

A PARTNERSHIP APPROACH TO ECONOMIC SUSTAINABILITY

# FINANCING THE HEART OF BORNEO





# HEART OF BORNEO NATURAL CAPITAL

CATCHMENT AREA  
FOR 14 OUT OF  
BORNEO'S 20  
MAJOR RIVERS



ESTIMATED  
STORE OF \$30BN  
WORTH OF CARBON



OVER THE PAST 15  
YEARS, AN AVERAGE  
OF 3 NEW SPECIES  
PER MONTH HAVE  
BEEN DISCOVERED

## THE HEART OF BORNEO INITIATIVE

A tri-government collaborative effort to facilitate conservation and sustainable development that improves the welfare of those living on the island and aims to save the forests and biodiversity of Borneo from deforestation and forest degradation.

Representing approximately 30% of the island of Borneo's land area, the Heart of Borneo (HoB) covers more than 20 million hectares of equatorial rainforests across three countries: Brunei Darussalam, Indonesia (Kalimantan) and Malaysia (Sabah and Sarawak). It is the largest transboundary tropical forest expanse remaining in South East Asia. Home to an astounding 6% of the world's total biodiversity, from the orang-utan to the world's largest flower, and containing the headwaters for 14 of Borneo's 20 major rivers, it is one of the richest treasure-houses on the planet. More than 600 new species have been discovered within the Heart of Borneo since 1995, an average of 3 per month.

> South East Asia's largest and oldest remaining trans-boundary tropical rainforest.

> One of only two places on Earth where orang-utans, elephants, rhinos and clouded leopards co-exist and only future stronghold for orangutans.

> Borneo has at least 15,000 species of flowering plants (equal to the entire African continent) including species with important medicinal values.

> The Heart of Borneo's extensive forests play a vital role in mitigating carbon emissions (REDD+).

> High potential for eco-tourism and bio-prospecting.

> 1 million people, with their unique Dayak culture, inside HoB directly depend on the forests for their livelihood, food, income and water.

The Heart of Borneo (HoB) Initiative is a voluntary transboundary cooperation aiming at conserving and managing the transboundary highland of Borneo and parts of the adjacent foothills and lowland, which straddle the borders of Brunei Darussalam, Indonesia and Malaysia. Brunei, Indonesia and Malaysia respectively have committed 340,000 hectares (58% of its total land area), 16.8 million hectares and 6 million hectares to be included in the Heart of Borneo. The commitments of the three HoB governments to pursue this objective are enshrined in the Heart of Borneo Declaration (see page 3).

Each of the three countries have created a unique governance structure under the HoB Declaration; the HoB National Council in Brunei, HoB Working Groups in Indonesia and National Expert Group and Steering Committees in Malaysia. The three governments have jointly developed a trilateral Strategic Plan of Action and each country has developed their Heart of Borneo specific Strategic Plan of Action or Project Implementation Framework.

The HoB Initiative has been formally endorsed by the ASEAN Heads of Government and was adopted as a Flagship Project of BIMP-EAGA 2005-2010 (Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area). In addition to its importance for biodiversity conservation and sustainable forest management, it holds global significance in reducing green house gases from deforestation and degradation, as well as potential to move the economies of Brunei, Indonesia and Malaysia to a low carbon and green foundation.

The purpose of this document is to outline the approach being undertaken by the three governments to develop and finance a sustainable Heart of Borneo, to outline the findings of phase one of this approach—scoping, and to highlight investment needs to continue to move towards sustainably financing the Heart of Borneo landscape.

