestration through Forestry	\$100 million (much of this in developing countries)	\$1,500 million (if ETS allows sinks by 2008)	\$6,000 million
Government PES Water	Mexico \$15 million, Costa Rica \$5 million, China 1 billion	\$3,000 million	\$20,000 billion
Private PES Water	\$5 million	\$50 million	\$10,000 million
Regulated Ecosystem Offsets (incl. US wetland mitigation banks)	\$200 million	\$600 million	\$2,000 million
Regulated Species Offsets (incl. US Conservation Banking)	\$45 million (in the USA)	\$65 million	\$200 million
Voluntary Conservation and Biodiversity Offsets	\$20 million (not including money flowing through conservation organizations)	\$25 million	\$150 million (if corporations more involved)
Government Conservation and Biodiversity Offsets	\$3,000 million (flora and fauna programs)	\$4,000 million	\$10,000 million
Land Trusts, Conservation Easements	\$6,000 in the USA	\$10,000 million	\$20,000 million

(Table adapted from Biodiversity Business 2008)

There is no equivalent information related specifically to Indonesia at this time.

2. REDD has high potential, but it will be at least five years before it attracts significant private investment

There are several reasons to believe that it will take several years before REDD is actualized in a way that derives big payments. First, REDD is still in the conception phase and it will be at least a year before any agreements are reached at the international level. After that, there is the issue of working out methodologies and a myriad other operational details before it will become a competitive investment instrument. In Indonesia, there is the additional problem of fraud and corruption,

which hinders private investment in all sectors. There are other problems related to ownership rights, especially rights of indigenous peoples. On the positive side, numerous pilot projects are actively engaged in finding solutions to these problems. The conclusion: It is just a matter of time before REDD projects become a major draw for the private sector, but in the short-term, financing for pilot projects will depend upon a combination of donor funding, philanthropy and CSR funds.

3. PES schemes are underutilized and deserve more attention

PES schemes offer a wide variety of implementation strategies thus allowing tailoring of programs to specific contexts. However, after an initial period of popularity, the complicated reality of implementing PES schemes seems to have discouraged policy-makers, donors and project implementers who all hope for an easier mechanism for achieving their goals. Quantification of environmental assets is never a simple matter and is bound to become a hurdle that every EMM must overcome. In Indonesia, PES has the advantage over newer EMMs in that important headway has already been made in establishing institutional and legal frameworks.

4. Applying simpler tools first may be an effective, simple and low cost way to generate resources

Conservation finance is a new paradigm, even in developed countries. It can take decades of public awareness campaigns and political will before specific tools are adopted - let alone implemented - with any success. The world's largest conservation organization, The Nature Conservancy, built its program based on the very simple "*bucks for acres*" concept wherein private donors made charitable contributions that were used to protect lands with high biodiversity. There was no need for enabling legislation, sophisticated financial services or costly public awareness campaigns.

5. Conservation projects can use several EMM's in one landscape

Specific areas within a landscape may be more suitable for one type of EMM than another. A forested area might be a good candidate for REDD whereas a watershed area might be better suited to PES. Landscapes should be carefully evaluated in terms of the relative requirements and potential benefits of different EMMs in order to determine which EMM might work best where.

IV. Recommendations: Next Steps

For businesses that are interested in putting the above information on CSR and EMMs to practical use in protecting orangutan habitat, the PSSF proposes three sets of recommendations:

1. Create a user-friendly “EMM Toolbox” to help businesses better understand and apply CSR programs and EMMs
2. Support the Ministry of Forestry as it explores EMM options for Indonesia
3. Explore the potential of new concept “CSR+” which brings together CSR and EMMs in order to develop landscape scale orangutan habitat conservation projects

I. EMM Toolbox

The PSSF intends to develop a “Toolbox” which can be used by private companies to learn more about how they can employ different EMMs in order to extend their range of benefits to both forest habitats and orangutan populations by investing in or implementing an EMM project. The toolbox would contain simple non-specialist tools to enable high level screening by business clients seeking new avenues for their CSR efforts. As part of an uptake campaign initiated, this toolbox would be made available to a wide range of businesses in applicable natural resource sectors.

