CarbonEthics | Carbon Policy Lab

Inclusive Carbon Policy Brief
The Second Quarter Edition: Special Warkop Karbon Indonesia | **June 2023**

Valuing Social Contribution to Carbon and Conservation Project in Indonesia: Put the Right Price for the Carbon Market

Key Summaries

- **Valuing Social Impact, both the cost and benefits of a carbon project,** is necessary to create the best (correct) price for a high-impact and integrity carbon project currently and should be expensive in the market.
- **Collaboration between the government and think tanks** such as Carbon Policy Lab (CPL) must be endorsed to establish a concrete and SMART social impact guideline in Indonesia.
- **Local communities should be key players** in carbon project planning, implementation, and evaluation based on the social impact assessment, especially women and marginal groups.
- **The marginal social cost of carbon should equal its marginal social benefits** to ensure optimum and equilibrium social impact for the communities in the long term.
- **Social impact enterprise and Social Return on Investment (SRoI)** should be promoted to ensure inclusive carbon project implementation, focusing on local community development and sustainability.

What is the Issue?

The early development of carbon projects is driven by the market mechanism to value or put a price on forest conservation or protection in developing countries, allowing capital transfer from developed countries in return for offsetting credits to significant corporations. It is a big part of climate change mitigation, ensuring private financing in preventing the climate catastrophe from happening due to extreme weather, global temperature rise, and other environmental degradation issues. So, the early years of the carbon market focused on ensuring the integrity of carbon credit from the conservation project emission reduction, mainly nature-based solutions rather than co-benefits or social impact of the project to the society, specifically local communities at the grassroots level.

Local communities always be the critical component of the conservation project, including the carbon credit, especially for the forestry sector, which depends on local communities' actions to sustain its operation. In Indonesia, 48.8 million people live on state forest land, and around 10.2 million are categorized as poor, where 71.06% depend on forest resources. This data highlights the urgency to overcome social conditions issues within the forestry sector (Murti, 2018). Many international environmental non-governmental organizations (ENGOs) echo these issues to prevent the exploitation of community land or resources for companies' greenwashing activities. Some international policymakers and scholars also voice their thoughts about this potential greenwashing and mismanagement

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of carbon project activities underlining the corporation's tendency to only care for the credit in supporting big companies' offsetting targets. This concern remains relevant today as carbon credit price is increasing, and socio-environmental control, monitoring, and evaluation in some parts of the world, especially developing countries, still need to level up.

Existing conservation projects and government regulations have yet to define and include the social cost and benefits calculation to ensure the correct price of carbon projects and credit. A common understanding of carbon social cost is the total cost paid for by society due to the activities of a firm, and social benefit is the total benefit arising from a firm's production of goods and services that should be transformed into practice. Moreover, the marginal social cost of carbon should equal its marginal social benefits to reach optimal outcomes and equilibrium. However, this situation has yet to be reflected in Indonesia's case, as distortion from government intervention and business information insufficiency distorts and hinders market advancement.

Carbon Credit should be the cherry on Indonesia's carbon project or conservation efforts. Specific guidelines or standards should contain the profit-seeking approach to ensure the local communities' interest is heard and included in the project development. Through the Ministry of Environment and Forestry (MoEF), the Indonesian government endorsed this idea strongly on many occasions, not limited to the Ministry Regulation, Public official statements in workshops and conferences, and some internal publications/research. The general public should understand this to protect the community as a safe-guarding mechanism and to ensure fair and transparent shares of benefits from the carbon or conservation project. This idea is endorsed by the first Warkop Karbon Indonesia, a high-level discussion about Indonesia's Carbon Market, which discusses the critical value of understanding the social impact of carbon projects for credits.

Photo 1. Warkop Karbon Indonesia (Source: CarbonEthics documentation)

Inclusive Carbon Policy Brief

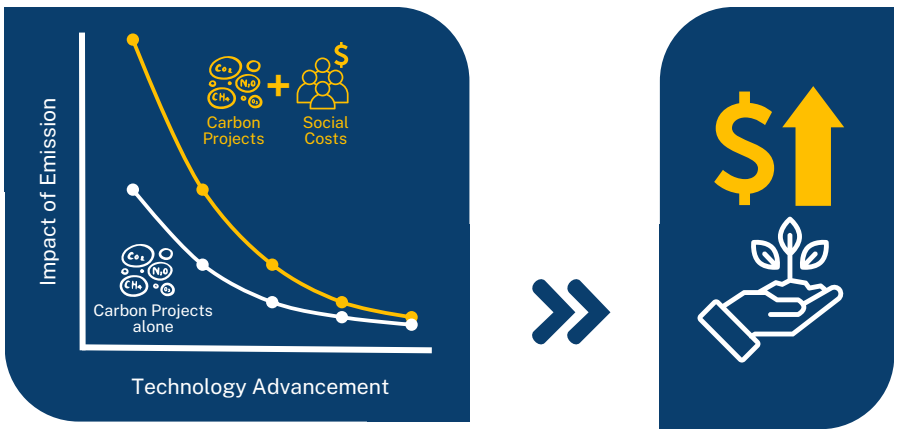
The Second Quarter Edition: Special Warkop Karbon Indonesia | **June 2023**

Why is this important?