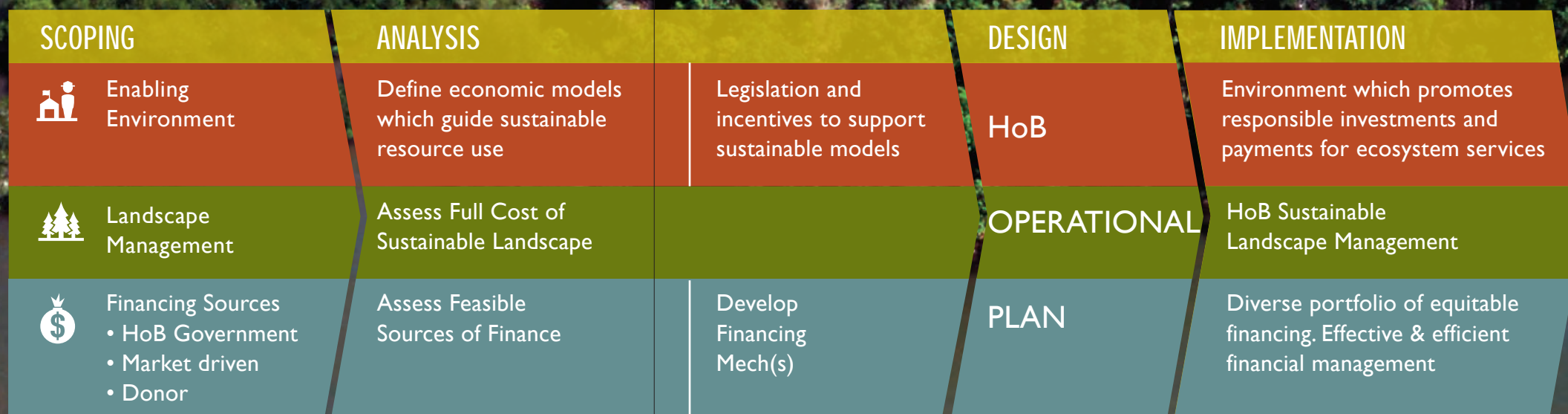


## MAJOR ACHIEVEMENTS SO FAR

- **TRINATIONAL AND NATIONAL HOB GOVERNANCE STRUCTURE IN PLACE**
- **TRINATIONAL STRATEGIC PLANS OF ACTIONS COMPLETED**
- **COUNTRY SPECIFIC STRATEGIC PLANS OF ACTIONS / PROJECT IMPLEMENTATION FRAMEWORKS COMPLETED**







## SUSTAINABLE FINANCE APPROACH

The sustainable finance approach is comprised of four phases illustrated above. The scoping phase which included a financial feasibility assessment was recently completed. The purpose of the feasibility study is to identify sustainable and lasting sources of finance for conservation and sustainable development of the Heart of Borneo. It takes a particularly close look at current and potential sources of financing from government, market and donor sources and provides recommendation as to how these can be explored further to benefit the objectives of the Heart of Borneo Initiative. These finance sources will be elaborated in more detail in the following pages.

The Analyses Phase, upcoming, aims to integrate the value of forests, biodiversity and carbon emission reduction into current development plans. This requires modeling economic scenarios, based on ecosystem services values, their benefit distribution as well as climate change impacts. The cost associated with sustainable landscape management, the sources of finance and the mechanisms to allow for efficient and equitable flow of finance needs to be assessed.

The establishment of trust funds for example provides governments with an efficient and effective means of ensuring money is transported to the HoB. This can be done through government channels or stand-alone mechanisms like conservation trust funds.

Findings from the analyses phase will build the foundations of Heart of Borneo operational plans with quantifiable conservation and sustainable development targets leading to an economic growth which incentivizes responsible investments, puts an appropriate value on natural capital and pays for ecosystem services.



# STEPS TOWARDS SECURING A SUSTAINABLE HEART OF BORNEO LANDSCAPE

## STEPS AT COUNTRY LEVEL

### 1. ALIGN HEART OF BORNEO PLANS WITH CURRENT DEVELOPMENT PLANS TO REFLECT ECONOMIC, SOCIAL, CLIMATE, BIODIVERSITY AND POVERTY REDUCTION OBJECTIVES

- Understand the value of forests, watershed, biodiversity and potential for carbon emission reduction and distribution to beneficiaries
- Assess how to optimize economic growth while maintaining HOB's natural capital and its contribution to climate change
- Estimate the cost associated to sustainable landscape management

### 2. DIRECT A PORTFOLIO OF DIVERSIFIED SOURCES OF FINANCE THROUGH SUITABLE MECHANISMS TO ALLOW FOR EFFICIENT AND EQUITABLE LANDSCAPE MANAGEMENT

- Assess and direct most appropriate sources of finance
- Assess most appropriate finance mechanism(s)
- Assess most appropriate governance mechanism(s)

## STEPS AT TRI-NATIONAL LEVEL

### 1. PARTNERSHIP APPROACH

- Explore opportunities with Partners and Donors in a coordinated approach

### 2. LEVERAGE REGIONAL POLITICAL FORUMS

- Align trade and investment priorities, as well as general trans-boundary cooperation against the priorities of the HoB plans.

### 3. JOINTLY PURSUE RESPONSIBLE TOURISM

- Identify, develop and promote trans-border ecotourism programs.

