

CLIMATE INVESTMENT FUNDS

FIP/SC.9/6
October 10, 2012

Meeting of the FIP Sub-Committee
Istanbul, Turkey
November 5, 2012

Agenda Item 6

INVESTMENT PLAN FOR INDONESIA

PROPOSED DECISION

The FIP Sub-Committee, having reviewed document FIP/SC.9/6, *Investment Plan for Indonesia*,

- a) endorses the Investment Plan as a basis for the further development of the projects foreseen in the plan and takes note of the total requested funding of USD 70 million (USD 37.5 million in grant funding and USD 32.5 million in loan financing).
- b) approves a total of USD 1.3 million in FIP funding as preparation grants for the following projects,
 - i. USD 500,000 for the project “*Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)*”, (ADB);
 - ii. USD 300,000 for the project “*Strengthening of Forest Enterprises to Mitigate Carbon Emissions*”, (IFC); and
 - iii. USD 500,000 for the project “*Promoting Sustainable Community Based Natural Resource Management and Institutional Development*”, (World Bank)to be developed under the investment plan.
- c) takes note of the estimated budget for project preparation and supervision services for the projects referenced above and approves a first tranche of funding for MDB preparation and supervision services as follows:
 - i. USD 350,000 for the project “*Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)*”, (ADB); and
 - ii. USD 350,000 for the project “*Promoting Sustainable Community Based Natural Resource Management and Institutional Development*”, (World Bank).
- d) requests the Government of Indonesia and the MDBs to take into account all written comments submitted by Sub-Committee members by November 20, 2012, in the further development of the projects.



MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA
FISCAL POLICY AGENCY

R.M. NOTOHAMIPRODJO BUILDING 3RD FLOOR JL. DR. WAHIDIN RAYA NOMOR 1 JAKARTA 10710
PHONE (021) 3441484; FAX (021) 3848049; WEBSITE www.fiskal.depkeu.go.id

Ref.: S- 710 /KF/2012

October 8 , 2012

Ms. Patricia Bliss-Guest
Program Manager
Climate Investment Funds Administration Unit
Washington, D.C.

Subject : Submission of Indonesia's FIP Investment Plan

Dear Ms. Bliss-Guest

On behalf of the Government of Indonesia, I hereby submit Indonesia's draft on FIP Investment Plan, which has been prepared with the support of the ADB, the WB, and the IFC, and with consultation with relevant stakeholders.

We hope that the Plan could be communicated as appropriate for deliberation in the upcoming FIP Sub-Committee Meeting, Istanbul, 5 November 2012.

We would appreciate your kind assistance with further processing of the Draft Investment Plan.

Sincerely yours,


Bambang Brodjonegoro
Head of Agency

Cc. :

1. Hon. Minister of Finance, Indonesia
2. Secretary General, Ministry of Forestry, Indonesia
3. Senior Advisor to the Minister of Forestry on Institutional Affairs, as Indonesian Focal Point for the FIP and Member of the FIP Sub-Committee
4. Head of Center for Climate Change Financing and Multilateral Policy, MoF, Indonesia



**MINISTRY OF FINANCE OF THE REPUBLIC INDONESIA
SECRETARIAT GENERAL**

DJUANDA I BUILDING, 4th FLOOR, Jl. WAHIDIN RAYA NOMOR 1 P.O. BOX 21
Telepon : +62 21-3449230 EXT 6117, +62 21-3510055 Faksimile : +62 21-3844784
WEBSITE : www. depkeu.go.id

Ref.

8 October 2012

Ms. Patricia Bliss-Guest
Program Manager
Climate Investment Funds
Administration Unit
Washington

Dear Ms. Patricia Bliss-Guest,

Submission of Indonesia's Forest Investment Programme (FIP)

On behalf of the Government of Indonesia, I hereby submit Indonesia's Draft Forest Investment Plan, which has been prepared with the support of the ADB, the WB, and the IFC, and with consultation with relevant stakeholders.

We hope that the Plan could be communicated as appropriate for deliberation in the upcoming FIP Sub-Committee Meeting, Istanbul, 5 November 2012.

We would appreciate your kind assistance with further processing of the Draft Investment Plan.

Yours sincerely,

Kiagus Ahmad Badaruddin
Secretary General, Ministry of Finance
Republic of Indonesia

cc.

1. Minister of Finance
2. Secretary General, Ministry of Forestry
3. Dr. HadiPasaribu, Senior Advisor to the Minister of Forestry on Institutional Affairs, as Indonesian Focal Point for the FIP and Member of the FIP Sub-Committee

REPUBLIC OF INDONESIA

FOREST INVESTMENT PROGRAM
INDONESIA FOREST INVESTMENT PLAN

October 10, 2012

Executive Summary

FOREST INVESTMENT PROGRAM (FIP) Summary of Country Investment Plan		
1. Country/Region:	Indonesia	
2. FIP Funding Request (in USD million):	Grant: \$37.5 Million	Loan: \$32.5 Million
3. National FIP Focal Point:	Dr. Hadi S. Pasaribu Senior Advisor Ministry of Forestry (MoFr) Indonesia hadisparibu@yahoo.com	
4. National Implementing Agency (Coordination of Investment Plan):	Ministry of Forestry (MoFr) <ul style="list-style-type: none"> • Directorate General of Forest Utilization • Directorate General of Forestry Planning • Directorate General of Watershed Management and Social Forestry Development Ministry of Home Affairs Local Governments	
5. Involved MDB	ADB, World Bank, and IFC	
6. MDB FIP Focal Point and Project/Program Task Team Leader (TTL):	Headquarters-FIP Focal Points: Dr. David McCauley - ADB Advisor and Head, Climate Change Program Coordination Unit dmccauley@adb.org Ms. Joyita Mukherjee - IFC JMukherjee1@ifc.org Dr. Gerhard Dieterle - WB Adviser gdieterle@worldbank.org	TTLs: Dr. Ancha Srinivasan - ADB Principal Climate Change Specialist asrinivasan@adb.org Dr. Michael Brady - IFC Forest Program Manager mbrady1@ifc.org Mr. Werner Kornexl - WB Senior Climate Change Specialist wkornexl@worldbank.org

7. Description of Investment Plan

Indonesia is in the process of planning and implementing significant changes in the way forested land is managed, and FIP presents an important opportunity for supporting this process. The National Action Plan on Greenhouse Gases (GHGs), the National REDD+ Strategy, the Forest Management Unit (KPH) program and recent tenure reforms introduce far-reaching programs that represent a potential transformation toward a forestry sector that is compatible with sustainable growth and equity. Progress in planning at the national level now needs to be translated to actions in the forest; however, a number of barriers to implementation at the local level remain. These include, a lack of local institutional capacity for forest management, lack of institutional capacity for spatial planning, a business climate that is not conducive to sustainable forestry and community forestry investment, weak community capacity, and poor access to forest resources.

The development objective of the Investment Plan is to reduce barriers to sub-national REDD+ implementation and to increase provincial and local capacity for REDD+ and sustainable forest management (SFM). Key entry points for the Investment Plan to address sub-national barriers will be the national KPH system and ongoing tenure reform processes. Activities will focus on the following three inter-related themes:

- Institutional development for sustainable forest and natural resource management
- Investments in forest enterprises and community based forest management
- Community capacity building and livelihoods development

Theme 1: Institutional Development for Sustainable Forest and Natural Resource Management

Institutional strengthening will be aimed at community-focused investments to enhance the enabling conditions for sustainable land use and REDD+ project implementation. Activities will support KPHs and other subnational institutions in improving local conditions for REDD+ implementation, in particular in relation to participatory planning, spatial planning, and community outreach and related management and business plan development.

Interventions will be based on institutional capacity building and development needs for improved planning processes for addressing site specific and community needs. The interventions will cooperate with local programs and build on ongoing activities and existing community structures and processes at a local level. The program would also cooperate with provincial and national institutions to link into the National REDD+ Strategy and the proposed financial mechanism and into national programs.

Key areas where FIP can support institutional capacity development include:

- Provide support at the local government level for the integration of KPH institutions into local government and national structures;
- Provide institutional capacity building to KPH institutions, including training of staff;
- Support stakeholder participation in the development of KPH institutions;
- Support forest management activities carried out by the KPH institutions, such as:
 - Development of forest management plans
 - Forest and land rehabilitation
 - Community empowerment
 - Outreach and extension services
 - Participatory planning and mapping at community level and around targeted KPHs;
- Provide analytical support for KPH acceleration;
- Establish a grievance and redress mechanism involving district governments, local communities, and KPHs;
- Pilot district-wide or KPH-wide REDD+ safeguards information system;

- Strengthen knowledge management and exchange between districts, provinces and countries on forest management, and participatory spatial planning; and
- Provide technical assistance and analytical support at the national and province level to support sub-national strategy development and KPH linkages to national and international programs and funding opportunities

Theme 2: Forest Enterprises and Community Based Forest Management

Forest enterprises on private and public lands (smallholder groups, cooperatives, small and medium businesses, forest contractors, etc.) are often constrained by weak business capacity, limited access to finance and lack of information on the downstream value chain of the sector. Medium and large enterprises that manage larger area concessions of natural forests, planted forests, and ecosystem restoration face different challenges such as burdensome licensing requirements, land tenure and community disputes, barriers to forest certification, integration with smallholders and communities, and linking to the downstream value chain. Other natural resources enterprises, such as agribusiness and mining, also have forest stewardship responsibilities. Innovative and transformative investments are needed for all scales and types of forest enterprises, particularly those initiatives that promote sustainable forest management leading to emission reduction and protection of forest carbon stocks.

Motivated forest enterprises will be selected from both forested and deforested regions, and where forest product demand remains high. Interventions with enterprises in communities adjacent to natural forests are intended to reduce degradation and associated emissions, while those in non-forested areas will enhance carbon stocks through planted forests. Interventions can address the need to develop viable forestry business models, which include:

- Strengthening organizational and business capacity for business operations;
- Applying sustainable forest management (SFM) principles
- Facilitating reciprocal relationships with other enterprises along the forest value chain and strategic community investment by larger companies in rural communities;
- Building multiple revenue sources from forests (e.g., timber and non-timber products, payments for ecosystem services (PES) such as carbon and water, and agroforestry);
- Facilitating access to financial support modalities such as grants, loans, credit, off take agreements, advance payments, and guarantees.
- Setting up a prototype fund to pilot or scale-up performance-based incentive schemes for the private sector to practice sustainable forest management.

Anticipated upstream interventions include: (i) community-based forest management enterprises and PES on degraded forest and grassland; (ii) plantation management on degraded forest and grassland; (iii) production forestry and sustainable forest management on natural forest; and (iv) ecosystem restoration and sustainable forest management. Interventions will also involve downstream forestry and enterprises in other related sectors linked to deforestation.

The FIP concessional financing will be particularly supportive to engage financial intermediaries such as local banks, credit agencies and lead firms. Improved access to financing will also help to leverage additional investments in small forest enterprises from public forestry support programs and private sector investors who currently view these investments as economically unviable and high risk.

Theme 3: Community land use planning and livelihoods development

Theme 3 will work directly with local communities and civil society organizations to support communities in participating in SFM and REDD+. Support to communities will be provided in close cooperation with programs that could provide the necessary livelihood investments to communities, such as PNPM (National Program for Community Empowerment in Rural Areas Project) and other small grants mechanisms.

The scope of activities can include the following areas:

- Village development planning focused on participatory mapping and forest use planning for sustainable natural resource utilization
- Support to village institutions to undertake participative data collection and forest and land use planning.
- Capacity development for communities to participate in KPH forest management planning processes
- Setting up an efficient and transparent system for customary and local communities to apply for community forest management rights
- Piloting a system for provincial registration of community forest management tenure agreements and gender-sensitive benefit sharing arrangements;
- Community livelihoods development and natural resource management
- Community- focused pilots to address drivers of deforestation and forest degradation
- Setting up a fund to pilot performance-based incentive schemes for REDD+ based on customary and village-level cooperation to prevent forest and grass fires and assist natural regeneration
- Creating a transparent and accountable fund to support upfront and transaction costs of customary and local communities to establish REDD+ projects.

The program will support land use planning efforts at village level in selected communities, preferably in and around areas of priority KPHs. Micro spatial plans or land use plans will be integrated into community development plans as integrated spatial, development and livelihood plans.

Support will also be provided to community livelihoods development and natural resource management, including activities implemented by the communities in priority areas targeting sustainable livelihood development, NTFP, forest management, fishery, and other sustainable economic activities in line with land-use plans. The investments will directly benefit communities, improve sustainable income, and reduce economic and subsistence pressures that drive some current activities.

Support will be provided for a range of community- focused pilots to address drivers of deforestation and forest degradation, including economic activities utilizing degraded lands for sustainable community livelihoods.

Block Grants may be disbursed to incentivize REDD+ related activities while supporting communities to move along an alternative, more environmentally sustainable development path by providing funding for the development of alternative livelihoods and income generation that lead to improvements in socio-economic conditions.

Supporting Cross-Cutting Analytical Work

The Investment Plan will support a number of analytical and technical assistance components at the national and project levels. These will provide guidance to the project design process, and/or will support the development of national policies. Where appropriate, collaboration will be sought with FCPF and other bilateral programs from Norway, Japan, Germany, USA and others. The following issues have been considered important to be addressed:

- **Policies related to community participation in the forestry sector.** How could various community forestry schemes (such as HTR, HKM, Hutan Desa, and Hutan Adat) contribute to equitable and sustainable use of forests? What opportunities could be created by recent Government of Indonesia (GOI) commitments on tenure reform beyond the current licensing framework? Further analytical work could be provided to support the Working Group on Macro Forest Tenure planning.
- **Forest concession licensing processes and impacts on local communities.** What are the opportunities to reduce adverse social and environmental impacts, improve equity, and support and enabling environment for sustainable forest investments within the current concession licensing system (covering timber plantation concessions, natural

forest management concessions, and Ecosystem Restoration Concessions)?

- **Support for national safeguards development.** While the FIP projects will apply the safeguard policies of the respective MDBs, we recognize that national safeguards for REDD+ related activities are being developed as part of national REDD+ readiness efforts (PRISAI). FIP will work closely with the relevant Government agencies, CSOs, FCPF program (Strategic Environmental and Social Assessment) and other donor funded initiatives, to support any efforts that would strengthen national safeguards and practical guidelines and policies for project implementation, e.g. FPIC. This may include testing of safeguards approaches and instruments at the project level, as well as documenting and disseminating lessons from project implementation.

Expected Outcomes from the Implementation of the Investment Plan

By supporting Indonesia in a transformative process toward good forest governance and subnational REDD+ readiness, the Investment Plan will leverage existing political will as well as large amounts of pledged and emerging REDD+ funding to achieve sustainable GHG emissions reductions and co-benefits. Addressing such barriers to REDD+ implementation will allow Indonesia to access climate change and REDD+ funding. Improving local forest governance through the KPH system is expected to lead to significant improvements in the business-enabling environment, improving opportunities for investments in SFM, CBFM, and REDD+. This will increase private sector funding as well as leverage funding managed by the Forest Development Funding Agency at MoFr. Besides increasing the likelihood of Indonesia tapping into future results-based funding, addressing underlying drivers of deforestation will lead to direct future reductions in GHG emissions, as well as to significant social and environmental co-benefits.

Specific direct outcomes include:

- Target communities have improved access to forests & to REDD+ benefits
- Local institutions have strengthened capacity to work with communities and to support equitable REDD+ programs
- Model FMUs have capacity to manage SFM and REDD+ activities
- Improved business enabling environment for SFM, CBFM and REDD

8. Expected Key results from the Implementation of the Investment Plan:		
Indicators	Baseline	Targets
TRANSFORMATIONAL IMPACT		
Result A: Reduced/ avoided GHG emissions from deforestation and forest degradation, and enhanced forest carbon stocks		
INDICATOR 1: Changes of natural forest cover (ha) and resulting GHG emission reduction (GtCO _{2e})	Emissions from forests and peatland are estimated at 1 GtCO _{2e} per year.	Improved forest governance, including land use planning, tenure, and law enforcement and successful implementation of national forest and REDD+ programs allow Indonesia to meet its national commitment to reduce GHG emissions by 41% (as compared with business as usual scenario) with international support by 2020.
INDICATOR 2: Change in forests by forest type (ha) that are degraded and resulting GHG emissions reductions (GtCO _{2e})		
INDICATOR 3: Tons (millions) of CO ₂ sequestered through natural regeneration, re- and afforestation activities, and conservation relative to forest reference level		
FIP PROGRAM OUTCOMES		
Result B1: Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation		
INDICATOR 1: Change in hectares (ha) deforested in project/program area	Baseline of deforestation and forest degradation as well as forest carbon stocks in target areas will be measured as part of project preparation.	Area of deforestation and degradation in target areas will be reduced by at least 25% below the baseline.
INDICATOR 2: Change in hectares (ha) of forests degraded in project/program area		
INDICATOR 3: Reduction in degradation or loss of intact forest areas		
INDICATOR 4: Reduced/avoided GHG reductions by the FIP intervention		
Result B2: An institutional and legal/ regulatory framework that supports sustainable management of forests and protects rights of local communities and indigenous peoples		
INDICATOR 1: Evidence that forest-related laws and regulations are being implemented, monitored and enforced and that violations are detected, reported and prosecuted	An assessment of local forest governance will be conducted in target areas as part of project preparation.	Commercial illegal activities, including illegal logging, mining, and forest conversion will be significantly reduced in project areas.
INDICATOR 2: Area of forests under clear, non-discriminative tenure and territorial rights, including the recognition of traditional rights	An assessment of local land claims will be conducted in target areas as part of project preparation.	A framework for identifying and registering tenure and territorial rights of customary and local communities will be in place.

INDICATOR 3: Volume of public and private finance mobilized as a direct result of program interventions.		FIP is expected to mobilize more than US\$ 150 million of co-financing.
Result B3: Local communities' and indigenous peoples' capacity strengthened to access information and participate in decision making		
INDICATOR 1: People in targeted forest communities with increased monetary or non-monetary benefits from forest resources (number)	Local land use and livelihood activities will be assessed as part of project preparation.	Increased local access to forested areas and participation in CBFM will increase monetary and non-monetary benefits for local communities, including women.
INDICATOR 2: Percentage of indigenous peoples and local community members/ forest communities (women and men) with legally recognized tenure rights and secure access to economic benefits and/or the means of maintaining traditional livelihoods		At least 15% increase in the number of indigenous people and local communities with secured access to economic benefits.
INDICATOR 3: Increased access to relevant information (in a timely and culturally appropriate manner).		KPHs will have systems in place for sharing of forest-related information with local communities.

9. Project and Program Concepts under the Investment Plan:							
Project/Program Concept Title	MDB	Requested FIP Amount (\$ Million) ¹			Public Sector/ Private sector	Expected co-financing (\$ m)	Preparation grant request (\$m)
		TOTAL	Grant	Loan			
Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)	ADB	17.5	17.5	-	Public	6.0	0.5
Promoting Sustainable Community Based Natural Resource Management and Institutional Development	WB	17.5	17.5	-	Public	tbd	0.5
Strengthening Forest Enterprises to Mitigate Carbon Emissions	IFC	35.0	2.5	32.5	Private	99.0	0.3
TOTAL		70.0	37.5	32.5		105.0	1.3

¹Includes preparation grant and project/program amount.

10. Timeframe (tentative) – Approval Milestones:		
Stage	Steps	Indicative dates
Preparation	Preparatory mission Project document preparation	December 2012 March 2013
Evaluation	Multilateral review of documents Refinement of project documents	June 2013 September 2013
Approval by FIP SC	Submit request for project approval	November 2013
Approval by Respective MDB Board	Submission to the MDB Board Signing of grant agreement with GOI	January 2014 March 2014
<p>11. Link with FCPF and UN-REDD Program Activities By supporting the implementation of Indonesia’s National REDD+ Strategy, the Investment Plan is closely aligned with Indonesia’s REDD+ program and complements other donor-supported programs, including FCPF and UNREDD. Direct linkages to FCPF, UNREDD, and other REDD+ programs will be explored during project design. Where appropriate, site selection will prioritize areas where FCPF and other donor-supported REDD+ programs can provide synergies with FIP. Options for cross-program learning and collaboration will be explored at project and policy levels.</p>		
<p>12. Other Partners involved in design and implementation of the Investment Plan Besides representatives of various ministries and provincial governments, several other stakeholders representing civil society, academia including research institutes, private sector and development partners were consulted in design of the investment plan (see Annex 2 for the list). They will continue to be involved in implementation of projects identified in the investment plan. During project design and implementation, collaboration will be explored with Indonesia-based international research institutions and civil society organizations with experience in collaborating with local communities and local governments in forest law enforcement and governance (FLEG), forest and land tenure reform, degraded lands development, and designing incentive-based schemes. Other partners will be identified based on the final geographic locations of the program. GOI’s National Program for Community Empowerment in Rural Areas Project (PNPM-Rural) is a potential partner for village-level funding. Potential private sector partners include: forestry enterprises (e.g., smallholder groups, cooperatives, small locally owned companies, and larger firms etc.), manufacturers, investors, government financing programs, and domestic banks.</p>		
<p>13. Consultations with Indigenous Peoples² and Local Communities: Planning for FIP missions and development of the investment plan GOI with support of the three MDBs proceeded through a multi-stakeholder process, and in coordination with other relevant entities including the National Forestry Council (Dewan Kehutanan Nasional – DKN). Discussions were held in the early stages of the Investment Plan to identify key stakeholders, get their perspectives on the drivers of deforestation and forest degradation, measures being taken, problems faced and their expectations. A series of meetings were conducted by DKN in several provinces in Java, Sumatra and Kalimantan. Given the diversity of stakeholders and geographic spread of activities, additional meetings and venues for feedback were arranged, to build consensus among stakeholders. The involvement of stakeholders will continue during the design stage of the specific projects, according to the safeguards and procedures laid down for project preparation adopted by the respective MDBs. Stakeholders, including indigenous peoples and local communities will be engaged during the inception phase of each project.</p>		

²In the Indonesian system, Indigenous Peoples are referred to as Customary Law Communities

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1 INDONESIA'S FORESTS, PEOPLES AND ECONOMY

1.1 Economic importance of Indonesia's forest areas

1. Indonesia is the world's largest archipelago with the fourth biggest population and a very diverse range of ethnicity and cultures. A middle-income developing country, Indonesia is home to 231 million people spread across 17,000 islands, covering 190 million hectares of land and inland waters. It holds the third-largest area of tropical forest after Brazil and the Democratic Republic of the Congo, and is home to a rich store of biodiversity. Indonesia's forests are critical not only for national economic development and the livelihood of local people, but also for the functioning of the global environmental system.
2. Forestry-based activities and industries are a major source of employment in Indonesia. In addition to employment in the industrial forestry sector (which includes timber harvesting, wood, pulp and paper processing, as well as furniture making) several million people are employed in small-scale agro-forestry systems that emulate forest functions. Such systems include plantation crops such as coffee and rubber, as well as non-timber forest products and timber.
3. Indonesia is the top producer of industrial roundwood among tropical forest countries, with a production of 34.2 million m³ in 2009. Smallholder production and industrial forestry are each estimated to contribute around 3-4% of GDP. The contributions from industrial timber harvesting and wood/pulp and paper processing were approximately 1.1% and 2.6%, respectively, in 2003-2004.³ These estimates do not account for the subsistence use and informal earnings from rural forest-based livelihoods, profits from illegal logging operations and the value of environmental services.
4. Indonesia's forests are home to a large part of its cultural diversity. Indonesia's population is composed of around 300 distinct native ethnicities speaking 742 different languages and dialects, representing almost 11% of all living languages in the world.⁴ Many of the cultures have longstanding, direct and multi-faceted relations with natural ecosystems (including cultural, social, political, and spiritual), beyond the economic importance of forests for subsistence, livelihood and economic development. There are about 25,000 villages within and surrounding the forest boundaries nationally. People living in and around forests comprise one of the largest impoverished groups in Indonesia. About 50-60 million people dwell in the state forest land.
5. Indonesia is not only a major GHG emitter (about 2.1 gigatonnes of carbon dioxide equivalent [Gt CO₂e] in 2005), it is also affected by global climate change. A combination of high population density and high levels of biodiversity, together with 80,000 kilometers of coastline, makes Indonesia one of the most vulnerable countries to the impacts of

³ World Bank. 2006. *Sustaining Economic Growth, Rural Livelihoods, and Environmental Benefits: Strategic Options for Forest Assistance in Indonesia*. Washington, DC: World Bank

⁴ Gordon, Raymond G., Jr. (ed.), 2005. *Ethnologue: Languages of the World*, Fifteenth edition. Dallas, Tex.: SIL International. Online version: <http://www.ethnologue.com/>

climate change. The strong dependence of the population on agriculture as noted above further exacerbates the economic and social risks Indonesia faces from climate change.