The toolbox could include the following tools:

- Current listing of EMM projects that benefit orangutan populations
- EMM Menu with definitions of how EMMs work and a brief overview of their use in Indonesia
- Web-based searchable landscape maps of candidate project sites
- Due diligence checklist that can be used to evaluate potential projects and project sites
- Information on potential partner organizations including especially EMM project developers

A working group should be formed in order to define and refine how the Toolbox can best serve the needs of the business community. Ex-

pert consultation in the working group will tease out the potentials and constraints for the end users. There are a number of organizations in Indonesia already supporting the development of CSR programs who would be willing to work with PSSF to develop and eventually house this Toolbox, including:

Indonesia Business Links (IBL)

IBL's CSR program is at the leading edge of CSR development in Indonesia and develops many seminars, trainings and workshops across the country throughout the year. IBL's website is well designed and includes a GIS tool that can search CSR programs around the archipelago. OCSP has met with a board member in charge of partnerships who expressed interest in working with the PSSF to explore the possibility of providing a home for an "EMM Toolbox."

AMCHAM

In addition to hosting a speakers series and other events, AMCHAM has a Corporate Citizenship Committee that hosts an NGO database on their website. Their newly appointed Executive Director (January 2010) is committed to advancing the role that US businesses play in promoting CSR initiatives in Indonesia and is supportive of PSSFs efforts to engage the private sector in orangutan habitat conservation.

KEHATI

KEHATI, "The Indonesian Biodiversity Foundation" is actively engaged in exploring creative partnerships with the private sector in order to protect biodiversity in Indonesia. They have been involved with the US-Indonesia debt-for-nature swap, promotion of responsible investment and the development of CSR programs.

2. Support Ministry of Forestry

The Forestry Research and Development Agency (FORDA) within the Ministry of Forestry has expressed interest in learning more about EMMs and how to incorporate additional sources of funding into landscape-level forest conservation. They have requested that the PSSF develop a presentation on EMMs and a report to present to the Director General of FORDA and selected staff in order to support them in their efforts to develop conservation finance options. Depending upon input from the Ministry after review of the report and presentation, the PSSF will provide follow-on support services which could include:

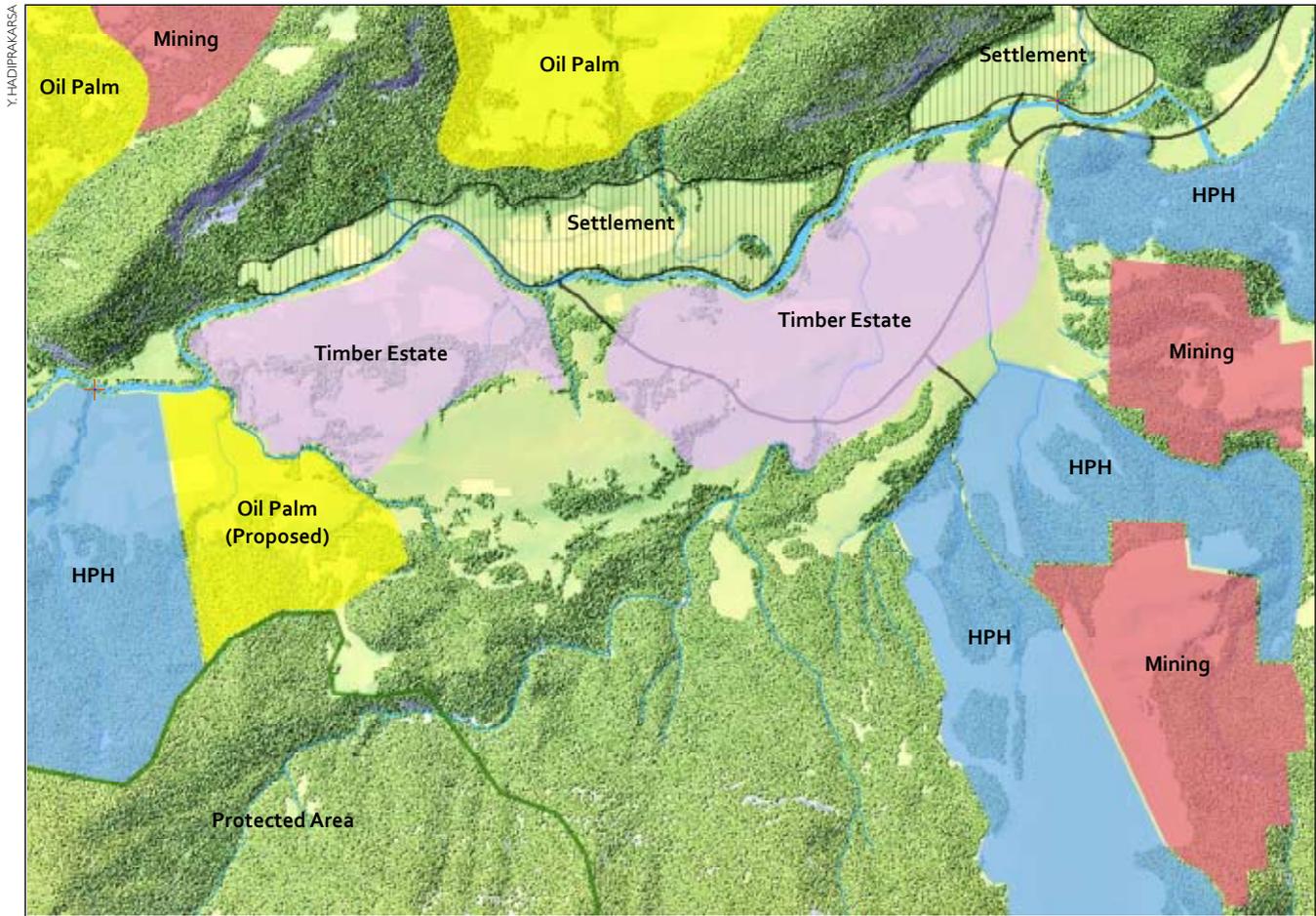
- A series of in-depth presentations on specific EMMs
- In-depth analysis of the regulatory framework necessary to support EMMs
- Presentation of the EMM Toolbox and how to engage the private sector in forest conservation

FORDA will serve as an access point to other agencies, having already indicated their intention to disseminate information about the seminars with official invitations to other agencies within the Ministry.

3. Explore the Potential of “CSR+” Concept

The concept behind CSR+ is simple: Assist companies in Indonesia to fulfill their CSR requirements in a manner that complements or builds upon environmental benefits derived from EMMs. By bringing these two distinct sources of financing together, larger conservation projects, developed and operating at the landscape or ecosystem scale, can become more feasible. At present there are significant planning boundary overlaps in forest lands which allow timber, pulp, palm oil plantations and mining sites to co-exist in areas where orangutans live. Many areas of forest lands examined in Kalimantan and Sumatra have significant tracts of cleared or degraded forests with resulting scrub land and often degraded open cast mining land. These multi-sectoral operations often create a patchwork of sites that present challenges in maintaining and enhancing viable orangutan habitat at the landscape level (See Figure 1).

Figure 1: Map of Orangutan Landscape with Disparate Land Uses



Over the past decades, as environmental conservation has taken root in Indonesia, portions of these landscapes have been protected. Sometimes this occurs through regulation, philanthropic or donor activities, and increasingly through the use of EMMs. But large areas remain unprotected because they are not viable EMM sites. The concept of CSR+ can be applied in these conditions so that CSR funding is used to finance the gaps (See Figure 2).