### 4. COORDINATE KNOWLEDGE EXCHANGES

- Share knowledge to improve enabling conditions (policies and standards), financing mechanisms (biodiversity offsets, bioprospecting, watershed services, etc.) and unite in communicating around globally important issues such as carbon and watershed management.



# POTENTIAL GOVERNMENT SOURCES OF FINANCE



## Licensing and royalty fees

Classified as government non-tax revenue, licensing and royalty fees are collected annually from resource extractive companies. The magnitude of the fees is dependent on government policy, but are usually attached to a quantifiable amount (e.g. amount of natural resources extracted).

## Special funds

Government initiatives that specify/earmark the collection and use of fees from resource extractive companies or other sources.

## Direct and indirect subsidies

Producers can be encouraged to adopt biodiversity-friendly and sustainable practices by being provided with direct or indirect subsidies. These financial incentives provide companies with motivation to engage or disengage in certain practices.

## Debt-for-nature swaps

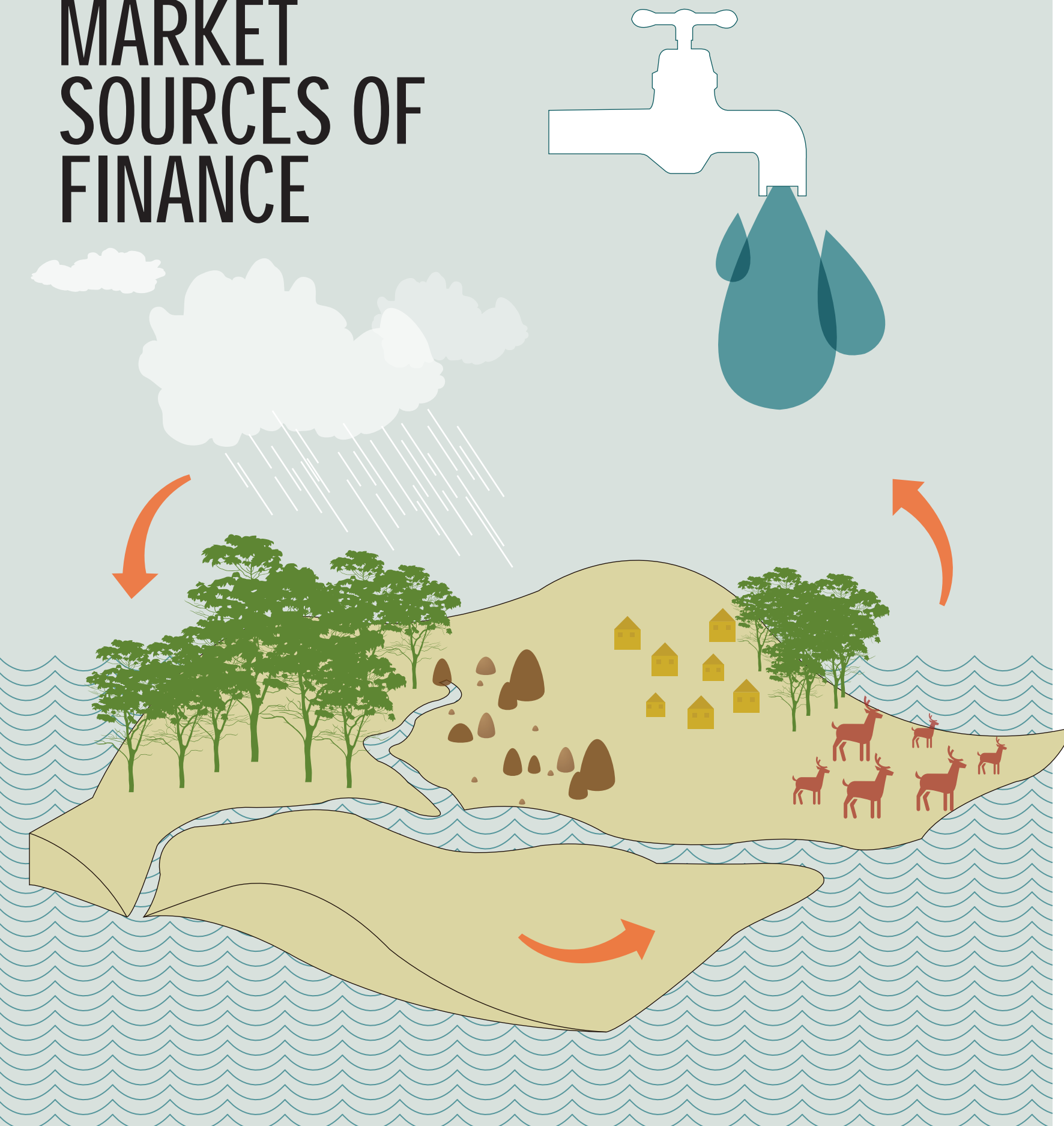
A mechanism by which public debt is purchased at a discount by an outside agency or organization and retired in exchange for government commitments to fund conservation activities, often through the establishment of a trust fund. Since 1987, such programs have contributed more than US\$1 billion to conservation worldwide. However, local currency devaluation and inflation pose a threat to the value of these debt-for-nature swaps as they can reduce or even eliminate the cash value of the conservation commitment. To mitigate these risks, agreements should be designed to minimize market vulnerability by providing contingency action in the event such a situation arises.

