



Inclusive Carbon Project (ICP) Policy Brief

First edition Q1 | April 2023

Carbon Policy Lab
by CarbonEthics

Social Return of Investment (SRoI) Ensuring Inclusive Carbon Projects, Fostering Social Impact

Key Summaries

- **Collaboration between the government and think tanks**, such as Carbon Policy Lab by CarbonEthics, must be endorsed to establish concrete and SMART-inclusive carbon project guidelines.
- **Local communities** should be key players in carbon project planning, implementation, and evaluation.
- **More inclusive carbon projects** are needed to achieve and maintain Indonesia's net-zero goals in 2060 aligned with the global target to keep global temperature rise below 2° Celsius.
- **Carbon Project** needs continued advocacy and standardization in Indonesia following the safeguarding mechanism or inclusive carbon project guideline made by the experts/panels.
- **Social Return of Investment (SRoI)** should be promoted to ensure inclusive carbon project implementation, focusing on local community development and sustainability.

What is the Issue?

The enactment of Presidential Regulation No. 98 of 2021 on the Implementation of Carbon Economic Value (NEK), followed by a series of its derivatives, marks the beginning of carbon utilization escalation in Indonesia. These regulations encourage market mechanisms to solve climate change issues by ensuring the attainability of the 2° Celsius temperature threshold. Consequently, carbon markets, both from public and private funding, are predicted to surge significantly in the upcoming timeline. Despite the positive forecast for this new industry, one prime question in responding to this situation remained crucial and unanswered:

to whom will the benefit of carbon projects be directed? Will it provide an equitable share of benefits to communities living in and around the carbon project? Or is it just a new method to exploit the local communities? It underlines the ultimate concern related to the inclusivity of carbon projects in Indonesia.

The UN-REDD Programme has acknowledged that concern as part of community development and benefits from carbon schemes. The UN emphasizes the rights of local communities for a carbon project, stating that neglecting communities' rights will not



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only harm their well-being but also threaten the future of carbon markets. Unverified carbon projects experience these issues more than verified ones, favoring the high levels rather than the grassroots and methodological soundness. Furthermore, local communities, especially in the coastal areas, are the most vulnerable while becoming the first guard of the conservation and rehabilitation process.

Some domestic and international cases show that carbon projects have potential conflicts with local communities, also considered minority and indigenous groups. For instance, Safola Carbon Project in Mozambique by British company Envirotrade from 2003 to 2018 failed to fulfill its promise to hundred local communities to level up their livelihood as the company went bankrupt due to mismanagement. In 2019, the Supreme Court of India ordered the forced eviction of millions of forest-dwelling people following a case filed by wildlife conservation organizations to conduct carbon projects. While in Indonesia, the Ulu Masen REDD+ implementation failed in Aceh from 2007-2012 due to a lack of coordination and local community ownership of the project.

Those cases at least emphasize three crucial points concerning the inclusivity issues in the carbon project that comprise from:

- Poor information about community locations and difficult access means that information does not reach families living in remote areas.
- Local people are reluctant to engage due to prior dependence and government restrictions.
- The reliance on the safeguards of local institutions needs to be more representative.

Unfortunately, current carbon regulations and policies have yet to accommodate sufficient provisions regarding community development and benefits from the carbon projects, ensuring their participation in the scheme. It highlights the need to endorse concrete safeguarding mechanisms, such as social impact assessment through Social Return of Investment (SROI) in each stage and activity of a carbon project. Therefore, this policy brief aims to point out the importance of enacting and strengthening community rights to carbon project development and highlight essential takeaways for future regulation and policies by policymakers.

Why is this Important?

Scholars argue that SROI can alter local communities' carbon project perception and acceptance. It provides an alternative evaluation for the existing or conventional financial account that should have incorporated the carbon project's environmental and social value/impact. Extra economic value received by local communities as stakeholders should be identified to improve project performance and investment, giving them a voice in resource allocation decisions.

Moreover, Social Ventures Australia Consulting states that the SROI application is relevant for a

project where there are few definitive answers or standards to use, like what happens in Indonesia's carbon market. The SROI ratio is not only one aspect of the community's and the project's story of change but also has a broader meaning to ensure proper calculation and accounting of carbon projects. It measures and accounts for value created by an intervention or a policy based on social accounting and cost-benefit analysis, generating a benefit-to-cost ratio for organizations to communicate the value-add of their projects to external stakeholders.