Figure 2: Map of Landscape with EMM and CSR Coverage

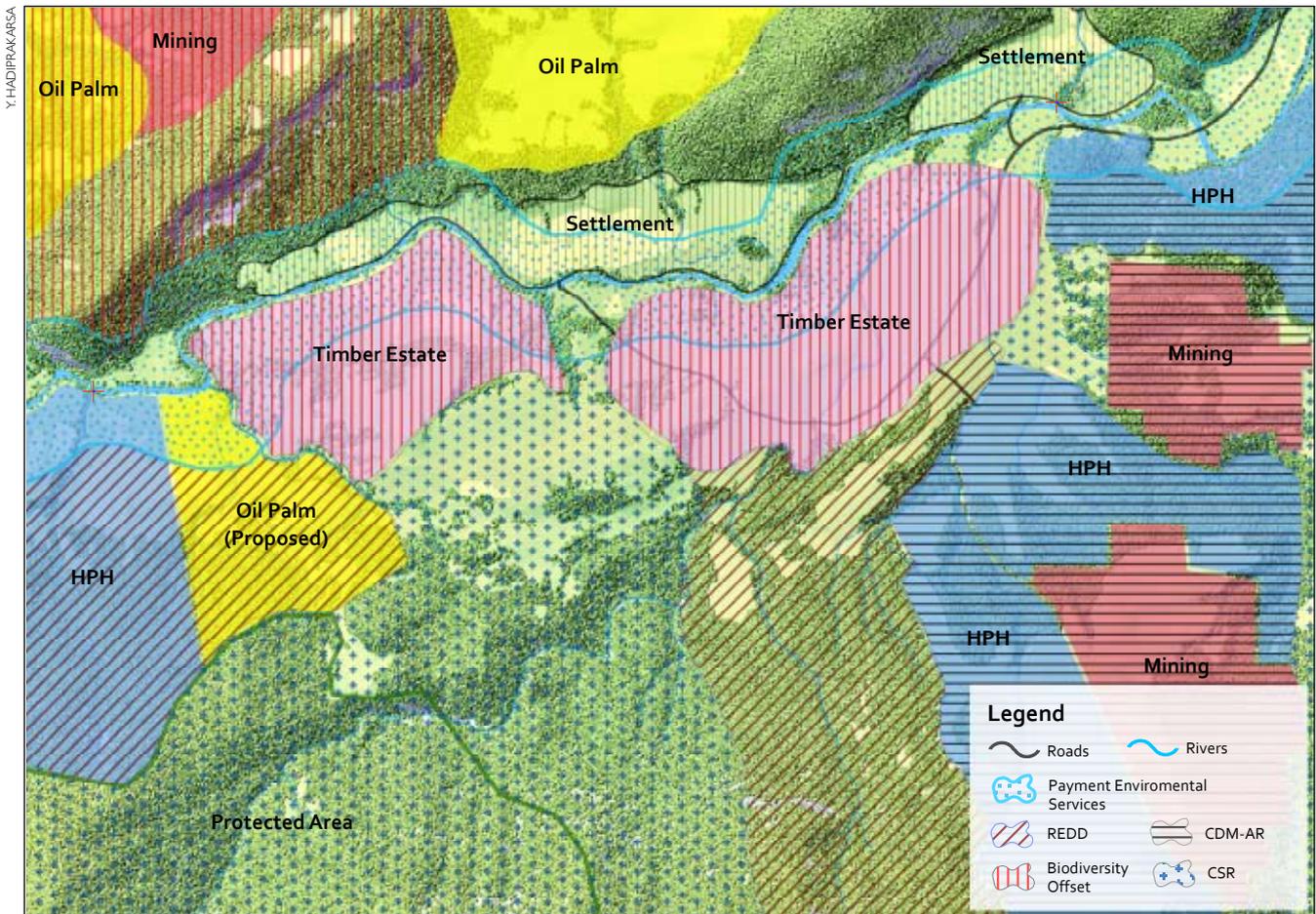


Figure 2 represents an “ideal” CSR+ landscape that is totally protected as a result of combining EMM projects with CSR financing. Under CSR+, the combination of CSR with EMMs creates a dedicated vehicle to link sites that are commercially challenging with more profitable sites in order to protect whole landscapes. The result would be a new forest conservation tool for the private sector and government, working in close cooperation with local community to create more contiguous forest at a landscape level that would thus facilitate the PSSF aims of enhanced biodiversity and habitat.