## Current Initiative

### KAPUAS HULU AND MALINAU CONSERVATION DISTRICTS, KALIMANTAN, INDONESIA

The Heart of Borneo National Working Group is now forming a Sustainable Finance Team, consisting of related agencies, to explore and develop potential sources and mechanisms to finance the Heart of Borneo Initiative and incentivize action at District level. The Government of Indonesia has identified three potential government finance mechanisms. These include Special Purpose Fund (Dana Alokasi Khusus or DAK), a direct grant agreement with selected districts and a Regional Incentive Fund (Dana Insentif Daerah) which is planned for 2010. In the future, these mechanisms could incorporate performance-based reward and incentive schemes to encourage conservation and sustainable practices. Two 'Conservation Districts' within the Heart of Borneo, specifically Kapuas Hulu and Malinau, have been selected as pilots to become areas where development activities rely on the fair and wise utilization of natural biodiversity and natural resources based on incentive schemes. The longer-term aim of this Initiative is to encourage all 10 Heart of Borneo districts to maintain forests for their contribution in greenhouse gas reduction, biodiversity protection, provision of watershed services and other valuable ecosystem services.

# POTENTIAL MARKET SOURCES OF FINANCE



## Water catchment service payments

Payments for water use can come from four major sources—hydroelectric power suppliers, large industrial users, municipal water suppliers, and irrigation water users. Taking into consideration the impacts of industry operations on a water catchment, payment agreements are set up in which it is dictated that a certain percentage of the water payments are put towards improving water quality and habitat restoration in the watershed.

## Carbon financing

REDD+ is a carbon financing mechanism that enables developing countries to receive credits for decreasing emissions by preventing forest degradation and loss, achieved by reducing the impact of logging and agricultural activities on forest lands. These emission reductions are translated into Verified Emissions Reduction (VER) credits sold to parties in domestic or overseas markets. The profits are then either channeled back into conservation and protection efforts or used to benefit the communities living in the affected area. The resultant quantifiable decrease in carbon emissions from the implementation of REDD+ at the sub-national level would contribute significantly to the national emissions reductions of Brunei, Malaysia and Indonesia. Additionally, REDD+ has the potential to generate future income for involved stakeholders; private sector actors have recognized the potential future income prospects of selling credits on the open market.

The potential carbon stock in the Heart of Borneo is estimated at 3.3 Gtonnes. Presently, efforts are emerging in Brunei, Kalimantan (Indonesia), Sabah and Sarawak (Malaysia) to access REDD financing. Due to the different legal and institutional frameworks as well as policies on financing, Heart of Borneo countries are proceeding with recommended mechanisms on a country basis, noting the added value of a trilateral coordinated approach.

## Mitigation banking and biodiversity offset payments

Natural resource extraction companies are addressing the environmental impact of their activities by establishing direct payments to offset any damage. Payments can vary widely in amount and may be voluntary or required by law.