1.2 Status and trends concerning forest and woodland resources

6. Indonesia has an estimated 94 million hectares of natural and planted forests, representing around 52% of its total land area.⁵Indonesia’s forests provide habitats for 17% of the world’s bird species, 16% of reptiles and amphibians, 12% of mammals, and 10% of plants.
7. The Food and Agriculture Organization (FAO) in 2010 estimated that Indonesia’s forest cover was reduced by some 24.1 million hectares between 1990 and 2010 (from 118.5 million ha in 1990 to 94.4 million ha in 2010). About 77% of this area was primary tropical forest, the most biologically diverse and carbon-dense forest type. Indonesia’s National REDD+ Strategy notes that the average rate of annual forest cover loss was 1.87 million hectares during the 1990 to 1996 period. The rate continued to increase during 2000-2003, and then declined from 2003-2006 to 1.17 million hectares per annum (Figure 1). It further declined to 0.8 million hectares per annum during 2007-2009. It should be noted that the area burned by forest and land fires was lower during the recent *La Nina* phenomenon, which also corresponds to the decline in rate of forest cover loss.

Figure 1: Deforestation Trend 1990 to 2006



Source: MoFr 2010, cited in GOI 2011

8. A related trend has been the decline in the commercial harvesting and processing of Indonesia’s natural forests over the previous two decades. For example, while the production of both sawnwood and plywood increased steadily in the 1980s, they declined significantly in the 1990-2005 period. As overharvesting and degradation have reduced the availability of large-diameter commercial timber, Indonesia’s forest sector

⁵ FAO. 2010. Global Forest Resources Assessment 2010.

has partly transitioned to pulp production. From a low of just 0.5 million tonnes in 1989, pulp production increased more than tenfold by 2005. As a result, pulp accounted for some one-third of the total of wood products in Indonesia in that year.

9. Indonesia also contains vast areas of peatlands. The original area of tropical peatlands, both forested and non-forested, in Indonesia has been estimated at about 20 million ha. From 1987 until 2000, 3 million ha were cleared and converted or destroyed, leaving an area of about 17 million ha. Nine million ha are in Sumatra and Kalimantan with about eight million remaining in Papua and West Papua. Of the 17 million ha in 2000, an estimated 10.5 million ha was under forest cover: 3.56 million in Kalimantan, 3.71 in Papua, 3.16 in Sumatra, with small areas on the island of Bangka. Between 2000 and 2005 a further 1.04 million ha of peat swamp forest was deforested, mostly for oil palm plantations. Almost 78% of the loss of peat swamp forests in this period occurred in Sumatra. Of the area deforested, about 75% was drained and 24% (246,000 ha) was estimated to have been burned as well as drained, maximizing the loss of carbon to the atmosphere (IFCA).⁶

1.3 Forest- or forest landscape-based sources of GHG emissions and projected trends

10. The Government of Indonesia (GOI) documents, including the National REDD+ Strategy recognize that Land Use, Land Use Change and Forestry (LULUCF) and peatland sectors are the biggest contributors of GHG emissions in Indonesia. From the national total emission of 1.4GtCO₂e in 2000, as much as 0.8 GtCO₂e (or 60%) came from the LULUCF sector (MoE 2010, cited in GOI 2011). The National Action Plan to reduce GHG emissions (also referred to as RAN GRK and released as a Presidential decree no. 61/2011 in September 2011) projects that total GHG emissions per year by 2020 would be 3.0GtCO₂e, of which 1.6GtCO₂e (53%) would be from LULUCF and peatlands. Recent projections by the National Council on Climate Change (DNPI) show that total emissions would reach 3.3 GtCO₂e by 2030, but contributions from LULUCF and peatland are expected to remain around 1.6 GtCO₂e (48%).
11. The National REDD+ Strategy provides a historical emissions estimate, where above-ground emissions from deforestation in the period of 2000-2005 are estimated at 0.8 to 1.0 GtCO₂e/yr. If emissions from fire and peat drainage are included, the estimate increases to 1.7 to 2.0 GtCO₂e/yr with an average 1.9GtCO₂e/yr. Emissions resulted from deforestation and above-ground biomass reduction and from the oxidation of below-ground organic matter associated with the degradation of peatland. Oxidation is a result of drainage and peat fires. Table 1 provides various estimates of GHG emissions from forests and peatland over different periods.

⁶MoFr 2008, IFCA 2007 Consolidation Report : Reducing Emissions from Deforestation and Forest Degradation in Indonesia, Published by FORDA Indonesia

Table 1: Estimates of deforestation rates and GHG emissions over different periods from various sources

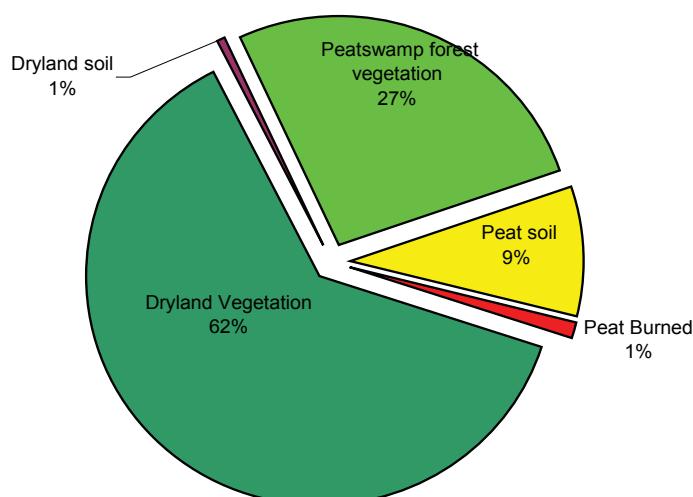
Activities	Periods	Rate		Sources
		Deforestation (mill ha/year)	Emission (mill tCO ₂ e/year)	
Land-use, land-use change and forestry (LULUCF)	1990-1996	1.87	1729 ^a	MoFo (2010)
	1997-2000	3.51	3247 ^a	MoFo (2010)
	2001-2003	1.08	999 ^a	MoFo (2010)
	2004-2006	1.17	1082 ^a	MoFo (2010)
	2000-2005		689	MoE (2010)
Peat land fire	1997-2006		1400	Hooijer <i>et al.</i> (2006)*
	2000-2006		903	BAPPENAS (2009)
	2000-2005		364	MoE (2010)
Peat land drainage	1997-2006		632	Hooijer <i>et al.</i> (2006)*

*) This includes emission from Serawak, Malaysia

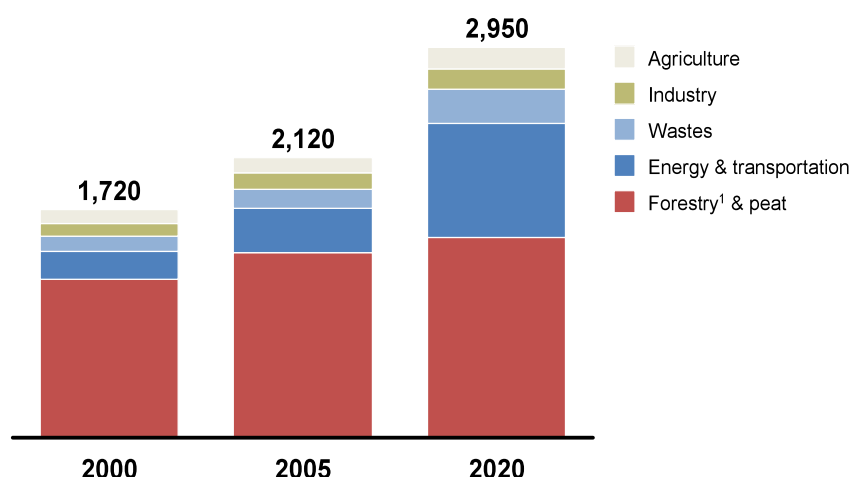
^a By using assumption of 250 t/ha carbon solidity for above ground biomass

Source: GOI 2011

12. Under a BAU scenario presented in the National REDD+ Strategy, Indonesia's annual GHG emissions are projected to increase from 2.1 GtCO₂e in 2005 to 3.0GtCO₂e in 2020 (Figure 3). While emissions from the forest sector (not including peat forests) are expected to decrease from 0.3GtCO₂e in 2005 to 0.1 GtCO₂e in 2020, emissions from peatlands are projected to increase from 0.8 GtCO₂e in 2005 to about 1.4 GtCO₂e in 2020 – comprising roughly one-half of Indonesia's total emissions. The forestry, peatland, and agriculture sectors are predicted to continue to be the main contributors to GHG emissions until 2020, although they will decline as a proportion of total emissions to around 50%, with the largest increase in emissions predicted from the energy, industry, and transportation sectors.

Figure 2: Sources of emissions due to land use change

Source: Ministry of Forestry 2008 (IFCA)

Figure 3: Sectoral BAU emission profile for 2000, 2005, and 2020 (in million tCO₂e)

Source: GOI 2011

1.4 Key drivers of deforestation and degradation

13. The GOI divides deforestation into planned and unplanned deforestation. Loss of forest from areas that have been excised from state forest land for the purposes of establishing non-forestry land uses is considered “planned deforestation.” Such planned deforestation can be caused by the conversion of forests based on regional spatial plans (RTRW), conversion to other uses such as plantations, as well as mining. Within state forest land, unplanned forest clearance and degradation are triggered by: (i) illegal logging and unsustainable forest management; (ii) forest fires; (iii) conversion of natural forest to industrial timber or oil palm plantations and mining; and (iv) weak enforcement of forest management regulations. Planned and unplanned activities that trigger forest clearance and degradation are detailed in Table 2 below. This framework is consistent with the LULUCF sector under the UNFCCC and the conversions between land use classes (GPG 2003⁷, GL-AFOLU 2006⁸).

⁷ GPG 2003. Good Practice Guidance for LULUCF. IPCC National Greenhouse Gas Inventories Program.

⁸ GL-AFOLU 2006. IPCC Guidelines for National GHG Inventories AFOLU. IPCC National Greenhouse Gas Inventories Program.

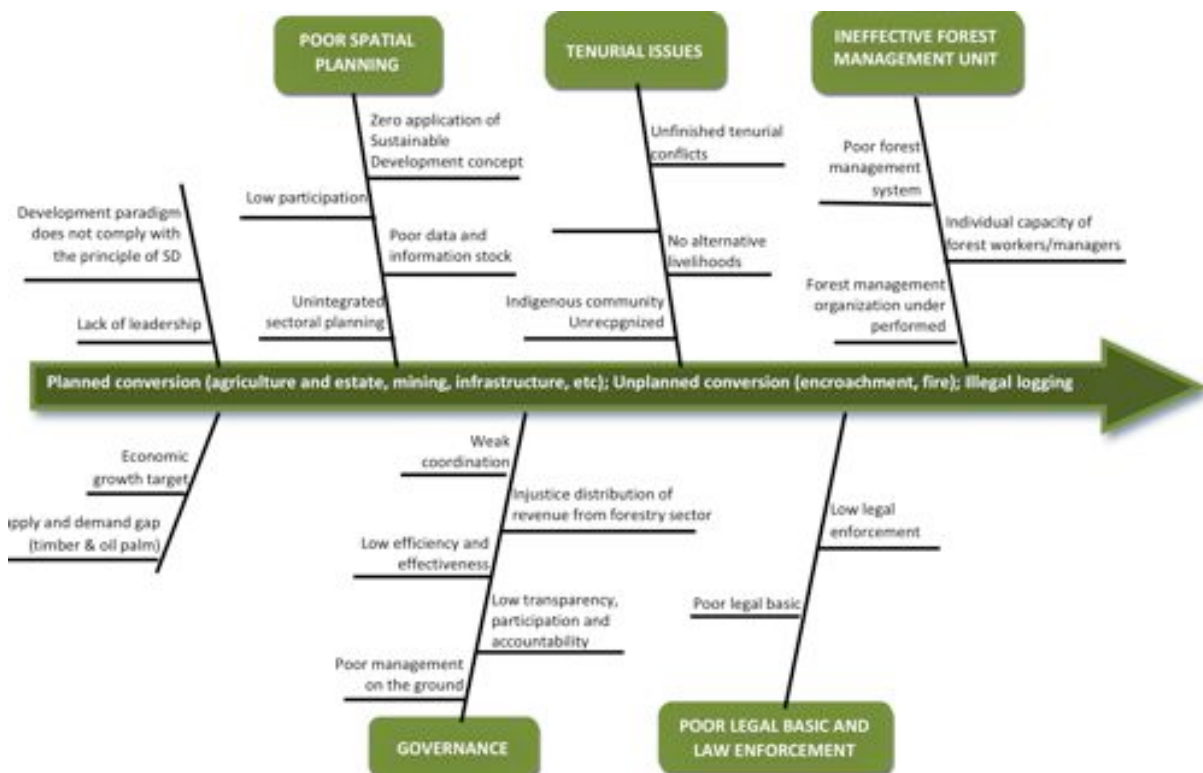
Table 2: Planned and Unplanned Causes of Forest Loss and Degradation

GHG Emission Sources		Causes
Deforestation and Forest loss	Planned	<ol style="list-style-type: none"> 1. Expansion of local administrative/governance regions for infrastructure and other uses 2. Approved legal forest conversion (based on spatial plans/RTRW) 3. Forest conversion on lands reserved for other purposes (APL) 4. Forest conversion for mining concessions (e.g., coal, copper, gold, silver, nickel, tin) 5. Forest conversion for estate crop plantations (e.g., oil palm, rice, rubber, coffee, cocoa)
	Unplanned	<ol style="list-style-type: none"> 1. Unplanned forest conversion for estate crop plantations (e.g., oil palm, rice, rubber, coffee, cocoa) 2. Encroachment for timber, fuel wood, agriculture and small-scale mining 3. Uncontrolled forest fires 4. Land claims leading to conversion of forest areas
Forest Degradation	Planned	<ol style="list-style-type: none"> 1. Approval of timber utilization permits (concessions) in natural forests (IUPHHK-HA) 2. Approval of industrial plantations in natural forests (IUPHHK-HTI)
	Unplanned	<ol style="list-style-type: none"> 1. Timber harvesting outside the annual allowable cut 2. Illegal logging 3. Small forest fires due to natural factors 4. Small human-induced forest fires for land clearing

Adapted from: Indonesia National REDD+ Strategy, 2011

14. A public consultation process held by Bappenas in seven regions across Indonesia has identified a number of perceived underlying drivers of deforestation and degradation including: ineffective spatial planning and weak tenure; ineffective forest management; and inadequate governance and law enforcement (Figure 4). These issues are further discussed below.

Figure 4: Perceived Sources of Deforestation and Forest Degradation



Source: Bappenas regional consultation, 2010, cited in National REDD+ Strategy

15. **Ineffective spatial planning and weak tenure.** Regional Spatial Plan (RTRW) development has been hampered by a lack of accurate data and information and lack of coordinated and sustainable sectoral development plans. Spatial planning is further impeded by the unclear status of land ownership, lack of demarcation of state forest land boundaries, lack of recognition of customary and local rights to land and lack of ownership at the local level. This has led to conflict between different land claimants, and underinvestment in long-term sustainable land uses.
16. **Ineffective forest management.** Implementation of acceptable forest management practices has been ineffective due to weak institutional capacity at the local level. For example, the government Technical Executing Units (UPT) in charge of conservation areas are underfunded and understaffed. Regional governments, which are in charge of managing Protection Forests, have not performed well in this role. In addition, decentralized structures for forest management (*Kesatuan Pengelolaan Hutan*, or KPHs) at the district and provincial level are being created and structured (see further discussion of KPHs below in Section 2.5 in Chapter 2). Meanwhile, responsibility for the management of Production Forest lies largely with concession holders who have acted with little government oversight.
17. **Inadequate governance and law enforcement.** Lack of coordination between institutions providing land use licenses has contributed to overlapping land claims and conflict over the use of forest areas often with local communities who have been excluded from the licensing process this has often contributed to a poor business enabling environment in the forestry sector.

18. Overlapping land claims can in part be attributed to lack of clarity in the underlying legal framework, particularly conflicting implications of law No. 41/1999 regarding forestry and law No. 26/2007 regarding spatial arrangement. Furthermore, different sectoral laws, such as those governing forestry, forest plantations, and mining, are not adequately synchronized. Additionally, regulations and implementation procedures of different government levels are not aligned, or may not be in accordance with agreed principles of human rights or equity. Lack of consideration of local and forest dependent communities and marginalized groups in planning processes has further eroded governance. An incomplete legal framework combined with weak law enforcement has meant that few forest-related violations are prosecuted, and prominent actors have been able to avoid penalties.
19. Poor governance, including ineffective spatial planning, poor law enforcement, and a weak tenure framework, facilitates illegal logging as well as the uncontrolled expansion of competing land uses on forested land, leading to significant adverse environmental and social impacts. Key direct drivers of deforestation are the mining and palm oil sectors. In particular, oil palm plantations are predicted to continue to expand rapidly, raising concerns about the impacts on local communities and forests.

2 OPPORTUNITIES FOR GREENHOUSE GAS ABATEMENT

20. This section identifies key opportunities for reducing emissions from deforestation and forest degradation as well as the conservation and enhancement of forest carbon stocks. The interventions discussed, include a wide range of potential public and private sector activities in order to provide a menu of possible investment options for FIP. The options presented are part of the evaluative process of the FIP program that led to the development of the Investment Plan activities detailed in Chapter 6 and Annex 1.

2.1 Overview of Strategic Opportunities

21. Indonesia's REDD+ planning documents, specifically the National Action Plan on GHG Emissions Reductions (RAN GRK) and the National REDD+ Strategy, provide a useful and appropriate framework for identifying strategic opportunities for greenhouse gas abatement. The RAN GRK includes six strategies related to forestry, as follows:
1. Reducing the rate of deforestation and forest degradation to reduce GHG emissions;
 2. Increasing plantation (afforestation, reforestation, agroforestry) to improve GHG sequestration;
 3. Enhancing the forest land security from fires and illegal logging, and improvement of Sustainable Forest Management;
 4. Improving water management and water distribution blocks, and stabilizing the water levels in swamp areas;
 5. Optimizing land and water resources without deforestation;
 6. Applying land management and agricultural cultivation technologies that can reduce GHG emissions and optimize carbon sequestration.
22. These strategies are complemented by the five pillars of the National REDD+ Strategy, which are as follows:
- Pillar 1: Institutions and Processes
 - REDD+ Agency
 - Funding instrument
 - MRV institution
 - Pillar 2: Legal and Regulatory Frameworks
 - Review land rights and accelerate spatial planning
 - Improve law enforcement and prevent corruption
 - Enforce 2 year moratorium on issuance of new permits for the exploitation of forests and peatlands
 - Improve data and permit issuance systems
 - Provide incentives for the private sector
 - Pillar 3: Strategic Programs
 - Conservation and rehabilitation
 - Establish protected area function
 - Control conversion of forests and peatlands
 - Restore forests and rehabilitate peatlands
 - Sustainable agriculture, forestry and mining
 - Increase agricultural and plantation productivity
 - Manage forests sustainably
 - Prevent and control fires in forests and peatlands
 - Sustainable management of landscapes
 - Promotion of value added downstream industries
 - Expansion of sustainable alternative livelihoods

- Management of multi-function landscapes
- Pillar 4: Changes to Work Paradigm and Culture
 - Strengthening of forest and land use governance
 - Empowerment of local economies using sustainability principles
 - National “Save Indonesia’s Forests” campaign
- Pillar 5: Inclusion/Involvement of Stakeholders
 - Facilitate interaction with and among stakeholders
 - Develop social and environmental safeguards
 - Ensure equitable benefit sharing

2.2 Strategic Investment Areas

23. Implementing the strategies and programs laid out in the RAN GRK and the National REDD+ Strategy will require on-the-ground activities that are aligned with the programs and that remove barriers to sub-national implementation. The FIP process identified a menu of eight investment opportunities that would support Indonesia’s REDD+ framework. The eight opportunities are described below.