Figure 3: Map of Core Landscape Area protected through CSR+

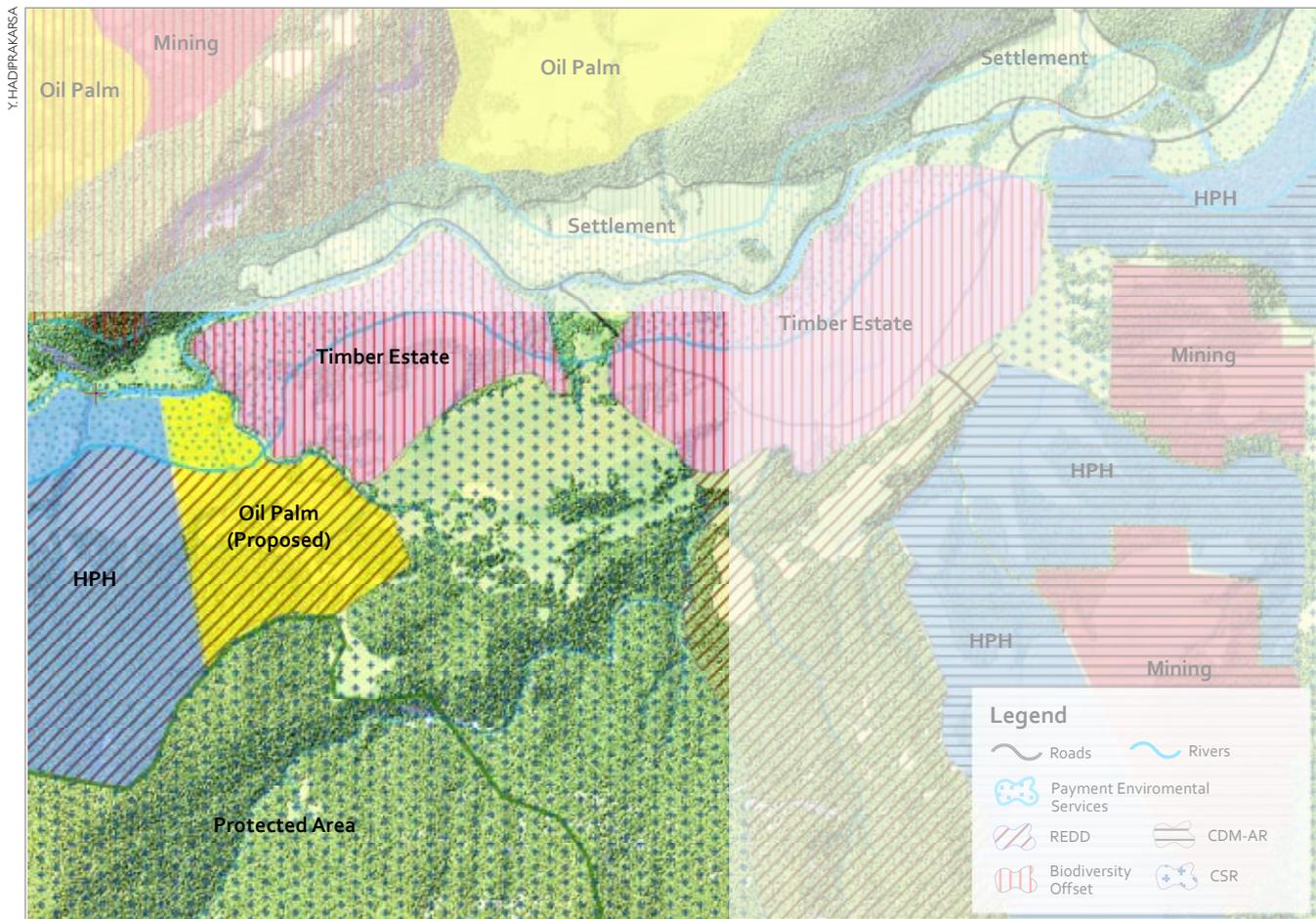


Figure 3 represents the most feasible CSR+ landscape where a core area of high ecological value is designated as the managed area. Areas outside of the core might still be used for EMMs or other conservation, but they will not be the subject of key spatial planning and land management activities.