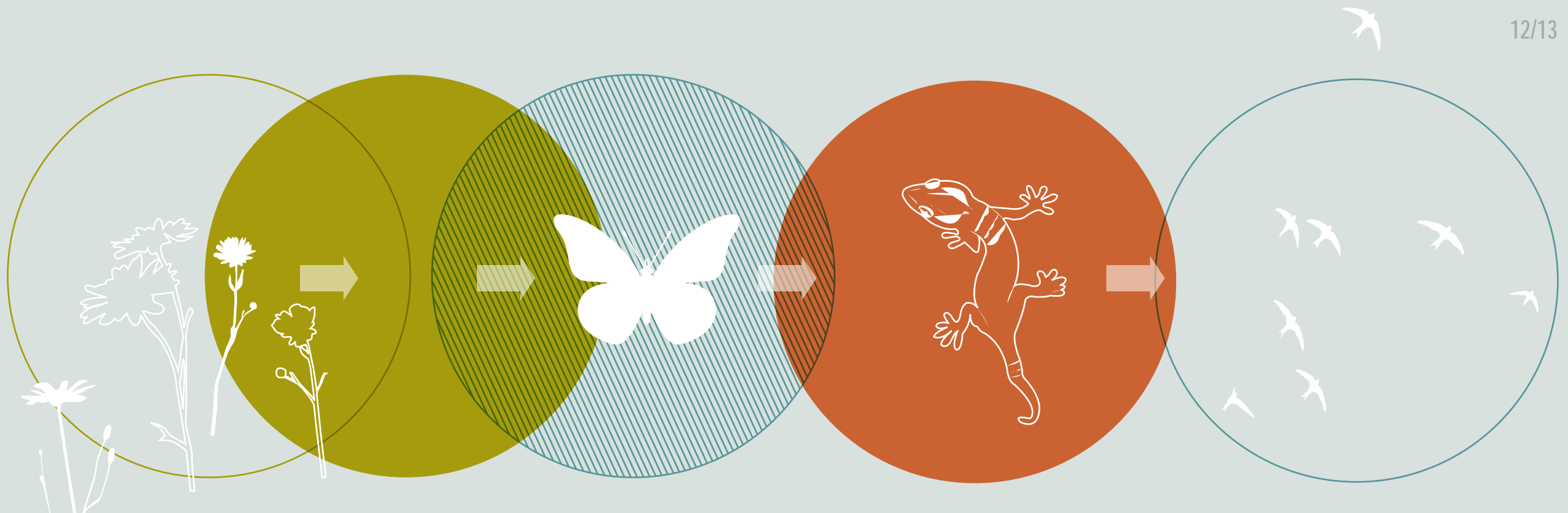
In environmental contexts, mitigation refers to efforts to reduce or offset the negative environmental consequences of activities that are permitted despite their negative impact. Biodiversity offsets are measurable conservation outcomes resulting from the compensation of residual adverse biodiversity impacts persisting after appropriate prevention and mitigation measures have been implemented. The aim of these two methods is to achieve no net loss of biodiversity.

## Current Initiative

## MITIGATION BANKING AND BIODIVERSITY OFFSET PAYMENTS, SABAH, MALAYSIA

The Sabah State Government licensed conservation rights for a period of 50 years to the Malua BioBank and a private investor has committed up to US\$10 million for the rehabilitation of the Malua Forest Reserve over the next six years. In this Initiative, the Malua BioBank sells Biodiversity Conservation Certificates (BCCs), for US\$10, each representing 100-square meters of rainforest restoration and protection. Revenues from BCCs are used to recover costs incurred and to endow a trust fund ("Malua Trust") set up to manage the long-term conservation management of the Malua BioBank over the remaining 44-year period of the license. Profit will be shared between the forest management license holder. Assuming all BCCs will be sold for the 34,000 ha area the project has the potential to earn US\$34 million. At this point, there is no formal legal mechanism to allow third-party mitigation as a mitigation option for requirements in Sabah. The demand is driven by voluntary interest, however, there are ongoing efforts for Sabah to implement a No Net Loss Legislation.





#### Current Initiative

### BIOPROSPECTING IN BRUNEI DARUSSALAM

Brunei is currently exploring the potential of bioprospecting through an agreement with a Japanese institutional partner, the National Institute of Technology and Evaluation (NITE). Together with NITE, Brunei is identifying microorganisms from the Brunei's rich forest and genetic resources with the potential for pharmaceutical or industrial applications for biological resources. The five year agreement focuses on capacity building and inventorying these resources found in Brunei and will ensure a close working relationship with scientists from the University of Brunei Darussalam (UBD).

#### Current Initiative

### PAYMENTS FOR WATERSHED SERVICES, KAPUAS HULU, INDONESIA

The potential for watershed service payments to maintain the forests and watersheds in the Heart of Borneo is promising. Many examples of payments for watershed services exist around the world, including the establishment of seven Water Funds in Latin America. An ongoing initiative in the Conservation District Kapuas Hulu, supported by WWF-CARE-IIED, seeks to improve watershed management through incentive schemes and capacity building to assist village institutions in planning and implementation of development programmes. Potential buyers include the Public Water Service, other districts along the Kapuas River, provincial government and industry, while the sellers are communities living in and around Betung Kerihun National Park. Further analysis of the requirements and revenue potential within this area is currently being undertaken.