2.2.1 Investment Area 1: REDD+ and Community Based Forestry Management (CBFM)

24. Facilitation of CBFM would enhance opportunities of local communities to participate in REDD+. While Indonesia has made progress in the development of a legal framework that allows for greater participation of local communities in forest management, there are still remaining challenges that need to be addressed.
25. CBFM faces a number of design, implementation and social challenges. In many communities both cost and non-economic barriers to the adoption of REDD+ schemes exist. CBFM approaches will require a great effort in capacity building to enable the traditional livelihood of the communities meet high competitiveness in the global and modern markets including globalized carbon markets. Investment in CBFM could be directed toward a number of areas, including development of capacity of communities to engage in sustainable forestry activities on either state or private lands, institutional strengthening of both central and local governments in key provinces to improve their capacity to promote forest management practices in communities, and assistance to address land tenure and rights in relevant community forest areas. In addition, funding could be targeted in a way to address barriers faced by existing GOI funding sources for community forestry (in particular funds managed by the Forest Development Funding Agency).

2.2.2 Investment Area 2: Land and Forest Tenure Reform

26. The National REDD+ Strategy notes that uncertain land tenure has contributed to the problems of ineffective spatial planning and to unsustainable and uncoordinated land use and development.
27. Land tenure reform and clarification can assist with the development of effective and sustainable programs for alternative, forest-friendly livelihoods, and can help to build support for REDD+ among local communities and indigenous peoples. Secure land tenure arrangements can increase investment in REDD+ as the costs of negotiation over land and likelihood of competing land claims and conflict decline, enhancing the contribution to poverty reduction, timber production, and environmental services. By establishing clear and transparent rights to ownership and use of forest lands that can be readily adjudicated through the legal process, it can also reduce practices such as

illegal logging and unauthorized forest occupation – including mining and palm oil development as well as small-scale deforestation.

2.2.3 Investment Area 3: Forest Law Enforcement and Illegal Logging

28. Effective enforcement of logging regulations will be critical for achieving REDD+ targets in Indonesia. Illegal logging occurs in all forest designations including production forests, national parks and watershed protection forests. In addition, illegal logging often leads to forest degradation and makes forests more prone to destructive fires; reducing this practice can thus have an outsized GHG impact that goes well beyond the carbon in the trees saved.
29. Improved law enforcement capacity is needed to fix the gap between forest policy and implementation. Current law enforcement practices have not yet been able to seize the intellectual and/or high-level actors, which have misused their authority. To minimize this, GOI issued timber legality verification system (*Sistem Verifikasi Legalitas Kayu*, or SVLK) in 2009. To guarantee its credibility, SVLK is performed by independent third party auditors and monitored by NGO based independent monitoring mechanism. With the support of donors, GOI is in the process of training auditors, certifying auditing institutions, and building stakeholder capacity. In addition, MoFr is working on relevant applications of the Transparency of Public Information Act, which was passed in 2008.
30. Enforcement of laws related to financial transactions also plays an important role in addressing illegal logging. Investment could focus on tracing the financial drivers and facilitators of illegal logging, and could utilize anti-money laundering and tax law to carefully examine the financial flows and tax records of those active in forest related activities. Interventions could support international cooperation with Financial Intelligence Agencies to track financial flows to offshore holdings. A sectoral financial audit could be conducted to fully examine the financial flows and tax status of the major companies and conglomerates active in the forest sector. Furthermore, due diligence and sustainability policies of financial institutions investing in activities that impact forests could be strengthened.

2.2.4 Investment Area 4: Forest Management Units (KPHs) and REDD+

31. The introduction of Forest Management Units (KPHs) is intended to improve and decentralize forest management, increase accountability over forest outcomes, improve local stakeholder involvement, and potentially increase transparency. The improvements in forest governance that a well-designed KPH system could bring about are critical to the success of REDD+ in Indonesia. As noted in the National REDD+ Strategy, KPH development will contribute to the settlement of spatial plan and utilization problems related to the enhancement of legal and regulation frameworks; it will also promote the goals of Sustainable Landscape Management.
32. By placing forestry professionals at the local and field levels, KPH institutions could facilitate better law enforcement, improved outreach to local communities, and more structured and localized approach to addressing land based conflicts and improving local people's access to forests. More directly, KPH institutions would be suitable proponents of REDD+ activities, and could implement REDD+ projects and oversee local benefits distribution mechanisms. Institutionalizing forest management at the site level would also increase response times in emergencies. Additionally, as discrete area units, KPHs would be suitable for carrying out sub-national MRV functions.

2.2.5 Investment Area 5: Degraded Lands Development and REDD+ Approaches

33. Redirecting plantations from natural forest areas to degraded lands has a large potential to reduce deforestation and GHG emissions. Increasing global demand for pulp and paper, rubber and palm oil and a growing domestic demand in Indonesia for food crops is expected to result in conversion of an additional 21-28 million hectares of forest by 2030 under BAU conditions.⁹ An alternative scenario would see much of the expansion of agricultural land taking place on non-forested or highly degraded forest land. The RAN GRK and the National REDD+ Strategy point out that there are currently around 13 million ha of land without forest cover within the Production Forest, Forest Protection and Forest Conservation areas. Swapping this area with forested lands that are currently designated as non-forest (APL) or Convertible Production Forest would allow nearly half of the foreseen demand for additional agricultural land to be met with non-forest land.

2.2.6 Investment Area 6: Ecosystem Restoration Concessions

34. Indonesia's logging concession system has left large areas of Production Forest areas commercially degraded, but often with remaining valuable ecosystem services and potential for renewed future timber production. In 2007, a government regulation opened up the possibility of allocating Production Forest areas as ERCs. Ecosystem Restoration Licenses can be used to manage production forest areas for multiple benefits, including carbon, water, NTFPs and other ecosystem services, without harvesting, to allow recovery of the ecosystem and a return to productive use over a 20+ year horizon. As recognized in Strategic Program 3 of the National Strategy of REDD+, Ecosystem Restoration Concessions (ERCs) have good potential as REDD+ projects in Indonesia. It is estimated that more than 6.5 million hectares may be available for rehabilitation.
35. However, ERCs face a number of challenges that need to be addressed. These include costly and complicated licensing processes, as well as a poor framework for the recognition of existing land rights. The latter can lead to adverse social impacts when ERCs are established without adequate social safeguards.

2.2.7 Investment Area 7: Market-based REDD+ Preparedness and Incentives

36. Carbon markets offer an important opportunity for utilizing financial incentives to reshape land and forest management practices. At present, the only market-based approach for REDD+ is the voluntary market, with project-based crediting of emission reductions. Another market framework is national REDD+ under a future UNFCCC compliance market. A crediting scheme would be developed using a national baseline or reference emissions level (REL) from deforestation and forest degradation; any verifiable reduction below this level (based primarily on historical emissions) would result in carbon credits issued to the central government. Crediting based on sub-national entities (e.g. governments, private sector projects or communities) with sub-national baselines could potentially be used in conjunction with a national REDD+ system. Another option is a national system with performance-based payments from an international fund rather than from carbon markets (e.g., the Norway-Indonesia REDD+ Partnership). Despite the promise, a number of challenges exist to effective development and utilization of markets-based REDD+.

⁹Indonesia National Council on Climate Change, Fact Sheet Norway-Indonesia REDD+ Partnership.

2.2.8 Investment Area 8:Sub-national REDD+ Pilots

37. Sub-national REDD+ development in pilot provinces or KPHs is widely recognized as one of the key pillars of REDD+ in Indonesia. The RAN GRK, National REDD+ Strategy, Indonesia's Readiness Preparation Proposal (R-PP) submitted under the World Bank's Forest Carbon Partnership Facility (FCPF), and bilateral programs including the Norway-Indonesia REDD+ Partnership, the Australia-funded IAFCP, and the UN-REDD Program, all include sub-national REDD+ development and implementation as integral components.
38. Testing and developing REDD+ systems and approaches at the sub-national level in selected provinces targeted under RAN GRK and the National REDD+ Strategy can help to achieve a number of important goals, including: (i) establishing a clear and appropriate set of rules, regulations, codes of practices, guidelines and related instruments to implement and support decentralized forest management; (ii) clarifying the division of responsibility between the MoFr and sub-national governments to support decentralized forest management; (iii) promoting local peoples' participation, establishing civil society networks, and developing conflict resolution mechanisms; (iv) reforming and strengthening forestry institutions at all levels and improving inter-sectoral linkages to achieve sustainable decentralized forest management at KPH level; and (v) rationalizing revenue systems in the forestry sector.

3 ENABLING POLICY AND REGULATORY ENVIRONMENT

3.1 Regulatory and Fiscal Framework and extent of support to REDD+

39. The legal framework for managing state forestlands and the status of forest resources are: Indonesia's Constitution Article 33, which establishes the basis of state authority over land and natural resources; and the Basic Forestry Law (UU No. 41/1999), which states the basic principles and objectives of state forestry administration.
40. The basic principles and objectives contained in these legal frameworks are supportive of REDD+ and in line with FIP objectives and include: (i) Planning- private, public, and community rights; (ii) Management-to regulate private and public involvement; (iii) Research and development, education, and forest extension - where public as object or target for services; and (iv) Monitoring - mainly state and local government's domain. In Law No. 41, forest management is enabled through the use of forest management units (KPHs). Public and Private roles are also directed within management of forest areas. BUMN, BUMS, cooperatives, and communities play roles in forest utilization and forest business.
41. With respect to community roles, some specific articles in Law 41 ensure that there is sufficient space for communities, either local or customary. Among others, the following articles are worth citing: (i) GOI is obliged to encourage people's participation through various effective and efficient forestry activities and to effect this participation through assistance from a stakeholder forum (to this end, the National Forestry Council was formed); (ii) customary law communities, as long as they exist and are recognized, have the rights to: collect forest products for daily needs, undertake forest management under customary laws (that do not contradict national laws), and be empowered for improving their welfare; (iii) communities can utilize forest and forest products and be informed about plans for forest allocation, forest product utilization and forestry information; (iv) communities have the right to compensation for losing access to their forests due to designation as forest area, in accordance with prevailing laws and regulations; and (v) communities are obliged to participate in maintaining and preventing forest areas from disturbance and damage and can seek assistance and guidance in this task even from third parties.¹⁰
42. The Forestry Long Term Development Plan for 2006 – 2025¹¹ sets the vision for the forestry sector development as 'forestry as a pillar for sustainable development by 2025'. One of the goals of the 20-year plan is to improve social welfare and raise society's active role in supporting responsible and equitable forest management.
43. Beyond the forestry sector, other laws and decrees that influence spatial land use planning and governance of forest and other natural resources include:
 - MPR Decree on Agrarian Reform and Natural Resources Management (No. IX/2001), which contains principles and approaches that have some potential to reduce conflict both among the laws and the users of natural resources;

¹⁰MoFr. 2009. Indonesia Forestry Outlook Study: Working Paper No. APFSOS II/2009/13. FAO-Regional Office for Asia and the Pacific.

¹¹Ministry of Forestry. 2006. Indonesia's Forestry Long Term Development Plan 2006 – 2025.

- The Basic Agrarian Law (No. 5/1960), which has some influence on the management of land and the process of designating land rights;
 - The National Land Policy Framework (NLPF), which was formulated by the government in 2004 and 2005 to review and renew land policy, to improve existing land laws and regulations (including the Basic Agrarian Law), to resolve increasing land problems, and to implement MPR Decree No.IX/2001;
 - The decentralization laws¹² which reallocate roles and responsibilities for forestland management and revenue between the central, provincial, and district governments;
 - The Water Resources Law (No. 7/2004), which integrates responsibilities across ministries (with primary responsibility under the Ministry of Public Works) to improve water resource management and allocation at the national level
44. In recent years, REDD+ has become a focus of policy development. The Forestry Research and Development Agency (FORDA) took the lead in 2007 by forming the Indonesia Forest Climate Alliance (IFCA), to articulate a national approach in response to shifting opportunities emerging from international negotiations on climate action and financing. In the G-20 meeting in Pittsburgh in 2009, GOI made a commitment to reduce emissions by 26% in 2020 from the business-as-usual levels, and by 41% with international assistance.
45. GOI's key agencies, under the leadership of the UKP4, continue to oversee implementation of Presidential Instruction 10/2011 and to develop a plan for the establishment of a National REDD+ Agency. The plan also includes establishing a national entity to lead the measurement, reporting and verification of REDD+ activities and results. Key agencies include those represented in the National REDD+ Task Force: MoFr, Bappenas, Ministry of Environment, State Secretariat, Land Administration Agency, National Commission on Climate Change, Ministry of Finance, Ministry of Agriculture and the Ministry of Energy.
46. Demonstration activities spread across the country have produced useful results, including: (i) development of an avoided deforestation methodology for peatlands; (ii) experiences with district level REDD+ approaches; and (iii) inputs into the development and field testing of a national forest carbon accounting system.

3.2 Indonesia's National Action Plan to Reduce GHG Emissions and National REDD+ Strategy

47. Since the UNFCCC COP 13 meeting in Bali in 2007, Indonesia has prioritized climate change planning and action, with the President announcing a commitment to reduce GHG emissions nationwide by at least 26 percent by 2020. National strategies and action plans recognize that land-use change and forestry activities are the main sources of Indonesia's emissions. The GOI begin developing a National Action Plan to Reduce GHG Emissions (*Rencana Aksi Nasional Penurunan Emisi Gas Rumah Kaca, or RAN GRK*), the umbrella plan to reduce emissions in accordance with Indonesia's 26% / 41% commitment, issued by presidential decree in September 2011 (*Perpres* No. 61/2011).

¹² Law No. 22 of 1999 as subsequently revised by Law No. 32 of 2004 on Regional Administration and Law No. 25 of 1999 as subsequently revised by Law No. 33 of 2004 on Fiscal Balance Between the Central Government and Regional Governments

48. On 28 October 2011, Bappenas launched by Presidential Decree the RAN GRK, which is a "work plan document for the implementation of activities to reduce greenhouse gas emissions in accordance with national targets". The plan targets six sectors: agriculture, forestry and peatland, energy and transportation, industry, waste management, and other supporting activities. The plan identifies the emissions reduction targets for each sector, activities and objectives within each of these sectors, and identifies the line ministry responsible for each activity.
49. REDD+ is an important component of RAN GRK and six relevant strategies are identified: (i) reduce deforestation and forest degradation to reduce GHG emissions; (ii) increase forest plantation areas to improve GHG absorption; (iii) enhance the protection of forest from fires and illegal logging, and improve Sustainable Forest Management; (iv) improve water and watershed management and stabilize the water levels in peat areas; (v) optimize land and water resources; and (vi) apply land management technology and agricultural cultivation with low emissions and optimal absorption of CO₂. The RAN GRK is implemented by Ministerial level agencies. At sub-national level the RAN GRK is implemented by provincial governments.
50. The National REDD+ Strategy, issued in June 2012, is a part of RAN GRK. The Strategy has been developed through a consultative process with multiple stakeholders and places emphasis on addressing underlying drivers of deforestation while improving the livelihoods and security of forest-dependent communities, and enhancing the protection of biodiversity. The Strategy emphasizes efforts to reform governance in forestry and spatial planning related to forests and peatlands. The document notes that REDD+ requires clear spatial plans and a system of secure land tenure to enable clear attribution of rights and responsibilities over forested areas. This will also improve the security and sustainable livelihood opportunities for local communities.¹³

3.3 Other ongoing REDD+ programs

51. In May 2010, Indonesia signed a Letter of Intent (LoI) with Norway to enter into a performance-based initiative for accelerating action on REDD+. The REDD+ Initiative will offer up to \$1 billion to Indonesia over 7-8 years for success in reducing deforestation and forest degradation. It establishes a phased program of action, focusing first on establishment of a national strategy, a management agency, an agency for Measurement, Reporting and Verification (MRV), a pilot province for REDD+, and a financing instrument. To handle management and implementation of this initiative, in October 2010 the President of Indonesia formed a high-level REDD+ Task Force (Presidential Decree 19 of 2010) headed by his Monitoring and Delivery Unit (UKP4) and including high officials from key ministries and agencies (Finance, *Bappenas*, Forestry, Environment, National Land Agency and the National Council on Climate Change, or DNPI).
52. Another key initiative is the Indonesia-Australia Forest Carbon Partnership (IAFCP). This effort includes support by the Australian government to assist Indonesia in MRV development through the Indonesia National Carbon Accounting System and the Forest Resource Information System. The IAFCP also supports large-scale REDD+

¹³References for Indonesia's key REDD+ policy documents are provided in Annex 4.

demonstration actions in Central Kalimantan. There are also programs funded by the Governments of Germany, Japan, UK, Korea and the USA as part of these developed countries' "fast-start" REDD+ funding commitments. The multilateral mechanisms of the Forest Carbon Partnership Facility (FCPF) and the United Nations REDD Programme (UN-REDD) are also active in Indonesia.

53. In addition to the National REDD+ Strategy and other REDD+ initiatives at the national level, a number of sub-national REDD+ activities are underway. Most of these are small-scale activities at the project level; others are larger in scale and will test REDD strategies at the province or district levels. Several demonstration projects have emerged in parallel with REDD+ readiness activities. As of January 2012, 45 REDD+ demonstration projects have been recorded; nine are considered official pilot projects or demonstration activities, supported primarily by bilateral donors and other partners. The official Demonstration Activities include:
- The Indonesia-Australia Forest Carbon Partnership (IAFCP) supported by the government of Australia, with REDD demonstration activities in Central Kalimantan. The Kalimantan Forests and Climate Partnership (KFCP) aims to demonstrate an effective approach to REDD with an emphasis on peatlands. It includes readiness and MRV development; the World Bank provides performance-based payments to beneficiaries.
 - Merang REDD Pilot Project (MRPP) in South Sumatra supported by GIZ (already completed): strategies and structures for peat forest management and improved fire management schemes.
 - FORCLIME project supported by KfW and GIZ: financing REDD Demonstration activities in three districts of Kalimantan; establishment of reference levels, and support to the respective FMUs.
 - The Nature Conservancy (TNC) Berau project in East Kalimantan: development of district-wide reference levels and implementation of activities (improved forest management, forest restoration, oil palm swaps and land use planning) leading to reduced emissions.
 - UN-REDD project in Central Sulawesi supported by the UN agencies of UNEP, UNDP and FAO: capacity for spatial socio-economic planning incorporating REDD; empowering local stakeholders to benefit from REDD activities; development of multi-stakeholder-endorsed district REDD plans.
 - Central Kalimantan province, selected as a REDD+ pilot province under the Norway Lol.
 - Korea International Cooperation Agency (KOICA) project in West Nusa Tenggara, in collaboration with the Government of South Korea.
 - International Tropical Timber Organization (ITTO) project in East Java: focuses on REDD and enhancing carbon stocks through expanded community participation in conservation and management of Meru Betiri National Park.
54. There are other initiatives that classified as "voluntary initiatives". Most of these are being prepared by international and local non-governmental organizations (NGOs) and several have been proposed by private companies and international investment banks.

3.4 Other GOI programs addressing underlying drivers of deforestation

55. As noted in the National REDD+ Strategy, many of the underlying drivers of deforestation lie outside of the forest sector and state forest land and are related to governance of land, institutional capacity, and regulatory frameworks. A number of

programs and initiatives, both within the forestry sector and outside, address these underlying issues without being explicitly labeled as REDD+ projects. Among the more important past and ongoing activities are anti-corruption initiatives, recent commitments to reform tenure, access to information policies, and forest governance reforms.

56. **Anti-corruption initiatives.** In recent years the GOI has implemented a number of key reforms aimed at fighting corruption at all levels. The adoption of Law 31/1999 on the Eradication of Corruption established two institutions, namely Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*, KPK) and Corruption Court (*Pengadilan Tindak Pidana Korupsi - Tipikor*). These institutions investigate, prosecute and try high-level corruption cases independently of the normal law enforcement and judicial processes and have successfully prosecuted numerous cases of forest-related corruption involving officials at all levels.
57. **Recent tenure commitments.** At a conference on forest tenure in Lombok in July 2011 the GOI announced its intention to prioritize the needs of its forest communities, to "recognize, respect and protect *Adat* rights," and to tackle the lack of coordination across government agencies in addressing forest tenure policies. At the event, the GOI officially launched a transparent and participative process that would seek the inputs of various stakeholders, including indigenous communities. As a follow-up, Indonesian civil society groups have proposed three domains for reform, namely: (i) Improvement of the policy and acceleration of the process of strengthening forestry zones; (ii) Settlement of forestry conflicts; (iii) Extension of the people's management area and enhancement of the welfare of the traditional community and other local communities.
58. A 2011 constitutional court ruling (MK45) on the definition of State Forest Land (*Kawasan Hutan*) provides a window for significant acceleration of forest tenure reform. While the previous definition of State Forest Land included areas that had been "designated and/or gazetted" as such, the new definition includes only areas that have been gazetted. While the court ruling is unlikely to affect previous decisions on land allocation, it does create significant space for the negotiation of land use between MoFr, district governments, and local communities on areas of State Forest Land that have not yet been gazetted. Recent analysis indicates that by 2011 only 14.24 million ha had been fully gazetted¹⁴.
59. As part of its efforts to address tenure issues, MoFr has launched a program to accelerate the gazettal of State Forest Land, with an ambitious completion date by 2014. To support the gazettal process, spatial planning, and the resolution of tenure issues, MoFr has also recently decreed the establishment of a Working Group for the Preparation of a Macro Forestry Tenure Plan, which includes CSO representatives (SK.199/Menhut II/2012 of May 2012).
60. **Access to information.** In 2008 GOI issued a Transparency of Public Information Act, Law No. 14/2008, which became effective in 2010. The act obliges public agencies to provide and publish public information under their authority. The Ministry of Forestry endorsed the act in 2011 with an implementing regulation.
61. **Forest Management Units.** Indonesia's Forest Management Unit (*Kesatuan Pengelolaan Hutan*, or KPH) program is another important emerging institution for

¹⁴Rencana Kehutanan Tingkat Nasional (RKTN). Ministry of Forestry 2011.

improving the management of Indonesia's forests and implementation of its REDD+ framework. KPHs are decentralized structures for forest management and planning at the site level, adapted to local conditions but linked into the National REDD+ Strategy. Ideally, KPHs would be responsible for developing, implementing, and/or overseeing site level forest governance and management; including preparing participatory plans, enforcing forest regulations such as forest fire control and other illegal practices, and negotiating with local communities on issues such as land use rights and forest access. KPHs would be placed under the authority of sub-national governments, increasing the accountability to local stakeholders.