Using CSR+, the private sector would be presented with a new platform working within Indonesia's Forestry Management Unit (Kesatuan Pemangkuan Hutan or "KPH") for sustainable management of forests at the landscape scale. Selected KPH's would be designated as "CSR +

landscapes” that incorporate EMM investors, CSR programs, donors, government projects, local community members and environmental NGOs into one large conservation project. The PSSF envisages encouraging the Ministry of Forestry to develop CSR+ as a forest rehabilitation and protection strategy that engages the private sector in supporting orangutan habitat conservation. Instead of allowing lands to remain degraded or converted to other uses such as oil palm, the CSR funded protection strategy would be based in part upon the Ministry’s new concession for Ecosystem Restoration which gives permission to conservation NGOs to protect forests in the production zone.

The Ecosystem Restoration concession provides a promising conceptual model for developing CSR+ projects because it allows the reclassification of logging concessions to licenses for forest restoration and protection thus giving concession holders the rights to buy and sell carbon credits, offsets and other benefits associated with EMMs. Concession holders must make upfront payments to the Ministry of Forestry, similar to the payments they would have to make on logging concessions.²³

To date, only one concession has been awarded: for Birdlife’s Harapan Rainforest project. Several more are in the final stages of approval at the Ministry of Forestry.



Box 9: Birdlife International

An innovative partnership for the conservation and restoration of lowland Sumatran rainforest. The Harapan Forest is the first forest Ecosystem Restoration concession licensed by the Indonesian Government to the Birdlife International; a consortium of NGOs. A \$30 million of investment is planned covering 100,000 hectares of secondary forest that will be managed as a conservation block over the next 100 years. The aim is to halt deforestation and allow forest regeneration for community benefit and for forest and avian biodiversity. A large effort will also be made to prevent forest fires, illegal logging and forest degradation.

<http://www.birdlife.org/action/ground/sumatra/index.html>

²³ The fact that it is an upfront payment can make these projects prohibitively expensive for small to medium sized companies. One REDD project developer who has applied for the concession in Kalimantan will pay an estimated \$4,500,000 for a 217,000 ha project (Interview Dharsono Hartono, President Director Pt Rimba Makmur Utama).

TABLE 10: Opportunities and Risks for Ecosystem Restoration Concessions

Opportunities	Constraints
<ul style="list-style-type: none"> Existing projects provide models for how Ecosystem Restoration Concessions can be obtained and used Provides property clear right to carbon and other environmental services Creates good platform for REDD by providing permanence and additionality 	<ul style="list-style-type: none"> High concession fees that must be paid upfront limit investment to large companies Unclear property rights in Indonesia can lead to land conflict when these concessions implemented²⁴ Concession cannot be owned by foreign entity

Benefits of CSR+

CSR+ Benefits to Business

- Public image and reputation
- Access to greener capital
- Acceptance at community level
- Operational efficiencies and cost savings
- Relationships with government officials and legislators
- Access to brand strengthening media coverage
- Ability to recruit and retain staff

CSR+ Benefits to Ministry of Forestry

- Sources of new financing
- Users of new Ecosystem Restoration permits
- EMM pilot projects
- Acceptance at local community level
- New relationships with the private sector and nonprofits
- Access to positive media coverage

CSR+ Benefits to Community

- Stakeholder engagement²⁵

²⁴ The Harapan project has been criticized for forcing people to move off the land. See: Lang, Chris (2009) "Harapan Rainforest Project in Indonesia Exposes Cracks in the UN Climate Plans" at <http://www.redd-monitor.org/2009/06/01/harapan-rainforest-project-in-indonesia-exposes-cracks-in-un-climate-plans/>)

²⁵ Groups like NTFP can be drawn upon to help with stakeholder engagement for CSR and EMM projects. (<http://www.ntfp.org>)