#### Tourism payments, fees & taxes

- Protected Area Entrance Fees provide a mechanism for raising tourism-based conservation revenue.
- Recreation License Fees and Special Access Payments are fees charged for park-related activities: daily use fees; vehicle, boat and plane fees; camping fees; and special service fees. By supplementing the basic park entry revenue, these fees help cover the true costs of supporting park visitors. In some cases enough revenue is produced to benefit other protected areas or conservation practices.
- Transportation and Hotel Taxes: though already existent in most countries, a number of governments have implemented additional airport passenger and hotel taxes specifically to raise revenue for conservation.

#### Bioprospecting

Pharmaceutical companies enter bioprospecting agreements with developing countries that enable them to engage in the search for new sources of chemical compounds, genes, proteins, microorganisms and other products with potential economic value. In the event that the search leads to the development of a major drug, the agreement stipulates the sharing of benefits between the pharmaceutical company and the host country. Countries like Brunei already have such agreements in place but the need remains to set up institutes that provide the full range of research, documentation and data repository for all future partners in the HoB.

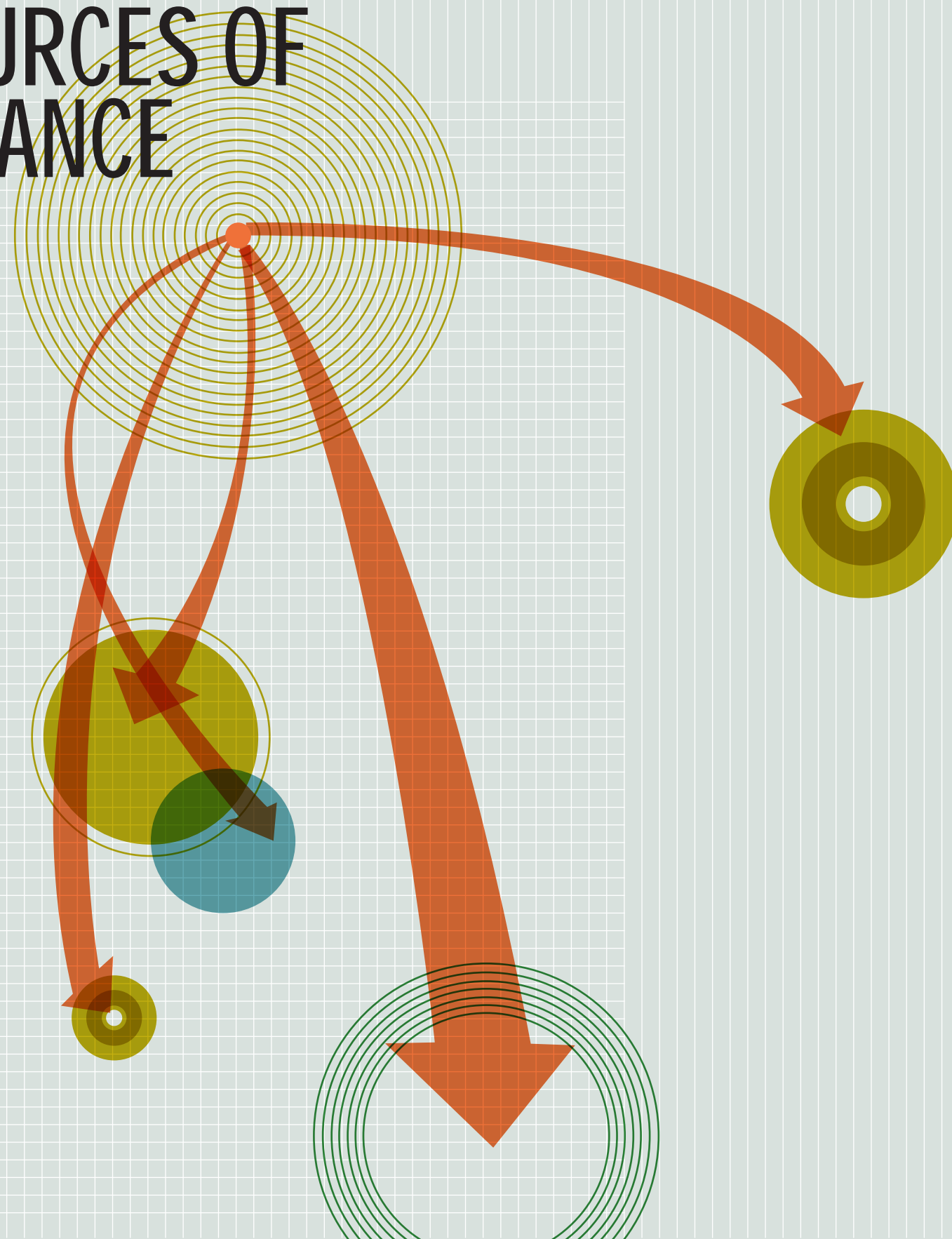
#### Sustainable capital

A category of funds that utilizes access to favorable equity, credit and microfinance as incentive to promote environmental sustainability. Includes what is known as favorable credit and microfinance.