62. **Timber legality verification.** In May 2011, the GOI pledged to sign a Voluntary Partnership Agreement (VPA) with the EU to ensure that only legally harvested timber is imported into the EU from Indonesia. As part of this initiative, the Ministry of Forestry has launched an improved legality verification system (*Sistem Verifikasi Legalitas Kayu*, or SVLK), which should facilitate law enforcement and reduce the amount of illegal logging.

3.5 REDD+ governance arrangements

63. Since 2008, the GOI has issued a number of policy decisions regarding development and management of REDD+ in Indonesia. The development of these policies represents an important component of Indonesia's commitment to addressing climate change, and their implementation and effectiveness will have a significant impact on the success of the national REDD+ plan. These decisions and decrees include:
 - Presidential Regulation Number 61/2011, on RAN GRK;
 - Presidential Instruction Number 10/2011, on Postponement of the Issuance of New Permits and Perfecting the Governance of Primary Natural Forest and Peatland;
 - Presidential Decision Number 19/2010, establishing a National REDD+ Agency Task Force (originally until June 2011 then renewed until December 2012) under the leadership of the Presidential Delivery Unit for Monitoring and Implementation of Development (UKP4) and the membership of representatives from seven government agencies, a key new institution for management of the national REDD+ program;
 - Establishment of the Ministry of Forestry's Working Group on Climate Change through Minister of Forestry Decree No. SK 64/Menhut---II/2010;
 - Decree of the Minister of Forestry No. P.36/Menhut---II/2009 on the Licensing Mechanism of Utilization of Carbon Sequestration and/or Storage in the Production Forest and Protection Forest;
 - Decree of the Minister of Forestry No. P.30/Menhut---II/2009 on the Mechanism of Reducing Emission from Deforestation and forest Degradation (REDD);
 - Decree of the Minister of Forestry No. P.68/Menhut---II/2008 on the Establishment of Demonstration Activities on Reducing Carbon Emission from Deforestation and Forest Degradation;
 - Publication of Reducing Emissions from Deforestation and Forest Degradation in Indonesia: Readiness Strategy, 2009-2012 (REDDI);
 - Roadmap Mainstreaming Climate Change issue within the National Development Plan; Climate Change in the Forestry Sector;
 - The Ministry of Finance together with the Ministry of Forestry regularly issues a decision on a Special Allocation Fund (*Dana Alokasi Khusus/DAK*) in forestry, which can support climate change related programs.

64. In 2010, the Government of Indonesia established the REDD+ Task Force to coordinate the country's national REDD+ strategy. In its first year (2010-2011), the Task Force produced a map that identifies the forest areas to be included in the two-year moratorium on new permits for logging in primary forests and peatlands. It also selected Central Kalimantan as the first pilot province under the Indonesia-Norway Partnership Agreement. Going forward through December 2012, the REDD+ Task Force will work with and prepare the national REDD+ Agency to monitor and implement the two-year moratorium, set up a financial instrument for REDD+, and develop criteria to select a second REDD+ pilot province.

3.6 Existing regulatory gaps and governance challenges

65. The National REDD+ Strategy lists a number of needs related to governance of spatial planning and land use:
- The decree that established the National Agency for Spatial Planning Coordination (BKPRN, with Presidential Decree No.4/2009) needs to be revised to strengthen the authority and capacity of the BKPRN;
 - Conflicts between sectoral regulations need to be resolved;
 - Emission reduction targets, and related planning efforts and definitions need to be harmonized in order to have realistic targets and measurable outcomes;
 - Laws related to licenses need to be implemented and illegal practices must be prosecuted and punished. Relevant key laws include: Law No. 26/2007 on Spatial Planning, Law No.31/1999 on Corruption, Law No. 32/2009 on Environmental Protection and Management;
 - To strengthen management of forest and peat areas, the program on Forest Management Units (KPH) needs to be expedited and regulatory issues related to changing licensing processes need to be addressed.
66. **Spatial Planning and Land Use.** Efforts are being made to harmonize forest land use planning and provincial level spatial planning. The process of Boundary Setting by Consensus (*Tata Guna Hutan Kesepakatan*, or TGHK) was an attempt to address inter-agency conflicts over the use of land under the jurisdiction of the MoFr and formed the basis for maps and plans. However, as local governments often contested the forest zone boundaries developed under the TGHK process, compromises were developed based on the provincial level spatial planning process (*Rencana Tata Ruang Wilayah Propinsi*, or RTRWP).
67. **Tenure.** Lack of clear tenure arrangements is an important barrier to sustainable and equitable use of forest land. The National REDD+ Strategy sees the following as priority tasks in resolving tenure issues:
- The Ministry of Internal Affairs and the National Agency of Land Affairs (*Badan Pertanahan Nasional*// BPN) should be instructed to carry out an inventory of customary and other local communities. This should cover local customs, territorial claims, natural resource utilization practices and so on. This should support participatory mapping to record local land claims.
 - BPN should be supported to facilitate the resolution of tenure conflicts. This would be based on various existing regulations related to conflict resolution, such as: Law No. 30/1999 on Arbitrage and Alternative Conflict Resolution, Law No. 39/1999 on

Human Rights, Government Regulation No. 54/2000 on Non-Court Institution of Environmental Disputes Resolution, Handbill of Supreme Court No. 1/2001 on Court Mediation

- Principles of Free and Prior Informed Consent (FPIC) should be applied in the licensing process for natural resource allocation, and the regulations on licensing need to be revised to accommodate FPIC.

68. **Forest and Peatland Management.** Under performance of forest management and other governance issues have contributed to forest degradation and GHG emissions. KPH are seen as an approach to improve and decentralize management and governance for multiple benefits in specific, defined areas with clearer authorities and more stakeholder involvement, potentially with greater transparency. GOI has planned and budgeted to establish KPHs covering large areas of the forest estate, but implementation could be improved and quickened with more resources, especially where boundary delineation and demarcation of the Permanent Forest Estate (PFE) has been agreed upon. Most KPHs are being established in production forest areas, but watershed protection and conservation forest areas are also established. At the same time, KPHs could fulfill a number of REDD+ relevant functions in the implementation of sub-national REDD+ programs that can deliver results at site level including reduction, if not elimination, of unplanned deforestation and forest degradation activities while safeguarding local and customary (*adat*) rights and maximizing social and environmental co-benefits.
69. Law No. 41/1999 on Forestry states that the control of land within the State forest land is mandated to the Ministry of Forestry, but there is currently no regulation on management of non-designated land outside of the state forest land (*Area Penggunaan Lain*, or APL). Given that an ecosystem based approach is required for the effective management of peatland, the National REDD+ Strategy proposes the creation of a single institution to take on this task. The following steps could be taken in that direction:
- Reviewing and harmonizing policies and regulations related to forestry management to enhance conservation area management and to accelerate the development of the KPH system in Production, Conservation, and Protection Forest areas.
 - Development and implementation of revised forest management scheme by the Ministry of Forestry. The development of this management scheme should be through a participatory process supported by the National Forestry Council (*Dewan Kehutanan Nasional/DKN*).
 - A transparent, accountable and integrated licensing system should be developed as part of the revised forest management system.
 - All regulations and policies related to peatland management should be reviewed, and a peatland management institution should be defined.
 - Mechanisms and regulations for integrating land with REDD+ potential into the State Forestland should be developed.
 - Regulations and administrative processes should be simplified and clarified in order to improve the investment climate, especially for developing community forest enterprises.
70. **Forest Monitoring and Law Enforcement.** There is a conducive environment for improving policy and regulatory framework for forest monitoring and law enforcement, as has been demonstrated the success of SVLK implementation. This could be used to leverage the following:

- Enhancing the role of third parties in performance evaluation of the license holders and providing incentives for legality certification;
- Applying stricter and more consistent enforcement of forestry laws and regulations. This would be done in parallel to a review of existing policies and regulations;
- Reexamination of policies and regulations to expedite the implementation of KPH operation;
- Capacity building of law enforcement agencies.

71. **Decentralization.** The process of decentralization in Indonesia has posed a number of challenges to effective forest management and governance. For example, revenues from forest harvesting levies and reforestation fees are now redistributed to district and provincial governments in a way that rewards areas with the greatest forest harvesting, not the best management practices. Management of areas that cross boundaries (e.g., wildlife corridors and watersheds) remains a gap in the decentralization framework. Importantly, there is often a disconnect between local institutions, communities, local land use planning, and land use licensing process at the national and subnational levels. This often leads to overlapping licenses, licensing of inappropriate areas, and conflicts with local communities.
72. On the positive side, the decentralization process has created important opportunities to improve governance at the local level, despite some environmental concerns. Many agree that local governments need improved capacity for working with the public, identifying and responding to their needs, and running public consultation processes, as well as technical and institutional capacity to manage and protect forests. These will be accelerated where KPHs are established. The KPH framework can support co-management with local communities and initiatives by local governments to improve management of watershed protection forests. Likewise, the burden of licensing procedures particularly in securing CBFM legality can be made more simple and efficient by respective KPHs.
73. The KPH framework as a manifestation of decentralization in forestry also creates opportunities and demand for resolution of land access and rights issues – both from formal rights holders (private concessionaires) and aspirants for more secure access (communities). Competing claims and unclear governmental responsibilities have widened the debate over forest access and land use rights. There is an opportunity to build more effective and transparent institutions to support these kinds of negotiations in a process of forest land rationalization. FIP support for activities such as land tenure reform, community forestry, KPH development and sub-national REDD+ development can contribute to this ongoing process of moving decentralization toward a system that supports forest conservation, sustainable forest management, and improvement of the livelihoods of local communities and indigenous peoples who live in forest areas.

4 EXPECTED CO-BENEFITS FROM FIP INVESTMENT

74. Actions and investments to reduce deforestation and degradation in Indonesia can produce important co-benefits. They include above all the improvement of local economies, increased household incomes, and poverty alleviation in forest-dependent communities. Other benefits can include higher national revenues from forestry activities, promotion of gender equity, provision of ecosystem services such as improved water quality, and protection of biodiversity.
75. In the context of REDD+, it is critical to recognize that for stakeholders from local and *adat* communities, social and economic benefits are considered as *core* benefits – they are much more than just the co-benefits of climate change mitigation and forest protection actions. Therefore, transformational change must be sought not only for sustainable land and forest management, but equally for effective and sustained improvements in the well-being of forest-dependent individuals, peoples, and communities.
76. Key levers for addressing REDD+ preparedness as well as REDD+ implementation in Indonesia include institutional strengthening, land use planning, community development, and strengthening of forestry enterprises. Investments in these areas should provide a number of important economic and socio-cultural benefits, including the following:
- Better recognition of legitimate rights to land, and decline in competing land claims and land related conflict.
 - Increased investment in degraded areas, enhancing their contribution to poverty reduction, timber production and environmental services.
 - More transparent and equitable sharing of forest benefits, including REDD+ benefits.
 - Enhanced investment climate, which provides more business stability and a stronger basis for future growth.
 - More effective local participation in government planning processes and strengthened negotiating capacity and local participation in governance platforms
 - Contributions to local economies by providing livelihoods to people living in the vicinity of forest areas, and
 - Enhanced access to non-timber forest products and other forest benefits.
77. The protection of forests in Indonesia also secures vital ecosystem services. These include watershed protection and water regime quality, soil fertility, flooding and erosion control, reduction of forest fires, and maintenance of game habitat and fisheries. The enormous store of biodiversity in Indonesia's forests ensures that REDD+ efforts will contribute significantly to both national and global efforts to protect biodiversity.

5 COLLABORATION AMONG MDBS AND WITH OTHER PARTNERS

5.1 FIP-Related Activities of ADB, World Bank, and IFC in Indonesia

78. The three MDBs that are supporting the GOI in the programming and implementation of the Investment Plan each have long-standing and significant engagements in Indonesia. FIP interventions will complement and build upon other MDB programs in the forestry and land use sectors. A number of the key engagements are outlined below.
79. **ADB.** The ADB has a growing strategic role in forest and land use issues related to climate change in Indonesia. Climate change is a core specialization under the ADB strategy 2020 and is fundamental to its Indonesia Program. Under the ADB Indonesia Country Partnership Strategy for 2011-2015, the ADB will assist the GOI to address climate change issues in a way that is consistent with the ADB's operational priorities. Support will include policy reforms, capacity development and transfer of good practices through innovative projects that promote renewable energy and energy conservation, strengthen water resources management, improve environmental quality, better manage marine and coastal resources and promote sustainable use of land and forest resources.
80. The ADB has been involved with the GOI REDD+ initiatives providing technical guidance on managing the funds and establishing the Indonesia operational framework. Consultations with GOI for REDD+ have been going on since 2009. Through its climate change fund, the ADB has supported piloting of REDD+ interventions in several countries including Indonesia. Currently ADB supports the Heart of Borneo (HOB) initiative. It has also mobilized additional funding from the Global Environmental Facility and Japan Fund for Poverty Reduction. The HoB project will support the management of an existing and a proposed national park totaling 2.3 million hectares, through a community-managed payment of environmental services mechanism, enhanced law enforcement operations, and sustainable resource use and livelihoods based on local indigenous management systems. The project aims to improve the economic status of indigenous peoples while preventing forest loss and enhancing sequestration. In supporting the Investment Plan ADB will bring along all the lessons learned and experiences taken from the HoB initiatives.
81. The ADB, in cooperation with GEF, is also supporting the integration of sustainable forest management into integrated water resources management planning. Community-based forest conservation efforts are also promoted. Through initiatives such as COREMAP, efforts to protect and sustain mangrove forests are also underway. The ADB also provided substantial assistance in terms of conservation and rehabilitation of forest resources through a wide range of projects including (i) mangrove rehabilitation and management in Sulawesi and Aceh provinces, (ii) monitoring performance of sustainable utilization of forest resources by the private sector, (iii) tropical forest conservation in Flores and Siberut regions in West Sumatra, and Central Sulawesi.
82. **World Bank.** The World Bank Forest Carbon Partnership Facility (FCPF) is a global partnership focused on REDD+. A "readiness fund" assists forest countries with development of REDD+ systems and policies, helping to lay the groundwork for future payments and financial incentives for REDD+. In Indonesia, the Ministry of Forestry is implementing an FCPF REDD Readiness Grant signed in June 2011 for a range of activities, including analytical work, management of the readiness process, reference emission level estimation, and MRV. The FCPF has also provided a grant to the

Indonesian NGO, Telapak, for a study entitled Indigenous Peoples and Climate Change in Indonesia. The project focused on Indigenous Peoples' (IP) issues, and developed an IP database with information on histories, spatial plans, potential conflict, boundaries, natural resources and institutional settings.

83. The Indonesia Forest and Climate Trust Fund (IFCTF), a partnership with AUSAID's KFCP, aims to design a benefit sharing mechanism and disburse grants to participating communities in the peatland areas of the Ex Mega Rice Project that are targeted by the Indonesia-Australia Forest Carbon Partnership (IAFCP) and its Kalimantan Forests and Climate Partnership (see below for more information on the IAFCP). Community-based grants, based on a participatory approach, will support livelihood and restoration activities on degraded peatlands. The project will also test environmental and social assessment tools within a REDD+ framework. The World Bank cooperates on the IFCTF with AusAID, the Ministry of Forestry, Bappenas and local government officials and stakeholders.
84. The Program on Forests (PROFOR) is a World Bank-managed trust fund that is assisting the Government of Indonesia in examining financing instruments to create appropriate incentives for forest preservation at the local, district and provincial levels.
85. **IFC.** The IFC's Sustainable Forestry program in Indonesia supports the creation of viable forestry enterprises on degraded lands in Indonesia, to reduce greenhouse gas emissions, improve the sub national level enabling environment, and strengthen the business case for forest management by industry, smallholders and communities. The program currently works with private sector clients in the plantation and natural forest sectors.
86. IFC also has programs in the agribusiness, energy and extractives sectors, which often include clients and initiatives located at the forest frontier. Subsectors closely related to forest issues include oil palm, coffee, oil and gas, mining, biomass energy, and associated downstream value or production chains.

5.2 REDD+ Programs of Other International and Bilateral Government Organizations

87. The Government of Norway is one of the pre-eminent international donors for REDD+ in Indonesia. In May 2010, Indonesia signed a Letter of Intent (LoI) with Norway to enter into a performance-based initiative for REDD+. The Norway-Indonesia REDD+ Partnership will offer up to \$1 billion to the Government of Indonesia for success in reducing deforestation and forest degradation. It establishes a phased program of action, focusing first on establishment of a national strategy, a management agency, an agency for Measurement, Reporting and Verification (MRV), a pilot province for REDD+, and a financing instrument. In the first phase (2010-2012), funds have been spent on developing Indonesia's National Strategy of REDD+ and establishing initial enabling policies. Phase Two will focus on preparing Indonesia for the contributions for verified emissions reductions and implementing the province-wide pilot in Central Kalimantan. In the final phase starting in 2014, the contributions for reductions mechanism will be implemented nationally. Funding will be distributed over a 7-8 year period, with most of the funds tied to the verified emissions reductions. Management and implementation of this initiative is conducted by the REDD+ Task Force headed by the President's Monitoring and Delivery Unit (UKP4).
88. Australia has one of the oldest (and on-going) bilateral REDD+ initiatives in Indonesia: the Indonesia-Australia Forest Carbon Partnership (IAFCP). This effort includes support

by the Australian government to assist Indonesia in MRV development through the Indonesia National Carbon Accounting System and the Forest Resource Information System. The IAFCP also supports large-scale REDD demonstration actions in Central Kalimantan. The goal of the Kalimantan Forests and Climate Partnership (KFCP) is to demonstrate an effective approach to reducing emissions from deforestation and forest degradation, with an emphasis on peatlands. In the initial period, the project will avoid deforestation of 50,000 hectares of peat swamp forest and rehabilitate an additional 50,000 hectares of degraded peatland to create a buffer around the existing forest and reduce further degradation. Issues to be addressed will include development of alternative livelihoods and incentive payment schemes for local communities.

89. The United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD Programme) provides assistance to developing countries in preparing and implementing national REDD+ strategies. In Indonesia, UN-REDD collaborated with *Bappenas* on a series of national and regional stakeholder consultations as part of the development of the National REDD+ Strategy. In October 2010, the UN-REDD Programme also selected Central Sulawesi as a pilot province to prepare and test strategies for REDD+ implementation.
90. The United States is an important emerging donor in the climate change and REDD+ field in Indonesia. The US Agency for International Development (USAID) funds the Indonesia Forest and Climate Support (IFACS) Project to assist the Government of Indonesia in conserving the country's forests, wildlife, and ecosystem services. The four-year project works with national and local government agencies, NGOs, local communities and the private sector in target sites on three islands. It is expected to result in benefits including: a 50% reduction in the rate of forest degradation and loss for six million hectares; improved management of 3.5 million hectares; a 50% reduction in GHG emissions; a 20% increase in financial resources for forest management, increased transparency, and access to information to strengthen capacity of government, civil society and the private sector; and low carbon growth development strategies piloted in eight districts. These goals will be achieved through land and forest governance activities, improved forest management and conservation, and private sector involvement and market development. IFACS will support the objectives of key related initiatives in Indonesia, including the Norway-Indonesia REDD+ Partnership, the National Strategy of REDD+, and the development of Low Emission Development Strategies (LEDS).
91. In March 2010, the Japan International Cooperation Agency (JICA) and the Ministry of Forestry began a five-year Project on Capacity Building for Restoration of Ecosystems in Conservation Areas. The project aims to strengthen the capacity of relevant stakeholders for ecosystem restoration. Target areas are degraded ecosystems in five national parks in South Sumatera, West Java, Sumba Island, Yogyakarta and Central Java, and East Java. The project will build on knowledge and technologies developed for other activities, as well as indigenous and traditional knowledge. The work will include development of an institutional framework for restoration of degraded land in conservation areas and preparation and implementation of restoration actions in the project sites.¹⁵

¹⁵ See <http://203.179.38.26/project/english/indonesia/008/outline/index.html>.

92. The German Agency for International Cooperation (GIZ) is supporting the Ministry of Forestry by providing technical assistance for the establishment of three KPHs, located in Kapuas Hulu (W. Kalimantan), Berau and Malinau (E. Kalimantan). GIZ also supports the Ministry of Forestry in developing strategies to roll out the KPH program, develop human resources needed for KPH management, and advises on the development of relevant regulations.
93. In April 2011, the UK launched the UK Climate Change Unit (UKCCU) Indonesia, integrating resources from UK DFID and other government departments into a single program. The goal of UKCCU Indonesia is to assist Indonesia with meeting its national goals including reducing GHG emissions by 41% by 2020, reducing deforestation and degradation, and moving to a lower-carbon economy that achieves 7% growth. The forestry and REDD+ work of UKCCU Indonesia will build upon DFID's previous Multi-stakeholder Forestry Programme (MFP) in Indonesia, a stakeholder-driven effort which aims to curb illegal logging and promote sustainable forestry through: implementation of new legislation on forest tenure; support for small- and medium-scale forest enterprises; creation of incentives including those provided through VPAs; addressing governance failures through measures such as legislation to combat illegal logging law; and promote integrated development planning and improved access to information.
94. The Korea International Cooperation Agency (KOICA), in cooperation with the Korea Forest Service (KFS), FORDA (Forest Research and Development Agency), and West Nusa Tenggara provincial government, is implementing tree planting activities with communities in Lombok. From 2009, KOICA has been implementing AR CDM activities in East Lombok and reducing emission activities from deforestation and degradation in Central Lombok.