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Therefore, putting local communities at the forefront of carbon performance through SROI would be beneficial in ensuring the sustainability of carbon projects and has been proven beneficial in numerous cases. At least there are three benefits of this mechanism, (1) declining deforestation and biodiversity loss by improving community awareness and forest protection capacity, (2) reducing poverty by providing new/alternative livelihoods, and (3) increasing financial value and business interest in carbon projects. Moreover, growing demand for co-benefits and considerably significant funding from benefit-sharing projects: can increase the economic value of Indonesia's carbon in the world market.

Through Article 12 Paris Agreement, improving the welfare and participation of local communities is considered a promising approach to achieving climate targets. COP 26 Glasgow, in November 2021, has pinned out the importance of recognizing the rights of local communities per relevant national legislation as part of social impact assessment like SROI. Social impact assessment should follow the rights process from the establishing scope and stakeholders identification until calculation and reporting-embedding. It underlines that communities around projects should benefit most from carbon credit from their land and utilization of natural resources by all related stakeholders.

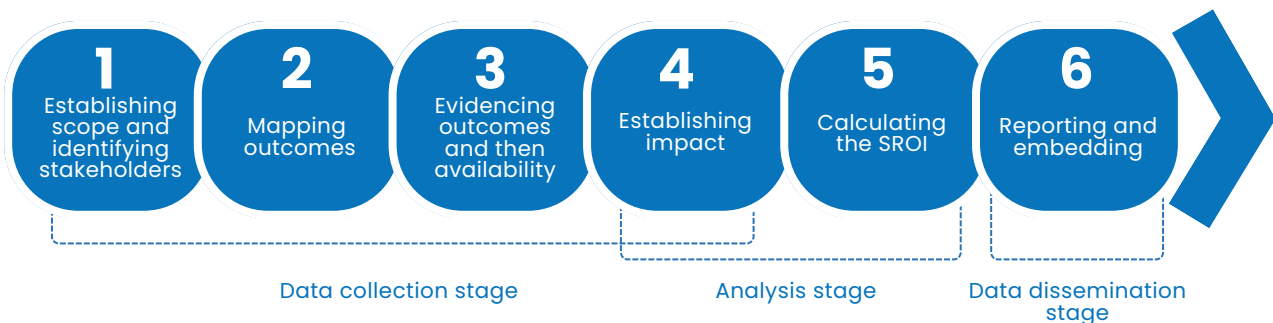


Figure 1.1 Stages of SROI process

What we can recommend for the policymakers and other stakeholders?

Endorsing Social Return of Investment for ensuring inclusive carbon projects in Indonesia. SROI is a worthy indicator for an inclusive carbon project as it allows local community interest to shape the project and receive the correct value, particularly the socio-economic benefits. Community capacity development has been a significant component of SROI, from their training hours, engagement outcome, local workforces, etc. Moreover, transparency and result verification are also required for this method to allow the third party

evaluates the report made by the project developers or companies.

Local Community Advocacy guarantees local communities' inclusivity throughout all carbon project planning and implementation stages. Social enterprises and NGOs, through SROI, can opt for robust safeguards in protecting the rights of local communities, including their tenurial rights and procedural and substantive rights of a healthy environment. Stakeholders in the carbon industry



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must advocate the SROI implementation consistently, allowing it to become a mainstream component of an inclusive carbon project.

Encourage Transparent Benefit Sharing that is applicable and aligns with the community needs, with a deep understanding of their sociological and cultural context. Ensuring local context and experience is critical to creating inclusive carbon projects. Project developers and private actors should diminish biases toward local communities and follow the Free, Prior, and Informed Consent (FPIC) principle as part of inclusion and consensual acts during planning, implementation, evaluation, and reporting.

High Social Impact Enterprises Participation is needed to ensure the proliferation of SROI utilization within the carbon industry. They have the awareness and technical skills to promote the value of social investments for each carbon project,

seeking benefits and providing additional from the community development and environmental protection efforts. Social impact enterprise also has the distinction of implementing social impact assessment as a core component of their business activities.

Policy and regulation realignment. Giving clear and defined communities rights over carbon projects held in their customary lands and territories is necessary as part of the safeguarding mechanism that the Indonesian government should consider in future regulation formulation. Existing policies and regulations has yet to emphasize the monetary value of social inclusivity in the carbon project across sectors not limited to forestry but also agriculture, energy, and manufacturing. It should accommodate the needs of household-level action related to carbon projects.

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About CarbonEthics

CarbonEthics is an organization that aims to restore the climate balance through natural climate solutions with pioneers in blue carbon conservation.

When you conserve with **CarbonEthics**, you are creating positive environmental change and advancing social impact by directly enhancing the livelihoods of our local community partners.