Favorable credit is favorable interest rates provided to sustainable businesses. A number of networks across the world are emerging with the aim of connecting environmentally responsible businesses to both public and private sector lenders. The Finance Alliance for Sustainable Trade (FAST) is a global, non-profit association that represents lenders and producers dedicated to bringing sustainable products to market. Secondly, microfinance: micro-entrepreneurs who borrow at market rates have shown a repayment track record that beats that of most commercial banks. Microfinance can, not only be applied to boost local businesses, but also be a powerful development tool, generating jobs and better living standards.



# POTENTIAL DONOR SOURCES OF FINANCE



## MULTILATERAL AND BILATERAL AGENCIES

Multilateral Agencies are at the forefront of international efforts to finance conservation and sustainable development. Agencies include the Global Environment Facility (GEF), the Asian Development Bank and the World Bank. Bilateral aid is a voluntary transfer of resources from one country to another. The three Bornean countries have very different access to such aid, with many agencies assisting Indonesia, and fewer directing aid to Malaysia or Brunei. A partnership program is, however, possible where partners support a trilateral program yet direct financial aid to only one or two countries.

### Corporate donors and corporate social responsibility (CSR)

Money originates from special funds or programs, often tied to a company's Corporate Social Responsibility efforts. Otherwise termed, Corporate Citizenship, Business Sustainability or Corporate Responsibility. These programs recognize a company's responsibility for providing more benefits than just profits to its shareholders. A company has a role to play in treating its employees well, preserving the environment, supporting philanthropy and fostering human rights, among others.

### Philanthropic foundations and NGOs

Philanthropic Foundations and NGOs such as the World Wide Fund for Nature (WWF), Conservation International (CI) and The Nature Conservancy (TNC) have long supported conservation and sustainable development.

### Individuals

This can include individuals of any type but focuses on high net worth individuals.

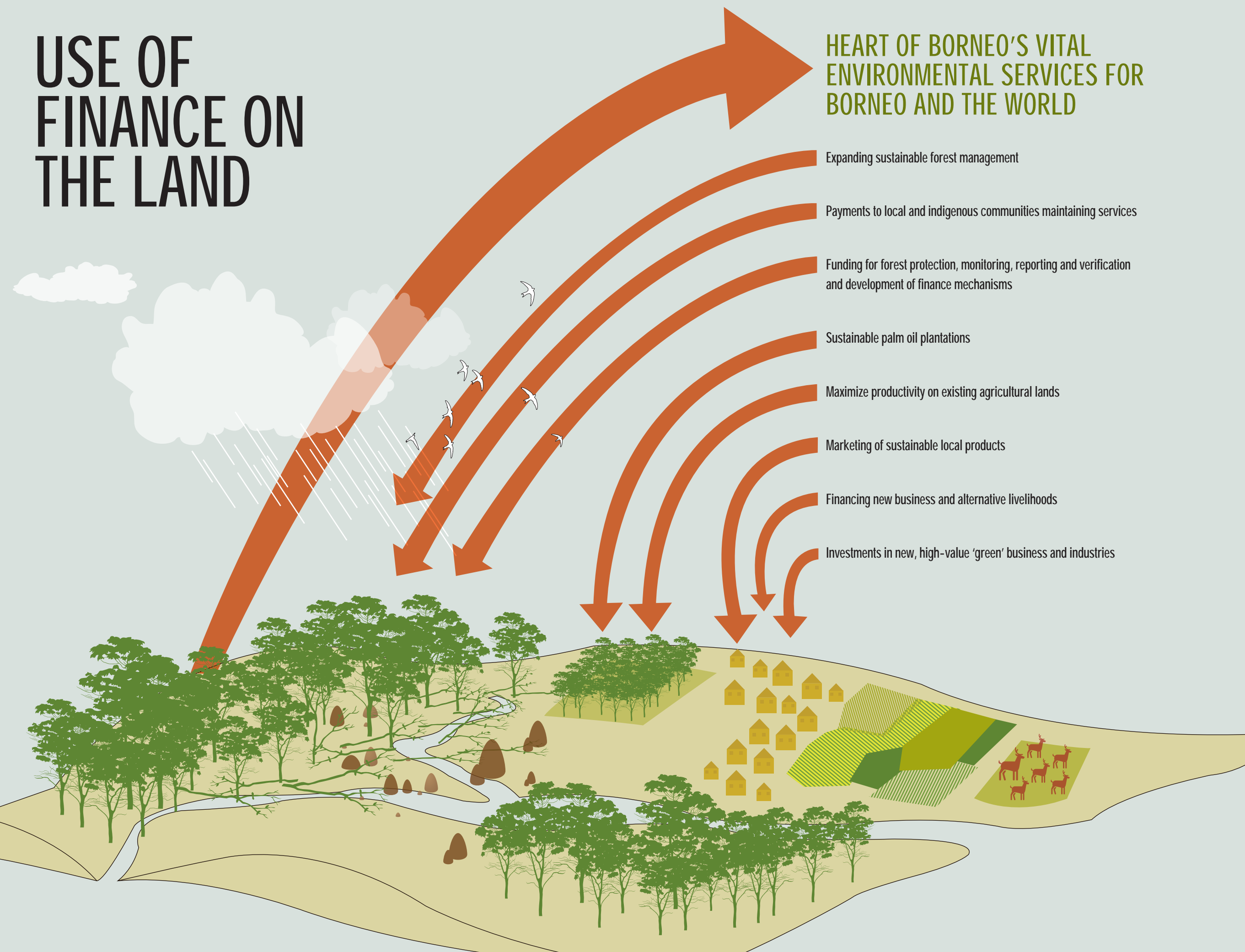
### In-situ ex-situ conservation partnerships