5.3 Collaboration among MDBs and Partners

95. The design of the FIP Investment Plan followed a consultative process that sought inputs from representatives of various key GOI agencies, from the donor agencies described above, from CSOs, and the private sector. Further inputs are being sought through an on-line public review process. Annex 2 describes the stakeholder engagement process in more detail.
96. The preparation process was coordinated with the Forest Carbon Partnership Facility. The FCPF Grant is providing readiness support at the national and sub-national level and will dedicate resources in the FIP intervention areas to complement efforts on analytical work (mainly assessment of historic drivers of deforestation at a district level), socio-economic studies, capacity building, and implementation of Permanent Sample Plots and Monitoring activities and setting of Reference Emission Levels.
97. While the UN-REDD grant will close in 2012 prior to the start of activities financed by the FIP, project implementation will draw on lessons and analytical work produced by UN-REDD. UN-REDD works in close cooperation with the FCPF on assessing benefit-sharing activities. UN-REDD has also implemented readiness activities in Central Sulawesi, which showed interesting results, especially on the application of FPIC principles and capacity building at a provincial level.
98. The three MDBs (ADB, World Bank, IFC) will cooperate in supporting the GOI in common policy areas via joint workshops and policy dialogue. The FIP Indonesia program will leverage support from other initiatives, including multilateral, bilateral, private and non-governmental organizations. Efforts to synergize activities of the three MDBs will be continued during project preparation and implementation.

99. Areas of collaboration will be explored with Indonesia-based international research institutions to leverage their extensive experience in tracking issues in the forest sector. Civil society organizations with experience in collaborating with local communities and local governments in forest law enforcement and governance (FLEG), forest and land tenure reform, degraded lands development, and designing incentive-based schemes will be potential partners in providing technical assistance. Potential national partners at the community level include small grants organizations. Partners will be identified during project design.
100. For activities in West Kalimantan, the project will build on the existing partnership in supporting the Government of Indonesia's action plan under the Heart of Borneo strategic framework.
101. GOI's National Program for Community Empowerment in Rural Areas Project (PNPM-Rural) is a potential partner for village-level funding. PNPM-Rural is a community-driven development program implemented by the Ministry of Home Affairs (MoHA) Directorate General of Village Community Empowerment (PMD). PNPM-Rural and also Green PNPM disburse block grants to village-based CDD projects to fund productive development activities that are identified and prioritized by village representatives through a gender-inclusive, participatory approach.
102. Potential private sector partners include: forestry enterprises (*e.g.*, smallholder groups, cooperatives, small locally owned companies and larger firms, *etc.*); manufacturers, investors, government credit and revolving fund programs; and domestic banks; private sector partners to provide market off-take guarantees and technical assistance. IFC's Indonesia Sustainable Forestry program and Global Forestry & Wood Products group will provide technical assistance on financing structures, industrial forest and plantation management, CO₂ monitoring, financial planning, community forestry and other themes.

6 FIP INDONESIA INVESTMENT PLAN

6.1 Objective and main themes of Investment Plan

103. Indonesia is in the process of planning and implementing significant changes in the way forested land is managed, and FIP presents an important opportunity for supporting this process. The National Action Plan on GHGs, the National REDD+ Strategy, the Forest Management Unit (KPH) program and recent tenure reforms introduce far-reaching programs that represent a potential transformation toward a forestry sector that is compatible with sustainable growth and equity. Progress in planning at the national level now needs to be translated to actions in the forest; however, a number of barriers to implementation at the local level remain. These include, a lack of local institutional capacity for forest management, lack of institutional capacity for spatial planning, a business climate that is not conducive to sustainable forestry and community forestry investment, and weak community capacity, and poor access to forest resources.
104. The development objective of the Investment Plan is to reduce barriers to subnational REDD+ implementation and to increase provincial and local capacity for REDD+ and SFM. Key entry points for the Investment Plan to address sub-national barriers will be the national KPH system and ongoing tenure reform processes. Activities will focus on the following three integrated themes:
1. Institutional development for sustainable forest and natural resource management
 2. Investments in forest enterprises and community based forest management
 3. Community capacity building and livelihoods development
105. The Investment Plan approach was developed based on stakeholder inputs and the potential to achieve transformative change through leveraging Indonesia's REDD+, tenure, and forestry programs. The transformational impact of FIP is expected to be in the form of changes in institutions, policies, technologies adopted and the behavior of stakeholders including the private sector and local communities. FIP is also expected to contribute to realizing the goals of green economy and green growth, besides enhanced climate resilience and developmental co-benefits. Many of the initial ideas presented in Chapter two were adopted within the Investment Plan framework.

6.2 Response to stakeholder inputs

106. The development of the Investment Plan included numerous meetings with stakeholders as well as stakeholder reviews of earlier drafts of the Investment Plan. Extensive discussions were undertaken in 2010-2012 with GOI as well as national and local stakeholders who attended the Joint Missions, national workshop, individual discussions, and consultations organized by the National Forestry Council (DKN). One of the key results of the discussions was the need for the Investment Plan to support the National REDD+ Strategy, which itself is the outcome of a much more thorough consultation process. In addition, stakeholder feedback centered around the need to consider three elements: (i) national level institutional strengthening, governance and policy reform for sustainable management of forests, including capacity building, knowledge management and strategic coordination of the Investment Plan; (ii) on-the-ground public sector investments (e.g., dealing with issues of land tenure, community-based forest management, etc.); and (iii) the leveraging of private sector investments.

107. During the Second Joint Mission, Bappenas stressed the importance of prioritizing the KPH system as an entry point for other interventions. Bappenas also noted that focused support to KPHs through the FIP will help to build local capacities, ensure monitoring in remote and open access areas, and promote local level management of forest land. The strategic importance of the KPH system was also stressed by the Chairman of the REDD+ Task Force. A CSO representative also strongly supported the idea of KPHs becoming the center of interventions, noting that KPHs have a role in promoting good governance and in facilitating conflict resolution. During the Second Joint Mission, it was also noted that the low capacity and resources of sub-national authorities contributes to inefficient spatial planning processes.
108. Annex 7 provides a detailed summary of the FIP consultation process and a comprehensive list of stakeholder comments.

6.3 Enabling the Implementation of Indonesia's REDD+ and Forestry Programs Through Supporting Local Forest Management Capacity

109. A critical weakness in Indonesia's forest governance framework is the lack of local government capacity to manage forest areas. Government capacity to plan, monitor, and manage activities in forestry areas is critical to translating national level policy developments to the local level and to achieving positive outcomes for forests and local communities. This is particularly true for REDD+ with its added technical requirements, such as MRV and benefit sharing.
110. Prior to the reformasi period, the administration of Indonesia's forest estate was under the domain of the central Ministry of Forestry (MoFr). As part of the general decentralization process, local forestry agencies- Dinas Kehutanan (Dinas)- were placed under the jurisdiction of district and provincial governments. The Dinas carry out mainly administrative tasks, but they lack the mandate and capacity for effective resource management and law enforcement. Also, while GOI is making significant progress in monitoring license holders and in enforcing regulations in forestry concessions, currently more than half of the area designated as Production Forest, or 49 million ha, is not allocated to license holders.
111. Lack of public forest management capacity at the local level reduces the potential for Indonesia's forest area to contribute to good environmental, social, and economic outcomes. Poor management capacity contributes to lasting conflicts between claimants, under-utilization of land resources, limited access to land for local communities, and to deforestation and degradation. A critical issue for both communities and private sector enterprises has been the inability of the government to properly manage licensing procedures and to clarify rights to land use within public forest land. Also, while significant funding for community forestry programs has been available at the central level, lack of accurate local land use data, lack of institutional capacity to support communities in business planning and licensing, as well as regulatory and administrative barriers faced by communities have meant that very little of the funding has been disbursed.
112. A persistent lack of government capacity to plan and manage land use on public forest land would be a significant barrier to the local implementation of the National REDD+ Strategy. Translating national policies to the ground will require institutional capacity to integrate local communities into forest and land use plans, to improve access to land resources, and to improve the business-enabling environment for sustainable investments in forestry and land use. Any future REDD+ funding would require

institutional capacity to coordinate REDD+ projects, to provide access for local communities, and to oversee local benefit distribution mechanisms.

113. The introduction of Forest Management Units (KPHs) is intended to improve and further decentralize forest management, increase accountability over forest outcomes, improve local stakeholder involvement, and potentially increase transparency. The KPH program divides state forest land into discrete area units to be managed by dedicated local institutions that are staffed by forestry professionals. A countrywide KPH system is firmly anchored in the forestry legal framework and in forestry development plans¹⁶.
114. While forest concession licenses will still be issued by the central Ministry of Forestry, the KPH will be responsible for developing management plans, for overseeing license holders, and for monitoring land use activities, particularly in open access areas not under license. Importantly, KPHs will be part of local government structures, strengthening decentralized forest governance. By placing forestry professionals at the local and field levels, KPHs will facilitate better law enforcement, improved outreach to local communities, and more structured and localized approaches to addressing land based conflicts and improving local people's access to forests.
115. Progress in delineating KPH areas has been swift, but the development of institutions to manage these areas has been slower. By the end of 2011, the GOI had allocated over 56 million ha of state forestland across 25 provinces into 530 discrete KPH areas. According to MoFr's Strategic Plan, at least 120 KPH institutions should be operationalized by 2014. To this end, GOI has allocated a budget that supports KPH institutional development, including training of staff, development of facilities, and development of forest management plans. In 2012, this budget was raised from a planned IDR 15.7 bn (USD 1.7 m) to IDR 103.7 bn (USD 11.5 m). So far, the GOI has begun developing 60 KPHs, the majority of which are in the institutional development phase.
116. The KPH program presents a strategic opportunity for FIP. Most KPH institutions are still in the pre-operational phase and there is an opportunity to support the development of institutional models that are compatible with international standards for good forest governance and REDD+. Strategic investment areas include strengthening the capacity of KPHs to work with local communities, developing KPHs' skills in business planning in support of SFM and CBFM. Importantly, FIP can provide linkages to climate change funding and REDD+ at the national level, and can support an exchange of ideas across KPHs and across countries.
117. Beyond supporting a transformational process through the KPH system, there are compelling reasons for using KPHs as an entry point for the Investment Plan. Working through the KPH system improves the sustainability of programs, ensures a programmatic approach, and provides scalability. KPH institutions will be embedded in subnational governments, and programs carried out through the KPHs will ensure local

¹⁶Undang-Undang Republik Indonesia Nomor 41 Tahun 1999 Tentang Kehutanan. Pasal 17. The KPH concept was further defined by the Government Regulation on Forest Arrangement and Preparation of Forest Management Plan and Forest Utilization (PP 6/2007) and its amendment (PP 3/2008), which both required the establishment of KPHs. In 2010, the Ministry of Home Affairs (MOHA) enacted a decree (Permendagri No 61 of 2010) that allows bupati to establish and oversee KPHs.

government involvement and increased local ownership. By supporting KPH institutions during the initial phase, FIP can provide key inputs to institutional design as well as to forest management plans, which will determine forestry practices beyond the lifetime of the FIP.

6.4 Enabling the Implementation of Indonesia's REDD+ and Forestry Programs Through Supporting Land Tenure Reform Processes

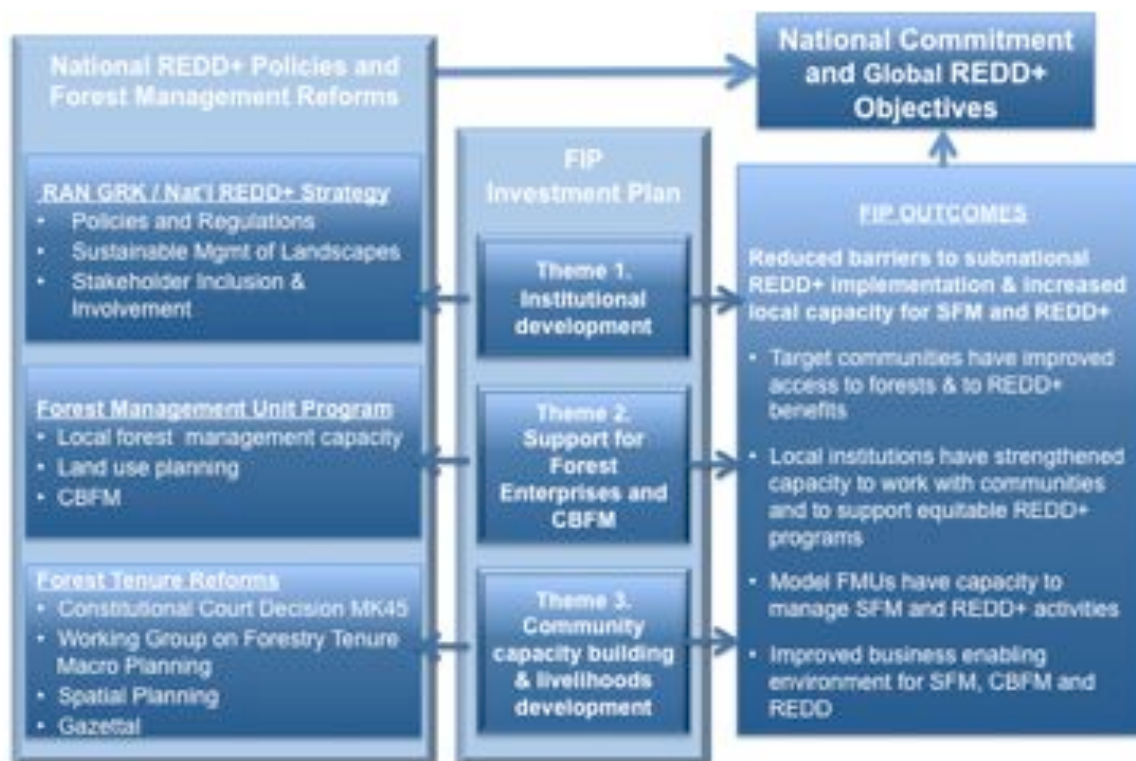
118. The National REDD+ Strategy makes tenure issues a central point to be addressed, and recent policy developments provide an important entry point for FIP investments to support progress in this area.
119. The National REDD+ Strategy notes that uncertain land tenure has contributed to the problems of ineffective spatial planning and to unsustainable and uncoordinated land use and development. Land tenure reform and clarification can assist with the development of effective and sustainable programs for alternative, forest-friendly livelihoods, and can help to build support for REDD+ among local and customary communities. Secure land tenure arrangements can increase investment in REDD+ as the costs of negotiation over land and likelihood of competing land claims and conflict decline, enhancing the contribution to poverty reduction, timber production, and environmental services.
120. At a conference on forest tenure in Lombok in July 2011 the GOI announced its intention to prioritize the needs of its forest communities, to "recognize, respect and protect Adat rights," and to tackle the lack of coordination across government agencies in addressing forest tenure policies. At the event, the GOI officially launched a transparent and participative process that would seek the inputs of various stakeholders, including indigenous communities. As a follow-up, Indonesian civil society groups have proposed three domains for reform, namely: (i) Improvement of the policy and acceleration of the process of strengthening forestry zones; (ii) Settlement of forestry conflicts; (iii) Extension of the people's management area and enhancement of the welfare of the traditional community and other local communities.
121. A 2011 constitutional court ruling (MK45) on the definition of State Forest Land (Kawasan Hutan) provides a window for significant acceleration of forest tenure reform. While the previous definition of State Forest Land included areas that had been "designated and/or gazetted" as such, the new definition includes only areas that have been gazetted. While the court ruling is unlikely to affect previous decisions on land allocation, it does create significant space for the negotiation of land use between MoFr, district governments, and local communities on areas of state forest land that have not yet been gazetted. Recent analysis indicates that less than 15 million ha of state forest land have been fully gazetted.
122. As part of its efforts to address tenure issues, MoFr has launched a program to accelerate the gazettal of State Forest Land, with an ambitious completion date by 2014. To support the gazettal process, spatial planning, and the resolution of tenure issues, MoFr has also recently decreed the establishment of a Working Group for the Preparation of a Macro Forestry Tenure Plan (SK.199/Menhut-II/2012 of May 2012). The Working Group has the following tasks:
 - To develop a macro plan for forestry tenure;
 - To hold public meetings and consultations with stakeholders within the framework of developing the macro plan for forestry tenure;
 - To identify and map conflicts over forestry tenure;

- To assess the management of conflicts over forestry tenure; and
 - To formulate alternative resolutions to conflicts over forestry tenure.
123. FIP investment will support positive outcomes of the ongoing tenure reform processes. The GOI has opened the way for the development of a tenure framework that is conducive to the protection of forests and peatlands, while promoting sustainable livelihoods and investment. Such an outcome would require a gazettal and spatial planning process that includes full and effective participation of local communities, as well as processes of collaboration involving multiple stakeholders at the national and district levels. Specific investments could include: support to sub-national conflict resolution processes, capacity building of local communities to engage in participatory mapping, and analytical and technical support to local institutions involved in spatial planning and gazettal.

6.5 Supporting Key Areas of the National Action Plan and the National REDD+ Strategy

124. The three themes of the Investment Plan directly support key areas of Indonesia's REDD+ policies. Most directly, the themes support:
- The reform of policies and regulations, which is the second pillar of the National REDD+ Strategy. Specifically, by supporting the development of local capacity, the Investment Plan will contribute to reforms in the areas of land use planning, forest and peatland management, and forest monitoring and law enforcement.
 - The sustainable management of landscapes, which is one of the strategic programs of the National REDD+ Strategy. Theme 1 will contribute toward improved local capacity for sustainable landscape management, and Theme 2 will promote value added processing. The expansion of sustainable livelihoods is supported by themes two and three. All three themes aim to contribute to the improved management of multi-function landscapes.
 - The inclusion and involvement of stakeholders, which is one of the pillars of the National REDD+ Strategy. Forest policy in Indonesia is moving toward better inclusion and engagement of stakeholders, which is an explicit goal of the National REDD+ Strategy. Investments and projects undertaken by the FIP will engage a broad range of stakeholders at the community, district, provincial and national levels at all stages of design and implementation. Particular attention will be given to customary peoples and local communities as well as addressing gender issues, and to the utilization of local knowledge and techniques, where appropriate. Projects will be developed and implemented with adherence to MDB and national social and environmental safeguard standards. A key outcome will be increased local, site-level, cross-sectoral and cross-regional management of forest resources. Indicators will include evidence of strengthened coordination among key stakeholders groups (government ministries, local communities, private sector, development partners, academic institutions, and CSOs) for management of forest resources.

Figure 5: FIP Investment Plan Framework and Fit with National Programs



6.6 Investment Plan Themes

6.6.1 Theme 1: Institutional Development for Sustainable Forest and Natural Resource Management

125. Institutional strengthening will be aimed at community-focused investments to enhance the enabling conditions for sustainable land use and REDD+ project implementation. Activities will support KPHs and other subnational institutions in improving local conditions for REDD+ implementation, in particular in relation to participatory planning, spatial planning, and community outreach and related management and business plan development.
126. Interventions will be based on institutional capacity building and development needs for improved planning processes for addressing site specific and community needs. The interventions will cooperate with local programs and build on ongoing activities and existing community structures and processes at a local level. The program would also cooperate with provincial and national institutions to link into the National REDD+ Strategy and the proposed financial mechanism and into national programs.
127. Key areas where FIP can support institutional capacity development include:
 - Provide support at the local government level for the integration of KPH institutions into local government and national structures
 - Provide institutional capacity building to KPH institutions, including training of staff
 - Support stakeholder participation in the development of KPH institutions
 - Support forest management activities carried out by the KPH institutions, such as:
 - Development of forest management plans

- Forest and land rehabilitation
 - Community empowerment
 - Outreach and extension services
 - Participatory planning and mapping at community level and around targeted KPHs.
- Provide analytical support for KPH acceleration
 - Establishing a grievance and redress mechanism involving district governments, local communities, and KPHs;
 - Pilot district-wide or KPH-wide REDD+ safeguards information system;
 - Strengthen knowledge management and exchange between districts, provinces and countries on forest management, and participatory spatial planning.
 - Provide technical assistance and analytical support at the national and province level to support sub-national strategy development and KPH linkages to national and international programs and funding opportunities

6.6.2 Theme 2: Forest Enterprises and Community Based Forest Management

128. Forest enterprises on private and public lands (smallholder groups, cooperatives, small and medium businesses, forest contractors, etc.) are often constrained by weak business capacity, limited access to finance and lack of information on the downstream value chain of the sector. Medium and large enterprises that manage larger area concessions of natural forests, planted forests, and ecosystem restoration face different challenges such as burdensome licensing requirements, land tenure and community disputes, barriers to forest certification, integration with smallholders and communities, and linking to the downstream value chain. Other natural resources enterprises, such as agribusiness and mining, also have forest stewardship responsibilities. Innovative and transformative investments are needed for all scales and types of forest enterprises, particularly those initiatives that promote sustainable forest management leading to emission reduction and protection of forest carbon stocks.
129. Motivated forest enterprises will be selected from both forested and deforested regions of Indonesia, and where forest product demand remains high. Interventions with enterprises in communities adjacent to natural forests are intended to reduce degradation and associated emissions, while those in non-forested areas will enhance carbon stocks through planted forests. Interventions can address the need to develop viable forestry business models, which include:
- Strengthening organizational and business capacity for business operations;
 - Applying sustainable forest management (SFM) principles, including independent certification;
 - Facilitating reciprocal relationships with other enterprises along the forest value chain and strategic community investment by larger companies in rural communities;
 - Building multiple revenue sources from forests (e.g., timber and non-timber products, payments from ecosystem services such as carbon and water, and agroforestry);
 - Facilitating access to financial support modalities such as grants, loans, credit, off take agreements, advance payments, and guarantees; and
 - Setting up a prototype fund to pilot or scale-up performance-based incentive schemes for the private sector to practice sustainable forest management.
130. Anticipated upstream interventions include: (i) community-based forest management enterprises and payments for environmental services (PES) on degraded forest and grassland; (ii) plantation management on degraded forest and grassland; (iii) production

forestry and sustainable forest management on natural forest; and (iv) ecosystem restoration and sustainable forest management. Interventions will also involve downstream forestry and enterprises in other related sectors where there is a clear causal link to deforestation and forest degradation.

131. The FIP concessional financing will be particularly supportive to engage financial intermediaries such as local banks, credit agencies and lead firms. Improved access to financing will also help to leverage additional investments in small forest enterprises from public forestry support programs and private sector investors who currently view these investments as economically unviable and high risk.