Valuing the social impact of carbon and conservation project has some critical aspects not limited to protecting society from the exploitation and manipulation of profit-only seeking companies but also to ensuring the inclusivity of the projects for sustainable development. In other words, valuing social contribution to the carbon project is necessary to ensure the project's continuity in the long term. This approach is suitable and relevant for social impact enterprises that are not only looking for financial stability and profit but also to solve society's actual environmental and socio-economic problems.

Moreover, valuing the social impact of carbon projects for credit positively affects the enhancement of carbon markets, which essentially puts a price on pollution and creates an economic incentive for lowering emissions. We can expect the transformation acceleration if the social impact of carbon is held to high standards of integrity and transparency. It can also contribute to raising some of the enormous financial capacity needed to develop climate resilience by 2030, 1,5% of the Gross Domestic Product (GDP) of upper-middle-income countries, 5% for lower-middle income, and at least 8% of total GDP for low-income countries (World Bank Country, Climate and Development Reports/CCDRs, 2021)

In the process, social impact assessment for the carbon project requires methodological advancement to compare the future monetized effects of greenhouse gas emissions with the current monetized impacts of CO2 emissions. The Interagency Working Group on the Social Cost of Greenhouse Gases has developed this by ensuring the right social value from carbon monetization to reduce emissions and accelerate the development of the carbon market. More socially inclusive carbon projects will require upgrading carbon's life cycle assessment (LCA). Additionally should be reflected in the technological refinement of the industry. Lastly, carbon credit projects can deliver the social sustainability co-benefit of improved gender equality. Favorable carbon pricing could be a financial mechanism to reward early mitigation actions beyond established climate targets.



Technological refinement in the Industry will close the gap between the impact of carbon projects alone and with social cost.

Possible impact: Increased price of high-impact and integrity carbon projects

Figure 1. Social Cost of Carbon and Technology Development for High-Impact & Integrity Carbon Projects
(Source: CarbonEthics, Reproduced from Evan Sproul, Jay Barlow, Jason C. Quinn (2019) Temporal Life Cycle Assessment)*

Inclusive Carbon Policy Brief

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Audiences from the business and public sectors should understand the complexity, issues, and urgency of incorporating social impact assessment for the carbon credit project. There are different issues and capacity barriers among decision-makers and corporate actors, which inflates the perceived monetary value of carbon initiatives. Most crucially, key actors on voluntary carbon projects must still grasp the importance of environmental and social integrity for carbon projects, as only high-integrity carbon credits are marketable. This writing emphasizes the high price of social-environmentally impactful project carbon, which should be a standard that every player understands to balance the economic benefits and social contribution of conservation for global carbon credit projects.

What can we recommend for the policymakers and other stakeholders?

Establishing Indonesia's guidelines for a carbon project's social cost and contribution assessment. The rule base for the social impact of carbon projects in Indonesia should be a national standard followed by every project developer across sectors. High-standard carbon projects are also critical to achieving integrity in the long term, so the local communities are more welcomed and have ownership of the project's existence. Considering its sustainability value, a national standard is also critical to promoting carbon market advancement in Indonesia.

Promoting best practices in community development from like-minded organizations - expanding the number of social impact training facilitators using a 'best-practice activity' to create concrete consulting-project management skills and effective participation. The quality of the facilitators of the 'focal issue working group' is essential for improved involvement of diverse carbon market stakeholders. Disseminating the social impact value of carbon projects through training is critical to the first recommendation's attainability of this guideline or rule-based format. With meticulous and targeted socialization, it will be easier to see a significant transformation.

Underlining the special attention toward local stakeholders, especially women, in achieving a more significant social impact of the carbon project. Women in local regions should be vital to achieving the carbon project's more critical social impact score. Ensuring women's participation in provincial areas will create long-lasting and high-integrity carbon projects and support national regulations to encourage women's participation in the national labor forces, as the carbon project could employ women in the day-to-day project operations. The standard or guideline from the first recommendation should highlight this idea, referencing existing assessment methods like the Social Return on Investment (SRoI) component for a higher impact report's core.

Quantifying carbon's social cost and benefits, such as through the Social Return on investments or other similar impact assessments. Providing measurable indicators for valuing the social impact of carbon projects is necessary to understand the value and ensure the proper monitoring and evaluation process so it reflects and maintains the carbon pricing mechanism. Moreover, quantitative measurements of the carbon social impact underline the continuity and applicability

of similar approaches in another region as part of the lessons learned to enhance the carbon project's effectiveness.

Advocating and mainstreaming the social impact of carbon project assessment in various public-private communication channels, such as Warkop Karbon Indonesia and Karbon Biru by Carbon Policy Lab: CarbonEthics. Enable communication between public and private sectors through active and participative communication in the form of focus group discussion and networking necessary. Each party's concerns must be heard and reflected on the inclusive carbon project agenda. Inclusivity of carbon projects as part of the cost and benefits analysis of carbon should be a general understanding to pursue from the more similar engagement of Warkop by other organizations in the field -- keep producing public knowledge for better carbon market mechanism.

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CarbonEthics | Carbon Policy Lab

Inclusive Carbon Policy Brief

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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.

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