Conservation partnerships typically exist between governments and zoos. It is a formalized agreement that presents opportunities for collaboration on ex-situ (field) projects. Zoos have extensive donor contacts as well as access to technical resources that can be dedicated to specific research driven projects. Also, zoos are able to attract attention and build awareness in their home countries.



# USE OF FINANCE ON THE LAND

## HEART OF BORNEO'S VITAL ENVIRONMENTAL SERVICES FOR BORNEO AND THE WORLD



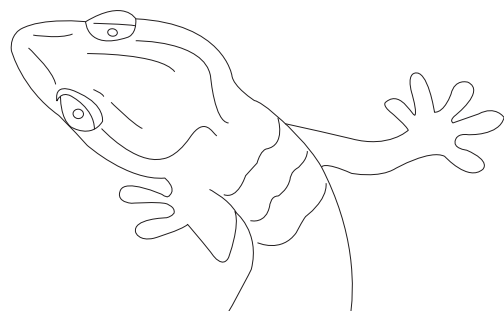


## SECURING APPROPRIATE SUSTAINABLE SOURCES OF FINANCE WILL HELP REALISE THE POTENTIAL OF THIS TRI-GOVERNMENT COLLABORATION TO MOVE ECONOMIES OF BRUNEI, INDONESIA AND MALAYSIA TO A LOW-CARBON AND GREEN FOUNDATION.

The Heart of Borneo's biodiversity and ecosystems not only enhance the case for strong international action to curb greenhouse gas emissions and preserve the environment, but also provide investment opportunities to both mitigate climate change impacts and develop adaptation measures.

Government and market sources of finance can be utilized to sustain the Heart of Borneo landscape. Combined with donor sources, the HoB three governments are in position to transition towards low-carbon and green development paths that are based on biodiversity conservation, forest and watershed protection and carbon emission reductions.

The Heart of Borneo is one of the few remaining transboundary forests where sufficiently large areas of forest can be sustainably managed and conserved on a scale that is likely to be successful in the long-term. Brunei, Indonesia and Malaysia are working together to develop opportunities to achieve the economic sustainability that is essential to ensure the success of their united commitment to the Heart of Borneo's 'Three Countries, One Conservation Vision'.



## INTEGRATING THE VALUE OF FORESTS, BIODIVERSITY AND WATERSHED SERVICES INTO NATIONAL AND LOCAL DEVELOPMENT PLANS WHILE OPTIMIZING ECONOMIC RETURNS TO IMPROVE LIVELIHOODS ARE KEY PRIORITIES WITHIN THE HEART OF BORNEO INITIATIVE