6.6.3 Theme 3: Community land use planning and livelihoods development

132. Theme 3 will work directly with local communities and their civil society representatives to support communities in participating in SFM and REDD+. Support to communities will be implemented in close cooperation with programs that could provide the necessary livelihood investments to communities, such as PNPM and other small grants mechanisms.
133. The scope of activities includes the following areas:
- Village development planning focused on participatory mapping and forest use planning for sustainable natural resource utilization;
 - Support to village institutions to undertake participative data collection and forest and land use planning;
 - Capacity development for communities to participate in KPH forest management planning processes;
 - Setting up an efficient and transparent system for customary and local communities to apply for community forest management rights;
 - Piloting a system for provincial registration of community forest management tenure agreements and gender-sensitive benefit sharing arrangements;
 - Community livelihoods development and natural resource management;
 - Community- focused pilots to address drivers of deforestation and forest degradation
 - Setting up a fund to pilot performance-based incentive schemes for REDD+ based on customary and village-level cooperation to prevent forest and grass fires and assist natural regeneration; and
 - Creating a transparent and accountable fund to support upfront and transaction costs of customary and local communities to establish REDD+ projects.
134. The program will support land use planning efforts at village level in selected communities, preferably in and around areas of priority KPHs. Micro spatial plans or land use plans will be integrated into community development plans as integrated spatial, development and livelihood plans.
135. Support will also be provided to community livelihoods development and natural resource management, including activities implemented by the communities in priority areas targeting sustainable livelihood development, NTFP, forest management, fishery, and other sustainable economic activities in line with land-use plans. The investments will directly benefit communities, improve sustainable income, and reduce economic and subsistence pressures that drive some current activities.
136. Support will be provided for a range of community- focused pilots to address drivers of deforestation and forest degradation, including economic activities utilizing degraded lands for sustainable community livelihoods.

137. Block Grants may be disbursed to incentivize REDD+ related activities while supporting communities to move along an alternative, more environmentally sustainable development path by providing funding for the development of alternative livelihoods and income generation that lead to improvements in socio-economic conditions.

6.6.4 Overview of Investment Plan Projects and Themes

138. The Investment Plan will be supported by three projects. Details of the individual projects are provided in Annex 1.

Project Title	Themes Mainly Supported
Community-focused investments to address deforestation and forest degradation	1. Institutional Development 2. Forest Enterprises and CBFM 3. Community capacity
Promoting Sustainable Community Based Natural Resource Management and Institutional Development	1. Institutional Development 3. Community capacity
Strengthening Forestry Enterprises to Mitigate Carbon Emissions	2. Forest Enterprises and CBFM

6.7 Supporting Cross-Cutting Analytical Work

139. The Investment Plan will support a number of analytical and technical assistance components at the national and project levels. These will provide guidance to the project design process, and/or will support the development of national policies. Where appropriate, collaboration will be sought with FCPF and other programs. The following issues were considered important to be addressed:
- **Policies related to community participation in the forestry sector.** How various community forestry schemes, such as HTR, HKM, Hutan Desa, and Hutan Adat could contribute to equitable and sustainable use of forests? What opportunities could be created by recent GOI commitments on tenure reform beyond the current licensing framework? Further analytical work could be provided to support the Working Group on Macro Forest Tenure planning.
 - **Forest concession licensing processes and impacts on local communities.** What are the opportunities to improve and/or mitigate social and environmental impacts, improve equity, and support and enabling environment for sustainable forest investments within the current concession licensing system (covering timber plantation concessions, natural forest management concessions, and Ecosystem Restoration Concessions).
 - **Support for national safeguards development.** While the FIP projects will apply the safeguard policies of the supporting MDBs, we recognize that national safeguards for REDD+ related activities are being developed as part of national REDD+ readiness efforts (PRISAI). FIP will work closely with the relevant Government agencies, CSOs, FCPF program (Strategic Environmental and Social Assessment) and other donor funded initiatives, to support any efforts that would strengthen national safeguards and practical guidelines and policies for project implementation, e.g. FPIC and DKN consultation protocols. This may include testing of safeguards approaches and instruments at the project level, as well as documenting and disseminating lessons from project implementation.

6.8 Target Areas

140. MoFr has identified a number of KPHs as potential partners for FIP engagement. Further investigation will determine the degree of suitability of these KPHs for engagement in activities, and identify opportunities for site-specific project preparation within the KPHs and in the buffer zones. Specific criteria for selecting KPH partners include, but are not limited to: (i) ownership of KPH at national and regional levels; (ii) capacity and willingness to engage with local communities on land-use planning and sustainable livelihood development; and (iii) strategic fit with REDD+ objectives, including potential for REDD+ project development and collaboration with partner programs.
141. Motivated forest enterprises will be selected from both forested and deforested regions of Indonesia, and where forest product demand is high. Interventions will be prioritized according to the potential and replication for forest carbon emissions reductions through business-based mitigation activities, business ability to meet due diligence requirements, motivation to expand and strengthen organizational and business capacity, and opportunity to derive multiple revenue sources from forest products and services.
142. The potential areas selected for FIP interventions are:
 - Sumatra: Aceh, Jambi, Riau, South Sumatra
 - Kalimantan: West Kalimantan, Central Kalimantan, South Kalimantan
 - Java: Central Java, DI Yogyakarta, East Java
 - Sulawesi: Central, North, and Southeast Sulawesi
 - West Papua
 - Maluku

6.9 Cost-effectiveness and Sustainability

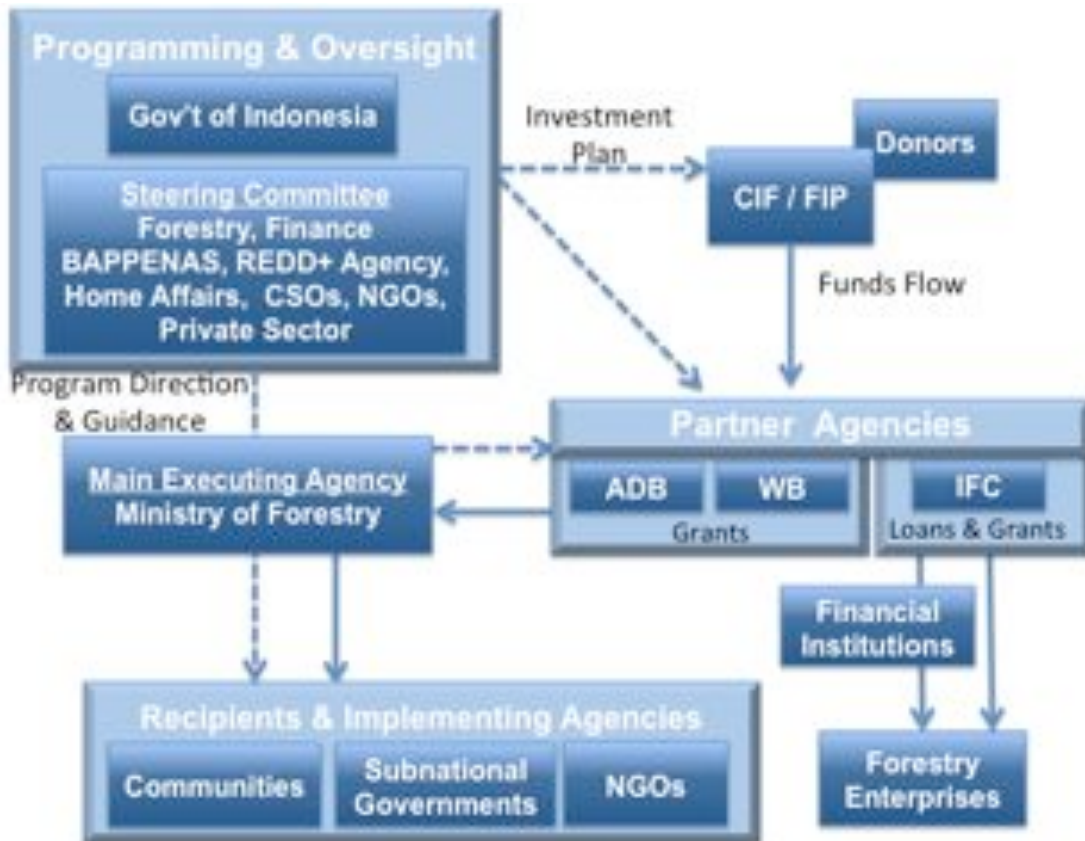
143. By supporting Indonesia in a transformative process toward good forest governance and subnational REDD+ readiness, the Investment Plan will leverage existing political will as well as large amounts of pledged and emerging REDD+ funding to achieve sustainable GHG emissions reductions and co-benefits. Addressing remaining barriers to REDD+ implementation will allow Indonesia to access climate change and REDD+ funding. Improving local forest governance through the KPH system is expected to lead to significant improvements in the business-enabling environment, improving opportunities for investments in SFM, CBFM, and REDD+. This will increase private sector funding as well as leverage funding managed by the Forest Development Funding Agency at MoFr (over USD 300 million).
144. Besides increasing the likelihood of Indonesia tapping into future results-based funding, addressing underlying drivers of deforestation will lead to direct future reductions in GHG emissions, as well as to significant social and environmental co-benefits. There is currently no standard approach for measuring GHG abatement benefits, in particular from interventions that deal with underlying issues or that are not area-specific. Most of the proposed FIP investment addresses underlying issues; however, where the Investment Plan foresees direct investments at the project-level, preliminary estimates show favorable cost-benefit ratios. Specifically, the grant investments (Projects 1 and 2 in Annex 1) result in an estimated cost of USD 0.7 to 1.0 per tonne of CO₂ while the private sector program (Annex 1.3) is estimated to generate CO₂ reductions at USD1.3 to 1.6 per tonne (when co-financing is excluded). Additional and more precise cost-

benefit calculations will be carried out as part of project preparation after project-level baselines and opportunities have been identified.

6.10 Implementation Arrangements

145. FIP activities, performance and results will be reported to a Steering Committee. The Steering Committee will be at the Director General level and will be composed of the principal agencies involved, including Ministry of Forestry, the REDD+ Task Force, Ministry of Finance, Ministry of Home Affairs, Bappenas, the National Council on Climate Change, and will include representation non-Government stakeholders including civil society and the private sector. The MDB's will be given observer status. Steering Committee meetings will be held every 6 months to evaluate activities and progress. Technical coordination meetings, organized by the Ministry of Forestry, will be held 2-4 times per year.
146. Ministry of Forestry will be the main executing agency and will provide additional coordination and technical guidance to the program. The Ministry of Finance will provide approval for FIP grant funding. Other ministries (e.g. Ministry of Home Affairs, Coordinating Ministry of Economic Affairs), local governments, agencies or organizations could play a role in implementing activities, especially when channeling funding to the village level and providing technical assistance (through a PNPM mechanism, or similar). The potential role of these agencies in the implementation of projects will need to be discussed during the preparation process of the projects. All funding will have to comply with GOI and MDB financial management requirements.
147. Local governments will be important project implementers, in particular for KPH and spatial planning activities. Grant funding for sub-national governments will at least in part be executed through a central government institution. Where appropriate, mechanisms for direct funding to local governments will also be explored.
148. For investments at the community level, the WB and ADB, together with the Steering Committee and Executing Agency will select implementation partners with the required experience to implement projects and community driven programs, including NGOs and small grants organizations. The program will also explore PNPM-like mechanisms for direct transfers to the project-level.
149. Concessional financing will be channeled through IFC, in coordination with the Steering Committee and/or Executing Agency, and will go solely to the private sector. The IFC will work directly with potential partners for the project including: forestry enterprises, manufacturers, investors, credit and revolving fund programs, (domestic) banks, and private sector partners to provide market off-take guarantees and technical assistance. Financing can be channeled directly to larger enterprises, while funding to micro, small, and medium sized enterprises (MSMEs) will generally flow through financial institutions such as domestic banks. Financing agreements will be between IFC and private sector partners. The Government of Indonesia will not incur liability or obligation for use of FIP concessional financing.

Figure 6: FIP Investment Plan Implementation Arrangements



7 IMPLEMENTATION POTENTIAL WITH RISK ASSESSMENT

7.1 Capacities of Implementing and Executing Agencies

150. Implementing partners will be selected based on their capacity to work across sectors, to work consultatively with communities, and to successfully implement project activities. The design and analysis stage of the Investment Plan will identify specific weaknesses of partners and implementing agencies. For example, government implementing agencies may lack experience in managing foreign grant funding using an on-budget-on-treasury system. To mitigate the associated risk as well as other risks, funds will be reserved for improving procedures, methods and protocols in accordance with the requirements and procedures of the GOI and MDBs. The Ministry of Finance/Director General of Debt Management approves all bilateral and multilateral financing activities.
151. The Ministry of Forestry will be the main executing agency and will provide guidance and oversight to the FIP program. MoFr manages a significant budget and has also received grants from several international donors. It has gained important experience in the execution of projects that are on-budget and on-treasury through the FCPF program as well as GIZ's FORCLIME project. The Directorate for Management and Preparation of Forest Use Areas (Direktorat Wilayah Pengelolaan dan Penyiapan Areal Pemanfaatan Kawasan Hutan), which is part of the Directorate General for Forestry Planning, is responsible for supporting the establishment of KPHs and will be a key partner in the FIP program.
152. The Ministry of Home Affairs (MoHA) is a potential key partner to implement grant funding for community driven development. The Directorate of Village Natural Resources and Appropriate Technology (SDATTG) within MoHA is the Project Implementing Unit (PIU) for PNPM Green and has a mandate to facilitate the effective management of village natural resources and utilization of appropriate technology for development. SDATTG is tasked with improving environmental conservation and rehabilitation, and effective utilization of community lands and coastal areas. SDATTG has significant experience (and operational infrastructure) in managing donor funding for community driven development.
153. Civil society organizations with experience in collaborating with local communities and local governments in forest law enforcement and governance (FLEG), forest and land tenure reform, and degraded lands development, will be important partners in providing technical assistance. Key partners on analytical work include research organizations as well as NGOs with programs related to tenure, spatial planning, forest policy. Specific partners will be identified during the project preparation phase.
154. The private sector project will be designed to enable IFC to leverage its skills, relationships and financing tools. IFC's Indonesia Sustainable Forestry Program and Global Forestry and Wood Products group has significant experience in providing technical assistance on financing structures, plantation management, CO₂ monitoring, financial planning, community forestry and other themes.
155. Spatial planning and land use planning will require close coordination between institutions across sectors and across government levels. In working with existing community and local institutions, the project will strengthen local coordination capacity. Supporting coordination amongst different agencies will also strengthen capacity for spatial planning and community development.

7.2 Risk Assessment

156. REDD+ readiness involves important changes to the existing institutional framework and touches on sensitive issues, such as land tenure rights, revenue distribution across government levels and institutional responsibilities and capacity. For REDD+ to be successful on the ground, a system of strong forest governance will need to be in place. This includes clear institutional rights and responsibilities, effective law enforcement, clear land tenure processes, and low corruption levels. Forest sector regulations are often conflicting or disputed, especially those concerning land use rights and land use definitions. Also, Indonesia's decentralization process is still ongoing and the institutional arrangements at a province level and below are still not fully prepared to lead the discussion on REDD+.
157. Without strong governance and coordination of REDD+ readiness programs, including harmonized donor support, there is a risk of overlapping and uncoordinated activities, which would be an impediment to achieving REDD+ readiness. While the institutional REDD+ framework is currently in flux, the National REDD+ Strategy provides a strong multi-sector focal point for coordination and leadership.
158. A related risk concerns the relationship of sub-national REDD+ activities with the National REDD+ Strategy and program. To be effective over the long term in Indonesia, sub-national REDD+ programs will need to adopt uniform standards for REL development and MRV based on the national standard, and will need to coordinate and eventually combine with the national program. A broad recognition exists within Indonesia on the need for such integration, and new institutions such as KPHs will play a key role. Achieving it will nonetheless be a major challenge in such a diverse country, where a number of MRV and REL standards have already been utilized in different REDD+ projects and the national MRV standard is still under development.
159. Communities could receive considerable benefits from REDD+, but only if it is implemented in a way that respects traditional rights, distributes benefits equitably, and provides for community participation, consultation and recourse. To achieve this positive outcome, Indonesia's REDD+ initiative will need informed, empowered communities and indigenous peoples' organizations, armed with the skills, experience, access, and standing to engage in policy dialogues, forest and peat management activities, business opportunities, and financial transactions. Effective consultations and close engagement are a precondition for achieving an equitable REDD+ management framework. Land tenure issues are complex and will not be resolved through the proposed program alone.
160. There are also risks associated with the potential economic benefits of the REDD+ program and the expectations that are linked to it. It will be essential that investments in alternative livelihoods and innovative business models produce real and sustainable improvements in local incomes and employment in addition to protecting forest. A failure in this regard could lead to a loss of credibility and support for REDD+ among local communities, indigenous peoples, private sector actors and potential investors. Indonesia's economic growth ambition of 6% p.a. needs to be balanced with objectives of ecosystem services from the forest sector and food security. Generating high expectation for REDD+ in the absence of large international commitments and existing carbon markets represents a risk.
161. Issues related to institutional capacity also pose risks to implementation. For example, the WB and ADB supported projects will seek to engage and support local KPH units, but it is recognized that the KPH program is still in its infancy and different units will be in

different stages of development. Questions about the design and management of KPH units still need to be addressed.

162. A key concern voiced by CSOs during the preparation of the Investment Plan relates to the choice of private sector partners. Besides financial, legal and credit due diligence, integrity due diligence is an essential component of IFC's overall due diligence efforts for any engagement with outside parties. The Integrity Due Diligence (IDD) Procedure is a framework for identifying and documenting the potential risks associated with unethical and illegal activities which include environmental, social, governance and financial crime issues such as child labor, corruption, fraud, and money laundering. Furthermore, FIP will not provide finance to any company involved in conversion of natural habitat, including forest. IFC guidelines also restrict investments in forestry operations to companies that are implementing sustainable management practices to one or more globally, regionally or nationally recognized standards as demonstrated by independent verification or certification.¹⁷

¹⁷http://www1.ifc.org/wps/wcm/connect/bff0a28049a790d6b835faa8c6a8312a/PS6_English_2012.pdf?MOD=AJPERES

8 FINANCING PLAN AND INSTRUMENTS

163. Total requested FIP funding for the Indonesia FIP Investment Plan is US\$ 70 million, of which US\$ 37.5 million is grant funding and US\$ 32.5 million is loans. Grant funding will be allocated to the three projects as follows: US\$ 17.5 million will be allocated to each of the WB and ADB supported projects, and US\$ 2.5 million will be allocated to the IFC supported project. The loan portion of the FIP funding will be allocated to the IFC supported project, for further disbursement as concessional financing.
164. The Investment Plan is expected to generate in excess of US\$ 100 million in co-financing from GOI, donors, the MDBs, and the private sector. IFC will use close to US\$ 50 million of its own funds to co-finance advisory work and investments. Private sector co-funding for the IFC supported project is estimated to be around US\$ 50 million. The projects are closely linked to ongoing government programs that have long term funding and support from various areas. KPH development is backed up by a substantial GOI budget (in excess of US\$ 10 million annually), and has support from a number of donors, including GIZ. Spatial planning, land use, and community development are an integral part of REDD+ readiness and potential donors include Norway, Australia, USA, Japan and others.
165. The ADB supported project will build on the existing partnership between ADB and World Wide Fund for Nature–Indonesia in supporting the Government of Indonesia’s action plan under the Heart of Borneo strategic framework, with financial assistance from the ADB Climate Change Fund (CCF), ADB Regional Cooperation and Integration Fund (RCIF), the Global Environment Facility’s (GEF) Sustainable Forest Management (SFM) program, the Japan Fund for Poverty Reduction (JFPR) and other development partners, including but not limited to, Germany, USA, Norway and Japan. Initial discussions have been made with development partners working in Kalimantan, such as with the Norway International Forest and Climate Initiative, German government-funded Forests and Climate Change Program (GIZ-FORCLIME), the USAID Indonesian Forest and Climate Support Project (USAID IFACS), the US-funded Green Prosperity Project under the Millennium Challenge Corporation, and the Indonesia-Australia Forest Carbon Partnership.