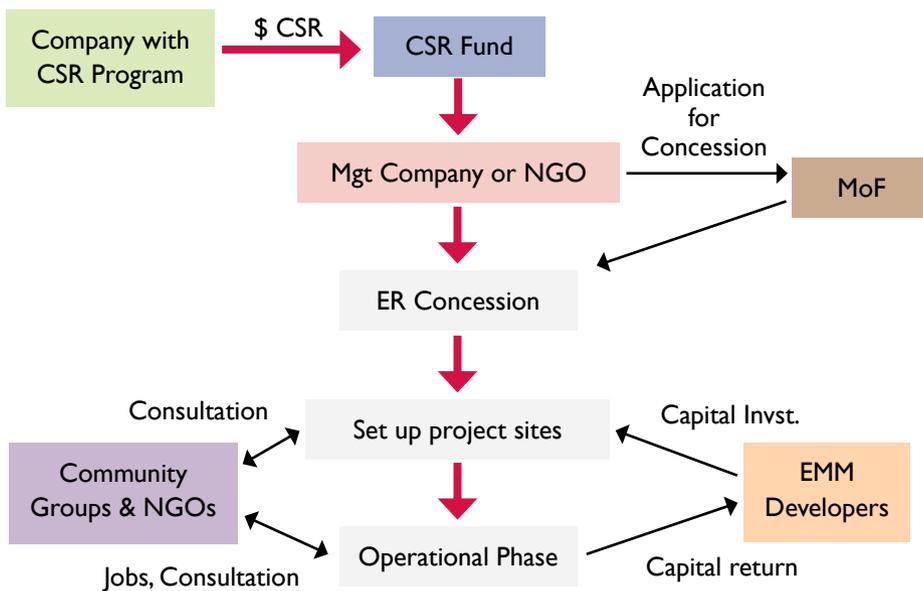
- Access to jobs, revenue sharing and meaningful partnerships
- Decreased levels of illegal forest activities²⁶
- Relationships with business and local government officials
- Ability to develop community infrastructure

CSR+ Benefits to orangutan habitat conservation projects

- Access to new sources of capital
- Development of EMM pilot projects
- Operational efficiencies and cost savings through landscape level projects
- Public and private sector awareness regarding the need for habitat conservation

At the most basic level, CSR+ process involves that following steps as represented in the flowchart below (See Figure 4)

Figure 4: CSR + Process



1. Private entity establishes a CSR fund to cover initial costs for the ecosystem restoration permit and management of the areas not covered by EMMs.
2. The project developer (either a private company or an NGO) is set up to manage the process.
3. Application for the Ecosystem Restoration concession is made.
4. Project developer sets up project sites including EMM projects.

²⁶ NTFP's work on sustainable forest management with an emphasis on the rights of forest communities provides a good example of how illegal forest activities can be decreased.

Modalities of a CSR+ landscape concession

Modality 1 Within the CSR+ concession, projects can be developed in a patchwork manner that delineates potential EMM sites. By developing projects at the landscape scale, specific sites can be identified as suitable for specific EMMs. The areas that are outside the EMM sites could be funded through residual CSR funding. In this manner, restoration and conservation of entire landscapes can be planned and managed by coordinating site-specific activities towards an overall *'green blanketing'* goal.

Modality 2 Within the concession, this approach involves maintaining CRS' non-profit status while operating a patchwork of activities rather than a patchwork of sites. According to this approach, specific activities can be funded through CSR when they would not otherwise be funded through EMMs. There is precedent for this kind of approach within Indonesia where some landscape scale projects have received donor funding for specific activities that contribute to the development of REDD projects even though the projects are intended to turn a profit for private investors. The donor funding is justified by the fact that the overall REDD project would not have proceeded without additional capital contribution. REDD and other EMM projects are considered very high-risk and often involve significant upfront financing. Most private investors are not interested in taking a chance on these types of projects until risks and costs are more quantifiable. During the early phases of EMM development in Indonesia, CSR funds could help bridge this gap between the need to test pilot EMM projects and the lack of private investment.



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Notes

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