Table 3: Summary of Financing Plan

Project Sponsors	FIP Loan (Million \$)	FIP Grant (Million \$)	Co-financing (Million \$)	Total
1. ADB		17.5	6.0	23.5
2. WB		17.5	tbd	
3. IFC	32.5	2.5	99	134
Total	32.5	37.5		157.5+

9 RESULTS FRAMEWORK FOR INVESTMENT PLAN

Figure 7: Indonesia FIP Logic Model

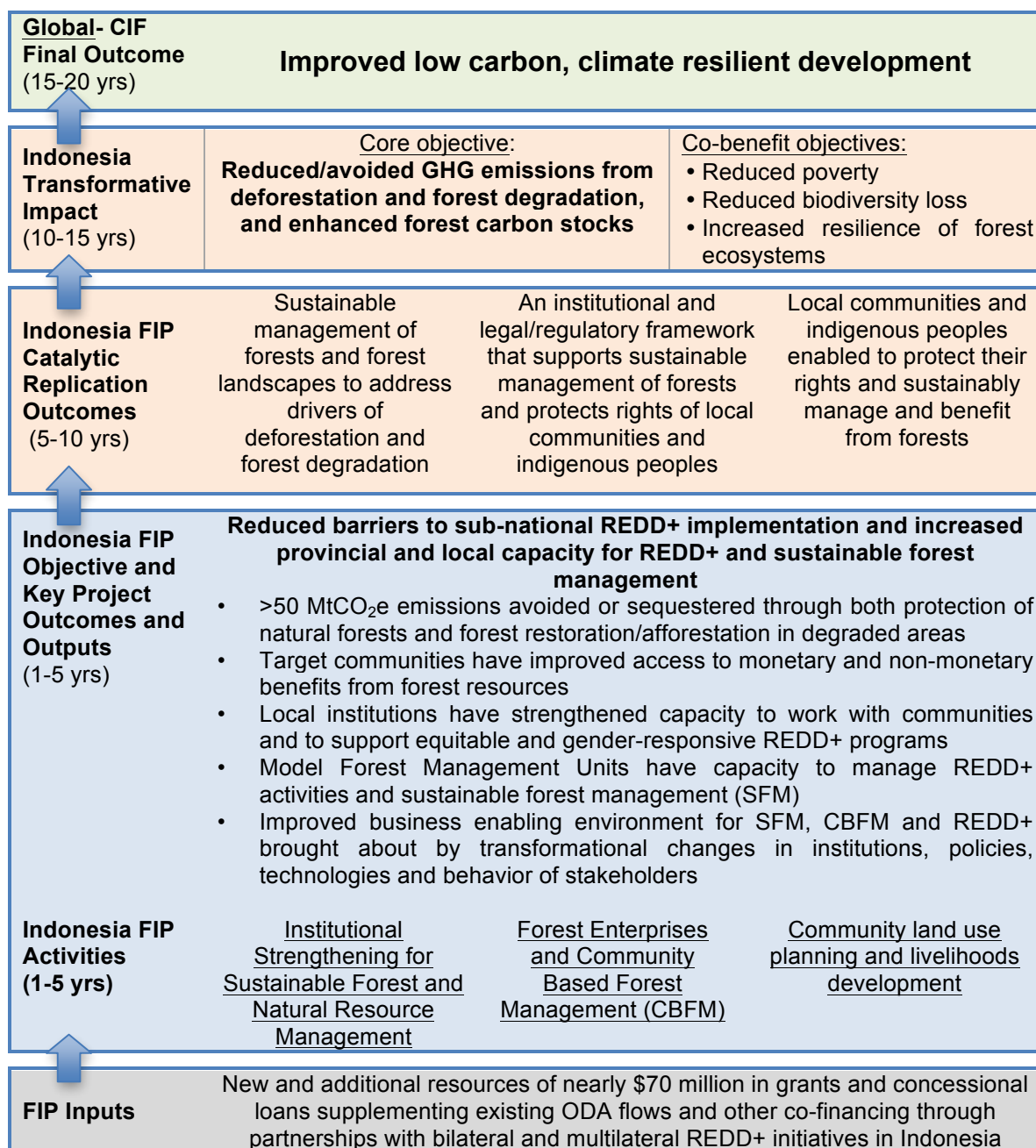


Table 4: Results Framework for Indonesia FIP Investment Plan

Indicators	Baseline	Targets	Reporting responsibility
TRANSFORMATIONAL IMPACT			
Result A: Reduced/ avoided GHG emissions from deforestation and forest degradation, and enhanced forest carbon stocks			
INDICATOR 1: Changes of natural forest cover (ha) and resulting GHG emission reduction (GtCO _{2e})	Emissions from forests and peatland are estimated at 1 GtCO _{2e} per year.	Improved forest governance, including land use planning, tenure, and law enforcement and successful implementation of national forest and REDD+ programs allow Indonesia to meet its national commitment to reduce GHG emissions by 41% (as compared with business as usual scenario) with international support by 2020.	Forest/climate change focal point
INDICATOR 2: Change in forests by forest type (ha) that are degraded and resulting GHG emissions reductions (GtCO _{2e})			Forest/climate change focal point
INDICATOR 3: Tons (millions) of CO ₂ sequestered through natural regeneration, re- and afforestation activities, and conservation relative to forest reference level			Forest/climate change focal point
FIP PROGRAM OUTCOMES			
Result B1: Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation			
INDICATOR 1: Change in hectares (ha) deforested in project/program area	Baseline of deforestation and forest degradation as well as forest carbon stocks in target areas will be measured as part of project preparation.	Area of deforestation and degradation in target areas will be reduced by at least 25% below the baseline.	FIP coordination unit/agency and MDB
INDICATOR 2: Change in hectares (ha) of forests degraded in project/program area			
INDICATOR 3: Reduction in degradation or loss of intact forest areas			

Indicators	Baseline	Targets	Reporting responsibility
INDICATOR 4: Reduced/avoided GHG reductions by the FIP intervention			
Result B2: An institutional and legal/ regulatory framework that supports sustainable management of forests and protects rights of local communities and indigenous peoples			
INDICATOR 1: Evidence that forest-related laws and regulations are being implemented, monitored and enforced and that violations are detected, reported and prosecuted	An assessment of local forest governance will be conducted in target areas as part of project preparation.	Commercial illegal activities, including illegal logging, mining, and forest conversion will be significantly reduced.	FIP coordination unit/agency in cooperation with Ministry of Planning
INDICATOR 2: Area of forests under clear, non-discriminative tenure and territorial rights, including the recognition of traditional rights	An assessment of local land claims will be conducted in target areas as part of project preparation.	A framework for identifying and registering tenure and territorial rights of customary and local communities will be in place.	FIP coordination unit/agency and MDB
INDICATOR 3: Volume of public and private finance mobilized as a direct result of program interventions.		FIP will mobilize more than US\$ 150 million of co-financing.	FIP coordination unit/agency and MDB
Result B3: Local communities' and indigenous peoples' capacity strengthened to access information and participate in decision making			
INDICATOR 1: People in targeted forest communities with increased monetary or non-monetary benefits from forest resources (number)	Local land use and livelihood activities will be assessed as part of project preparation.	Increased local access to forested areas and participation in CBFM will increase monetary and non-monetary benefits for local communities, including women.	FIP coordination unit/agency and MDB
INDICATOR 2: Percentage of indigenous peoples and local community members/ forest communities (women and men) with legally recognized tenure rights and secure access to economic benefits and/or the means of maintaining traditional livelihoods		At least 15% increase in the number of indigenous people and local communities with secured access to economic benefits.	
INDICATOR 3: Increased access to relevant information (in a timely and culturally appropriate manner).		KPHs will have systems in place for sharing of forest-related information with local communities.	FIP coordination unit/agency and MDB

Annex 1: Proposed Program Pipeline

Summary of proposed program pipeline			
Project and component	Proposed FIP Financing (M USD)	Allocated and proposed leverage financing (M USD)	Potential carbon emission reductions (over 5 years)
1. Community-focused investments to address deforestation and forest degradation	17.5*	6.0	18 to 22M tCO ₂
2. Promoting sustainable community based Natural Resource Management and institutional development	17.5*	(tbd) 0.0	17 to 25 M tCO ₂
3. Strengthening Forestry Enterprises to Mitigate Carbon Emissions	35.0**	99.0	20 to 25 M tCO ₂
Total	70.0	105.0	45 to 72 MtCO₂e

*Grant; ** \$2.5M Grant plus \$32.5M Concessional finance

A1.1 Project 1: Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)

A1.1.1 Project Partners and Stakeholders

Collaborating Institutions		Primary Role
MDBs partner	Asian Development Bank	FIP grant financing
Co-financing	<i>Confirmed:</i> ADB, GEF/SFM, Government of Japan. <i>Under discussion:</i> Government of Germany (KfW/GIZ), Government of the USA (USAID, Dept. of State, Millennium Challenge Corporation), others to be confirmed	Technical and in-kind co-financing
Government	Ministry of Forestry	Executing Agency
	Presidential Delivery Unit for REDD+ (<i>Unit Kerja Presiden Bidang Pengawasan dan Pengendalian Pembangunan - UKP4</i>) <i>Bappenas</i>	Policy and Steering
	Coordinating Ministry for Economic Affairs and Ministry of Finance	Coordination
	West Kalimantan Provincial Government	Provincial-level implementation
	2 District Governments in West Kalimantan (proposed as Sintang and Melawi)	District-level implementation
Direct Stakeholders	Local community institutions, including customary institutions	Partners in activities and beneficiaries of incentive schemes
	Forest Management Unit (KPH) Institutions	Implementing unit at pilot site
	Local Government Technical Implementation Units (UPT)	Partners in activities and training participants
	Private Sector	Inputs to activities and participants of incentive schemes

A1.1.2 Problem Statement

1. Indonesia's National Action Plan to reduce greenhouse gas (GHG) emissions (RAN-GRK) and National REDD+ Strategy aim to achieve ambitious national targets for reducing GHG emissions by addressing the drivers of deforestation and enhancing forest carbon stocks. Both documents emphasize developing sub-national action plans in priority provinces.
2. Nine of Indonesia's 33 provinces account for about 85% of Indonesia's land use change and forestry emissions. Production forests accounted for the largest portion (73%) of these emissions between 2000 and 2005 (MoFr, 2008). Nearly half of the production forest estate (30 million ha) is not covered by any kind of license or concession, making it prone to illegal exploitation and encroachment as well as to conflicts over land uses and tenure claims (MoFr, 2000 in FWI/GFW, 2002). Poor socio-environmental performance in production forest areas under concessions has exacerbated the problem of illegal logging and encroachment, leading the Ministry of Forestry to cancel 163 poorly-managed concessions and suspended operations in others since 2002 (WB, 2011). Spatial planning and boundary delineation processes that lack participation of local communities contribute to the problem. Furthermore, the risk of leakage of deforestation and degradation pressures tends to be higher when production forest estates are adjacent to high-value conservation forests.
3. West Kalimantan is a key forested province and the fifth largest provincial contributor to Indonesia's carbon emissions. As such, it has been selected by the Government of Indonesia as one of the target provinces¹⁸ for the REDD+ program. The key **drivers of deforestation and forest degradation** in the province are: (i) commercial logging; (ii) forest conversion to agriculture; (iii) mining (primarily coal and gold); and (iv) uncontrolled fires. These drivers were identified through a consensus-building process involving a range of stakeholders in the province. This analysis was further validated during the FIP Joint Mission in July 2011, which included a series of stakeholders' consultations and site visits in West Kalimantan. Another technical mission to West Kalimantan was conducted in February 2012.
4. West Kalimantan lost over 136,000 hectares of forest between 2000 and 2005 (MoFr, 2008), but with efforts to improve forest law enforcement and governance, the rate of forest loss has declined – between 2003 and 2006, it amounted to only about 24,000 hectares. The provincial effort to reduce deforestation was enhanced through the active participation of the West Kalimantan government and various Indonesian national government agencies in the Heart of Borneo (HoB) Initiative, a tri-lateral declaration among Indonesia, Malaysia and Brunei to collaborate towards reducing risks faced by high value natural forests and forest-dependent communities, especially from illegal trade in forest products.
5. Among the three Indonesian provinces of Kalimantan in the Indonesian Heart of Borneo (HoB),¹⁹ West Kalimantan has the highest percentage of population (9%) below the national income **poverty** line. Furthermore, availability of basic social services is severely limited. Based on indicators under the UN Millennium Development Goals, 22% of children less than 5 years old are underweight, around 46% are without access to clean drinking water sources, and 60% are without access to proper sanitation facilities. Around 30% of the working age population in West Kalimantan is unemployed (*Bappenas* 2010).

A1.1.3 Proposed Investment Strategy

6. The Investment Plan projects supported by Asian Development Bank (ADB) will focus on REDD+ to contribute to the aims of West Kalimantan RAD GRK as part of RANGRK and the National

¹⁸The nine priority provinces for the REDD+ program: three in Kalimantan (West, Central and East), two in Papua (Papua and West Papua), four in Sumatra (Aceh, Jambi, Riau, South Sumatra).

¹⁹The others being Central and East Kalimantan.

REDD+ Strategy. A site level management approach using KPH within which ecosystem is one of the major determinants will be developed. By this approach FIP can prioritize community-focused REDD+ Investment, with a focus on two districts hosting natural forests with high conservation values facing pressure from deforestation and forest degradation. It is proposed that the KPH level pilot activities will begin in Sintang District and expand to Melawi District, while also drawing upon experience from elsewhere in the Province (including Kapuas Hulu District). In addition to the potential for climate change mitigation and maintenance of other ecosystem services, criteria for selecting specific sites and monitoring progress will include potential socio-economic improvements, aiming to increase the level of engagement by poorer households and to maximize socio-cultural and livelihood co-benefits.

7. Involvement of the local community (*dusun* or sub-village, including *adat* or traditional social rights), village, district, provincial, and national levels, will be used to facilitate horizontal and vertical networking and knowledge exchange. All levels of interventions will involve activities aimed at improving **governance, incentives and oversight**, in line with the three strategies for REDD+ development and implementation in West Kalimantan: (i) reducing deforestation through continuous improvement in local government policies and institutions; (ii) creating incentives for better forest management and removing incentives that lead to deforestation at KPH level; and (iii) overseeing REDD+ payments / incentives for REDD+ through supporting multi-stakeholder and multi-level mechanisms which are transparent, accountable and free from political influence.
8. FIP investments utilizing grant resources will seek to reduce pressure on the province's forests and improve forest management practices by focusing on:

Institutional Development

- Assess and map baseline status of boundary delineation and management in **KPH near high-value conservation forests**.
- Establish a **grievance and redress mechanism** involving district governments, including Forest Management Units (KPH).
- Pilot district-level **Safeguards Information System** in line with UNFCCC guidelines, and building on early initiatives for how REDD+ safeguards are defined, implemented and measured, such as in the GIZ-FORCLIME Project and the UN-REDD Programme.
- **Train provincial, district, and KPH officials** in: (i) land use conflict mediation; (ii) inter-sectoral coordination to prevent, detect and suppress activities that contribute to forest loss; (iii) horizontal and vertical coordination approaches for management of landscapes and ecosystem services; (iv) procedures for free, prior and informed consent (FPIC); (v) sub-national REDD+ implementation; and (vi) developing gender-sensitive and culturally appropriate benefit-sharing arrangements.
- In the KPH framework, set up a transparent, accountable and sustainable revolving fund to pilot performance-based incentive schemes that: (i) promote customary (*adat*) and village-level cooperation to prevent **uncontrolled forest and grass fires** while increasing social, financial and physical capital of forest dwellers and promoting village-level equity and inclusion (e.g., No-Fire Bonus Scheme); (ii) **assist natural regeneration** along forest fringes; and (iii) adopt **sustainable land management** practices and livelihoods.
- Improve **quality of scientific, bio-physical and social spatial data** used for land use and spatial planning by district technical implementation units (UPT) and forest use planning by forest management units (KPH), in collaboration with other development partners.

SFM and CBFM

- Identify **open access production forest** areas suitable for transfer to community based forest management (CBFM) as manifestation of community tenure arrangements (*Hutan Adat, Hutan Desa, Hutan Kemasyarakatan, Hutan Tanaman Rakyat*) within KPH working area.
- Pilot credible and efficient community forest management agreements in the KPH, drawing lessons obtained from district-level experience.

- Set up a prototype transparent and accountable fund to pilot or scale-up performance-based incentive schemes (e.g., Green Investment Award) for the private sector (e.g., company concessions, industry associations) to practice **sustainable forest management**, reduce logging and processing wastes, invest in certification schemes (e.g., SVLK), and relocate logging and plantation operations to **degraded lands**.
- Set up an efficient and transparent system for *adat* and other forest dwellers to apply for **community forest management tenure in KPH and “open access” production forests** based on provincial assessment and mapping.

Community capacity development and livelihood support

- Compile and **integrate customary (*adat*), indigenous and other local knowledge** on forest and land use management into district and KPH spatial plans, in collaboration with local communities and civil society organizations.
- Create a transparent and accountable fund to support **costs of transaction and upfront implementation of *adat* and local communities who want to establish REDD+ projects** for the voluntary carbon market, in coordination with the FIP Dedicated Grant Mechanism for Indigenous Peoples and Local Communities.
- Finance district and KPH **extension services** to local communities -- in ways that are inclusive of women and youth -- regarding land use conflict mediation, sustainable land management, agroforestry, understanding environmental service payment schemes, benefit-sharing and other relevant themes.

Harmonize national and sub-national policies on carbon stock improvement

- Review fiscal mechanisms between national and sub-national levels to **identify barriers and disincentives** to addressing drivers of deforestation and forest degradation.
 - Pilot a transparent and accountable incentive scheme that promotes **alignment of existing sub-national fiscal transfers with REDD+ objectives** while generating social and environmental co-benefits, in collaboration with World Bank.
 - Organize or support platforms for **technology cooperation, information dissemination, and policy coordination** through knowledge exchange and networking between KPHs, districts, provinces, and countries.
9. **Outputs.** Through these FIP investments, the project will deliver: (i) an enhanced and enforced Provincial REDD+ Strategy; (ii) community-focused REDD+ pilots in at least two districts / KPHs in West Kalimantan; and (iii) harmonized national and sub-national policies on carbon stock improvement. By reducing pressure on forests and promoting sustainable and equitable forest and land management, the project will in turn reduce GHG emissions, with potential co-benefits in the form of poverty reduction, improved quality of life for indigenous peoples and local communities, protection of indigenous peoples' rights, and enhanced conservation of biodiversity and other ecosystem services.

A1.1.4 Proposed Transformational Impact and Co-benefits

10. **GHG abatement potential.** The carbon emissions savings potential of applying these interventions is estimated to be between **17.7 and 22.1 MtCO₂** over five years²⁰. The contribution of the ADB supported project to the design and implementation of the Provincial REDD+ strategy will help the province reduce pressures on its forests, particularly since the largest carbon stocks are within production forests (852.8 GtCO_{2e}), protection forests (417.6Gt CO_{2e}), and conservation forests (253.6 GtCO_{2e}). West Kalimantan has set a goal of contributing 32

²⁰BAU emissions are computed based on historical deforestation rates in key districts, assuming 200t/C per ha of primary forest and 160 tC/ha for non-primary forest. In addition to above-ground emissions, annual emissions from peat degradation are estimated at 34 tonnes CO_{2e} per hectare.

MtCO₂e to the national target of reducing GHG emissions by 26% below business-as-usual levels in 2020; by assisting the province with protecting its forests, the project will therefore contribute to the achievement of Indonesia's national climate change goals as well.

11. The proposed interventions **build on the early FIP ideas** (see Chapter 2) most important to Kalimantan (forest and land tenure reform, addressing illegal logging and associated trade, support for Forest Management Units (KPHs), degraded lands development, community forestry, market-based REDD+ incentives, and sub-national REDD+ development) through actions **to transform behavior, policies, and technologies**. Tenure clarification is a critical investment priority, since the identification of land stewards with reasonably good control over clearly delimited lands is a necessary condition for establishing an effective and credible REDD+ scheme. Furthermore, clarifying tenure reduces open access areas, estimated to be around 80% of the production estate that are still forested in West Kalimantan. If this process is coupled with a focus on engaging traditional *adat* cultures and other local communities, socio-cultural co-benefits can then be optimized on both forested and degraded lands.
12. **“Social fencing” approach to forest protection.** The project will target local communities within and adjacent to forests designated for production and protection. Formal recognition of community rights and responsibilities to access and tenure over forest resources, including forest carbon, assists in building “social fences” that can help protect forests through community-agreed rules and regulations, and ensure that others also comply with these rules. The project will invest in processes for trust-building and learning between local communities and government through implementation of new ways of communication, interaction and learning processes to initiate perceptual and behavioral changes.
13. **Landscape approach to addressing leakage and improving ecosystem services.** Production forests are prioritized for their higher emissions reduction potential relative to the business-as-usual scenario. While facing lesser risk from deforestation, protection forests will also be targeted to prevent leakage from actions in production forests, while generating co-benefits from improved ecosystem services, including biodiversity protection and maintenance of watershed functions. Sintang and Melawi Districts of West Kalimantan have around 47 villages and sub-villages that host lowland forests, mostly on mineral soils. Of the 1.1 million hectares of forests in Sintang and Melawi as of 2010, 45% are allocated for production and 53% for protection. The rest (2%) are on private (APL) lands. Forests in these two districts hold around 100 million tonnes of carbon, which, if cleared, would release around 366 MtCO₂e to the atmosphere. REDD+ interventions in these districts can help to establish biodiversity corridors between Bukit Baka Bukit Raya National Park and Betung Kerihun National Park, thus generating biodiversity co-benefits. Supporting the nascent KPH in Sintang can help to maintain ecosystem services of the Melawai Watershed within the overall framework of Heart of Borneo Initiative.
14. **Strengthening local institutions.** In **working with existing community and local institutions** to the extent possible (rather than develop new institutions), the project will strengthen local coordination capacity, improve social cohesion among participants, and increase “bridging” social capital through expanding networks of local institutions beyond the community (*e.g.*, with local government farmers’ networks, NGOs, women’s groups, *etc.*). This will promote more effective local participation in government planning processes and strengthen negotiating capacity and local clout in governance platforms. Meetings and workshops with local government officials and village leaders will be essential in controlling illegal forest activities. NGO monitoring and reporting of land conflicts to government officials can also make forest activities more transparent.
15. **Scaling up potential.** Significant potential for scale up of interventions through knowledge exchange and management exists in local communities hosting dry lowland forests on mineral soils, production forest estates along buffer zones of conservation and protection forests, and other districts and provinces facing trans-boundary issues. West Kalimantan has around 4.25 million people spread over 14 million hectares of land. Over 40% of the population is of Dayak

ethnic descent, with limited access to infrastructure and basic services. Detailed analysis of the realities “on the ground,” particularly the indigenous peoples and other social groups in the 513 villages within and surrounding forest areas in West Kalimantan, will help to inform the evolving mechanisms for benefit-sharing and flow of REDD+ funds within Indonesia, HoB collaborating countries and beyond. The experience of Kapuas Hulu District in its efforts to be known as a “conservation district” will be shared with other districts in West Kalimantan to scale up good practices and collaborate for sustainable management of forests and other natural resources. With co-financing from ADB support and additional support from other development partners, the proposed project interventions have the potential to be replicated further (in up to five other KPHs) and this will directly contribute to the performance of the HoB program.

16. **Indicators.** The results of the project will be assessed based on: (i) changes in hectares of natural forest cover, forests by forest type, and tons of CO₂ sequestered in the project area; (ii) changes in hectares deforested, forests degraded, reduction in loss of intact of forest area and reduced GHG emissions in project area; (iii) change in indicators for the UN Millennium Development Goals and Human Development Index for supported villages, districts and province; and (iv) evidence that laws and regulations in project area are being implemented, monitored, enforced and harmonized with other laws. In addition, the number of people with increased monetary or non-monetary benefits and the percentage of local communities with secured access to economic benefits in the project area will also be measured. A baseline setting exercise will be conducted during project preparation.

A1.1.5 Implementation Readiness

17. In Indonesia, efforts are being made to facilitate written documentation of customary and village rules and regulations for natural resources management that are mostly lodged in oral tradition. Systems for efficiently and effectively integrating these into land use and spatial planning processes of government are very much needed. Interest is also emerging from government²¹ while experience is growing among communities with support from civil society organizations and other development partners in applying free, prior and informed consultation and consent.
18. Initiatives are underway to pilot district-level regulations to formally recognize customary land rights for community-managed forests in KPH areas (e.g., KPH Sintang). Provinces and districts participating in the HoB Initiative are gaining experience in coordinating strategic plans and activities through the multi-ministerial composition of HoB working groups at the national, provincial and district levels.
19. A model production forest management unit (*Kesatuan Pengelolaan Hutan Produksi* - KPHP) has been legally established for the Merakai watershed in Sintang District of West Kalimantan (SK 791/Menhut-II/2009; Peraturan Bupati Sintang 62/2010), covering 56,893 hectares. Of this area, 82% is currently allotted for forest production. This institution at the district level faces the urgent challenge of resolving forest management responsibilities for almost 20,000 hectares of open access areas (35% of total area under the Sintang KPHP).
20. Opportunities abound in West Kalimantan for collaboration and complementarity on REDD+ with other development partners. The GIZ-FORCLIME project, for one, is providing assistance to West and East Kalimantan on various aspects of REDD+, including development of a web-based Forestry Information System using Open Source software, building capacity of Forest Management Units, and restoration and rehabilitation of forests in Bukit Baka Bukit Raya

²¹Ministry of Forestry Center for Standardization and Environment, in collaboration with GIZ-FORCLIME, conducted a workshop in March 2011 to initiate a series of stakeholder processes to translate UNFCCC COP 16 Decisions on safeguards for REDD+ implementation into the Indonesian context.

National Park and Leboyan Corridor between Betung Kerihun and Danau Sentarum National Parks. The US also initiated the Borneo Debt for Nature Swap with Kapuas Hulu as one of the target districts, and recently launched the \$600 million Millennium Challenge Corporation with a component for supporting local communities in natural resource management.

A1.1.6 Potential National and International Partners

21. The project will build on the existing partnership between ADB and World Wide Fund for Nature–Indonesia in supporting the Government of Indonesia’s action plan under the Heart of Borneo strategic framework, with financial assistance from the ADB Climate Change Fund (CCF), ADB Regional Cooperation and Integration Fund (RCIF), the Global Environment Facility’s (GEF) Sustainable Forest Management (SFM) program, the Japan Fund for Poverty Reduction (JFPR) and other development partners, including but not limited to, Germany, USA, Norway and Japan.
22. Initial discussions have been made with development partners working in Kalimantan, such as with the Norway International Forest and Climate Initiative, German government-funded Forests and Climate Change Program (GIZ-FORCLIME), the USAID Indonesian Forest and Climate Support Project (USAID IFACS), the US-funded Green Prosperity Project under the Millennium Challenge Corporation, and the Indonesia-Australia Forest Carbon Partnership.
23. Efforts to synergize activities with World Bank and International Finance Corporation will be continued during project preparation and implementation. Collaboration with FCPF, GEF/SFM and UN-REDD or a successor program under UN such as UN-ORCID at the international level will be expanded to the national level.
24. Areas of collaboration will be explored with Indonesia-based international research institutions such as the Center for International Forestry Research (CIFOR) and World Agroforestry Centre (ICRAF) to leverage their extensive experience in tracking issues in the forest sector.
25. Civil society organizations with experience in collaborating with local communities and local governments in forest law enforcement and governance (FLEG), forest and land tenure reform, degraded lands development, and designing incentive-based schemes will be important partners in providing technical assistance.

A1.1.7 Rationale for FIP Financing

FIP Criterion	Justification
Climate change mitigation potential	Application of various REDD+ strategies will aim to save between 17.7 and 22.1MtCO₂ , representing a 20 to 25% reduction of the 89 Mt CO ₂ emissions in two districts estimated under business-as-usual over 5years. This estimate includes reduced above-ground emissions as well as emissions from peat degradation. Project interventions will help West Kalimantan achieve its target of reducing 32 Mt CO ₂ e to contribute to the national GHG emissions reduction target of 26% below business-as-usual levels in 2020.
Potential for large scale-up	With an approximately \$17.5 million package of investments at the community, district and provincial levels and technical assistance at the national level, the project will reduce deforestation and forest degradation while identifying opportunities for forest restoration across KPHs at targeted districts in West Kalimantan. The project will catalyze comprehensive planning and incentivize multi-sector action to protect and sustainably manage over 1.1 million hectares of forests in production and protection estates. With additional assistance from other development partners, these areas have the potential to be increased further and expanded to up to 5 other target districts within the HoB program.
Cost effectiveness	Investments of \$17.5 million lead to a cost per tonne of CO ₂ e between USD 0.8 and 1.0. The project is designed to build from and enhance the efforts of other organizations that are collectively working to achieve REDD+ outcomes in the HoB and Indonesia. Through an open-platform learning approach, this program can leverage funding from other existing programs thus ensuring cost effectiveness of implementing this up-scaling initiative.
Implementation potential	The project has high implementation potential due to: <ul style="list-style-type: none"> - the existence of REDD+ Strategies at the national and provincial levels; - a multi-sector governance system already in place in the HoB;

	- national and district implementing units already collaborating on REDD+ readiness
Integration of sustainable development (co-benefits)	As outlined, this project will provide environmental (i.e., reduction in carbon emissions and increase in carbon stocks, biodiversity conservation, and continuous provision of environmental services [e.g., water]) and social benefits to Indonesia in general and Kalimantan provinces in particular (e.g., through livelihood opportunities, such as ecotourism, that will be provided to the Dayaks). Catalyzing long-term green growth will provide a multitude of measureable co-benefits.
Safeguards	Environmental and social safeguard mechanisms normally applied by ADB and the Indonesian government as part of its National REDD+ Strategy will be observed in the implementation of this project. On top of this, the project includes investments to develop a district-level safeguards information system that will bring key providers of information together, including <i>adat</i> and other forest dwellers, based on early work of local institutions and development partners.

A1.1.8 Safeguard Measures

26. This project intends to put in safeguards not only to ensure that FIP investments “do no harm,” but also to maximize potential multiple socio-cultural and environmental benefits of REDD+ actions, in line with ADB’s focus on inclusive, environmentally sustainable growth and regional integration. The ADB Safeguard Policy Statement 2009 to be applied to this project sets out the objectives, principles, and policy delivery process, as well as scope and triggers for three key areas: (i) safeguards for indigenous peoples; (ii) safeguards for the environment; and (iii) involuntary resettlement safeguards. On top of these standard ADB safeguard requirements, the project includes investments to develop a district-level safeguards information system that will bring key providers of information together, including *adat* and other forest dwellers, based on early work of local institutions and development partners.

A1.1.9 Financing Plan

Component	Source	Type	FIP (Million \$)	Co-financing	Total
1. Provincial REDD+ Strategy Development and Implementation	FIP ADB-RCIF ADB-CCF GEF GIZ (tbd) Government	Grant Technical Assistance Technical Assistance Technical Assistance	6.0	... 0.75 0.75 2.00 tbd tbd	9.5
2. District support to community-focused REDD+ pilots	FIP ADB-CCF Japan Government	Grant Technical Assistance Technical Assistance	8.0	0.50 1.00 tbd	9.5
3. National Policy Alignment with low carbon/Green Growth Goals	FIP Japan Norway Australia Government	Grant Technical Assistance Technical Assistance Technical Assistance	3.5	1.00 tbd tbd tbd	4.5
Total			17.5	6.00	23.5

A1.1.10 Project Preparation Timetable

Stage	Steps	Indicative dates
Preparation	Preparatory mission Project document preparation	December 2012 March 2013
Evaluation	Multilateral review of documents Refinement of project documents	June 2013 September 2013
Approval by FIP SC	Submit request for project approval	November 2013
Approval by ADB Board	Submission to the ADB Board Signing of grant agreement with GOI	January 2014 March 2014

27. The project proposal will be prepared following FIP Sub-Committee clearance of the Investment Plan for Indonesia. ADB procedures require new projects to undergo internal concept review and approval, involving both investment and advisory oversight. ADB will submit the project proposal as soon as possible following endorsement of the Indonesia investment plan.

A1.1.11 Request for Project Preparation Grant

28. A FIP Project Preparation Grant is requested to cover all project preparation activities as follows:

FOREST INVESTMENT PROGRAM Project/Program Preparation Grant Request			
1. Country/Region:	Indonesia	2. CIF Project ID#:	(Trustee will assign ID)
3. Project Title:	Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)		
4. Tentative FIP Funding Request (in million USD total) for Project ²² at the time of Investment Plan submission (concept stage):	Grant: \$17.5 m	Loan:	
5. Preparation Grant Request (in USD):	\$0.5 m	MDB ADB	
6. National Project Focal Point:	Dr. Hadi S. Pasaribu Senior Advisor Ministry of Forestry (MoFr) hadispsaribu@yahoo.com		
7. National Implementing Agency (project/program):	Ministry of Forestry (MoFr) Directorate General of Forest Utilization Indonesia		
8. MDB FIP Focal Point and Project/Program Task Team Leader (TTL):	Headquarters-FIP Focal Point: Dr. David McCauley Head, Climate Change Coordination dmccauley@adb.org	TTL: Dr. Ancha Srinivasan Principal Climate Change Specialist asrinivasan@adb.org	

²² Including the preparation grant request.

9. Description of activities covered by the preparation grant:	
<ul style="list-style-type: none"> - Identification of areas to direct support - Identification of government and communities that would possibly be involved - Baseline data collection - Mapping/identification of other organizations currently working in the specified areas - Development of implementation plan, modality, timeframe and monitoring framework - Assessment of market demand, feasible partnership arrangements - Stakeholder engagement initiatives and Focus Group Discussion to validate data, information and plan of action 	
10. Outputs:	
Deliverable	Timeline
(a) Baseline data collection / identification of stakeholders	December 2012 (start)
(b) Validation workshops	April 2013 and July 2013
(c) Scoping study complete	September 2013
11. Budget (indicative):	
Expenditures²³	Amount (USD) - estimates
Consultants	250,000
Equipment	
Workshops/seminars	65,000
Travel/transportation	100,000
Others (admin costs/operational costs)	40,000
Contingencies (max. 10%)	45,000
Total Cost	500,000
Other contributions:	
• Government (in-kind)	
• MDB (in-kind)	50,000
• Private Sector	
• Others (please specify)	
12. Timeframe (tentative):	
Submission of project preparatory grant request: November 2012	
Identification of firm/consultants and commencement of study: February 2013	
Completion of study: September 2013	
Submission of Program/Project Proposal for FIP Sub-Committee Approval: November 2013	
Expected MDB Management ²⁴ approval date: January 2014	
13. Other Partners involved in project design and implementation²⁵:	
Ministry of Forestry, IBRD/IFC, local and international consultants, other government departments from the Ministry of Finance, Ministry of Cooperatives, Ministry of Industry, private firms operating in the forestry sector in Indonesia, civil society organizations, local government.	

²³ These expenditure categories may be adjusted during project preparation according to emerging needs.

²⁴ In some cases activities will not require MDB Board approval

²⁵ Other local, national and international partners expected to be involved in design and implementation of the project.

14. If applicable, explanation for why the grant is MDB executed:

ADB will execute the grant in collaboration with Ministry of Forestry. ADB execution is necessary for speed in recruitment and efficient management of consulting services. The preparation grant of US\$ 0.5 million is to be used to develop the proposal and detailed implementation plan for the overall project. The exercise would elaborate the roles and engagement potentials of different entities and institutions ADB will execute the preparatory grant using its procurement processes and procedures. Execution by ADB is also in conformity with ADB TA's procedures.

15. Implementation Arrangements (incl. procurement of goods and services):

In close collaboration with Ministry of Forestry, ADB will administer procurement of consulting services and goods from its Headquarters in Manila and with support from Indonesia Resident Mission.

A1.2 Project 2: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

A1.2.1 Project Partners and Stakeholders

Stakeholders		Primary Role
MDB	World Bank	FIP grant financing (US \$18 million)
Potential Co-financing	IAFCP	Co-financing for spatial planning and community activities
	FCPF	Co-financing for policy dialogue, baseline data collection.
National Government Agencies	National REDD+ Task Force/Agency	Policy and steering
	Ministry of Forestry	Policy reform on REDD+, steering and internalization of FIP into KPH units
	National Land Agency	Policy on village level spatial planning
	Ministry of Home Affairs	Guidance on and facilitation of KPH institution, engagement of province and district Governments, and village economic empowerment
	Bappenas	Policy and steering
	Ministry of Agriculture	Collaboration on village level spatial planning and improvement of local economy
Sub-national Government Agencies	BAPPEDA	Collaboration on spatial planning
	Province Governments	Partners and beneficiaries of capacity building activities
Direct Stakeholders	Villagers and IPs	Beneficiaries of community level planning and economic activities within KPHs and in buffer zones
	Village and other local community institutions, including customary institutions	Partners in activities, including KPH-based activities, and beneficiaries of incentive schemes
	Selected KPH Institutions	Site level project management, partners and beneficiaries of capacity building activities

A1.2.2 Problem Statement

29. **Spatial planning, tenure, and REDD.** Indonesia's 134 million hectare state forest land encompasses most of the nation's forests, but recent analysis indicates that less than 15 million ha of this area has been fully gazetted (MOFR 2011). Conflicting claims to land are an obstacle to land-based investments, including REDD+ related activities. Many stakeholders, including the private sector, note that the lack of secure land rights is a major barrier to investments. Also, the non-recognition of agroforests as land uses that fulfill forest functions has consequences for the legal status and land tenure for smallholders. In addition, overlapping allocations of areas for

mining operations, timber plantations, palm oil plantations, and local communities has become common across Indonesia.

30. **The Forest Management Unit (KPH) program is a framework for improved forest-based spatial planning and forest governance, but faces a number of tenure-related challenges.** According to GIZ (2011), FMU areas face a number of types of tenure-related conflicts within their areas, including the following: (1) major tenure-related conflict typically characterized by a strong rights base of the community, (2) minor tenure-related conflict typically characterized by control over land with a weak base of rights and often arising from poverty, (3) issues involving access to forest resources, i.e. utilization without any claim to control the land, but with historical evidence which can be rationally accounted for, and 4) issues involving illegal activities, i.e. land control or resource utilization lacking a strong rights base or historical evidence which can be rationally accounted for.
31. **There are opportunities to build capacity of KPH institutions for community engagement and land use planning.** By placing forestry practitioners with the requisite training at the local and field levels, KPH institutions could facilitate and conduct better spatial and land use planning, long-term forest development plans, and improved local economy in sustainable livelihood. KPHs could play a central role in monitoring and enforcing land use plans, improving outreach to local stakeholders, and providing a participatory localized approach to addressing land use planning processes. This could improve local people's participation in the KPH management and its benefits, and enhance the strategic value of forests.
32. **There are important opportunities to enhance community-level capacity for spatial planning and participation in REDD+ as part of SMF schemes in KPHs.** Communities could benefit considerably from REDD+, but only if it is implemented in a way that respects traditional rights, distributes benefits equitably, and provides for community participation, consultation and recourse. To achieve this positive outcome, spatial planning processes at the community level will also need informed, empowered communities and customary peoples' organizations armed with the skills, experience, access, and standing to engage in effective policy dialogues, forest and peat management activities, business opportunities and financial transactions.
33. **Community land use plans under the KPH framework and in buffer zones should have an increased focus on livelihood activities.** Natural Resource Management aspects are rarely introduced in local development plans, and positive examples in this area need to be scaled up, disseminated, and mainstreamed. An important opportunity for mainstreaming sustainable community based planning processes, livelihood plans and natural resource management plans, would be within the framework of the PNPM – the national program for community empowerment, that provides a solid and efficient mechanism for community driven projects all over Indonesia and provides an effective local participatory platform with mechanisms for local planning, administration, and reporting. Building the bridge between this community-based platform and better natural resource management and livelihood improvements could engender transformational change in land use that would support an enabling climate for REDD+.
34. **Investing in institutions and communities for improved planning and sustainable livelihood planning will directly lead to reduced GHG emissions, and will create enabling conditions for project-level interventions.** Livelihood development is considered a key element for ensuring long-term sustainability by easing the economic pressures for over-exploitation of forests and peatlands. Also, by addressing one of the key underlying drivers of deforestation, improved spatial planning at the community level would contribute to better protection of remaining high value forests and intact peatlands. First experiences with REDD+ projects in the Forest Zone show that the lack of clear land rights definitions and unclear land allocation processes can seriously hamper the success of implementation. Improved land governance would significantly reduce project risks and should lead to increased investments in REDD+ as well as SFM.

A1.2.3 Proposed Investment Strategy

35. The World Bank supported project proposes a multi-pronged program that prioritizes community-focused REDD+ investments to enhance the enabling conditions for sustainable land use and REDD+ project implementation. This will be achieved through a) site-specific activities aimed at strengthening KPHs and other institutions in their capacity for spatial planning, business plan development and community engagement; and b) activities aimed at strengthening community capacity for REDD+ implementation, appropriate land-use planning and sustainable livelihood development. To maximize the potential for GHG emissions reductions, programs will be targeted at areas with high carbon emissions mitigation potential, including forests and peatlands.
36. MoFr has identified a list of Model KPHs as potential partners for FIP engagement, of which six²⁶ are located in REDD+ priority provinces (Table 1). Further investigation will determine the degree of suitability of these KPHs for engagement in activities, and identify opportunities for site-specific project preparation within the KPHs and in the buffer zones. Specific criteria for selecting KPH partners will be: 1) ownership of KPH at national and regional levels; 2) capacity and willingness to engage with local communities on land-use planning and sustainable livelihood development; and 3) strategic fit with REDD+ objectives, including potential for REDD+ project development.

Project Activities

37. Interventions will be based on institutional capacity building and development needs for improved planning processes and for attending the livelihood and community demands. The interventions will cooperate with local programs and build on ongoing activities and existing community structures and processes at a local level. The program would also cooperate with provincial and national institutions to link into the National REDD+ Strategy and the proposed financial mechanism and into national programs, such as PNPM.
38. The following potential activities could be undertaken – depending on local needs and ownership:

A. Support for KPH REDD+ Capacity Building

Activities under this component will support KPH units in improving local conditions for REDD+ implementation, in particular in relation to land use planning and community outreach and related business plan development. Depending on the location, specific activities could include:

- Train KPHs to support and monitor community land-use plans
- Support the integration of REDD+ opportunities into forest management plans and business plans.
- Build KPH capacity to engage community based forest management (HKm, HTR, HD, Hutan Adat, HR) as partners in achieving SFM.
- Build KPH capacity to facilitate and conduct community based land-use and sustainable livelihood planning and long-term forest development plans.
- Support KPH engagement strategies with local stakeholders,
- Support the development of participatory localized approaches to addressing land use planning processes and conflict management

²⁶ Note that a seventh KPH is located in West Kalimantan (KPH Sintang). However, as this falls within the ADB program area, it is for now excluded from the potential list of KPH for the WB program.

- Other planning and capacity building activities would be identified based on local demand

B. Support to Communities for REDD+ Readiness and Implementation

This component would be implemented in close cooperation with programs that could provide the necessary livelihood investments to communities such as PNPM and other micro financial mechanisms, and KPHs. The component is divided into three sub-components, as follows:

i. Community Level Land-Use Plans

This sub-component will support land use planning efforts at community level in selected communities, preferably in and around areas of priority KPHs. Micro spatial plans or land use plans will be integrated into community development plans as integrated spatial, development and livelihood plans. Activities under this sub-component are:

- Develop community land-use plans prepared through participatory processes and integrated into community development plans;
- Assist communities in developing performance based indicators with the objective to establish the basis for performance based payments for REDD+. This activity would be developed in close cooperation with the PNPM and other donors and REDD+ programs that focus on community livelihood investments and grants (AusAid, Norway Lol, KfW, etc.).
- Test and pilot performance based payments based on self defined indicators for livelihood and NRM activities in line with land-use plans

ii. Support to community livelihoods development and natural resource management

This sub-component will support livelihood development activities implemented by the communities in priority areas targeting sustainable livelihood development, NTFP, forest management, fishery, and other sustainable economic activities in line with the land-use plans. The investments will directly benefit the well-being of the communities, improve income and environmentally sustainable, and reduce economic and subsistence pressures that drive some current activities. Activities bordering KPH areas will be closely coordinated with the relevant KPH units and their forest management plans. Communities in the bordering buffer zones will also be integrated as appropriate.

Communities will select livelihood activities that are compatible with the overall aims of REDD+ and within the component's environmental, social, and legal constraints.

iii. Develop institutional and technical arrangements for REDD+

This sub-component would provide support to the development the necessary institutional and technical arrangements for a REDD+ financing mechanism in line with national and international guidance to guarantee long-term sustainability, linked to the priority areas. The design of REDD payment mechanisms is still developing at the international level as part of the UNFCCC process. Within Indonesia, efforts and institutional arrangements at the national and local level are also under development and in transition. Capacity, readiness, institutions and payment arrangements are still nascent, especially at the local level. This component will advance carefully as clearer guidance evolves from national and international REDD+ processes and would involve following potential activities:

- Development of baseline (REL), and measurement and reporting capacity;
- Institutional development of the KPH and other district institution for REDD+ implementation and management;
- Support community institutions to represent themselves in KPHs, and in district and national debates on REDD+;

- Support the development of bankable projects and programs by financing background studies such as institutional assessments, design of institutional arrangements, baseline studies, socio-economic studies, consultation processes, financial assessments, identification and mapping of problems and conflicts, etc.

A1.2.4 Proposed transformational impact and co-benefits

39. Improved spatial planning, improved local institutional capacity and more clearly defined land rights would have a number of transformational impacts, including the following:

- Reduction of illegal practices such as illegal logging and forest occupation – including mining and palm oil.
- Contribution to the recognition of legitimate rights to land including ancestral claims, increasing land-use planning capacity and subsequently increased land-use rights and clarity and recognition of claims and community development aspirations, Increased investment in community livelihood activities, enhancing their contribution to poverty reduction, forest resource management and environmental services, by using and influencing existing large scale community targeted funding instruments, such as, but not limited to, the PNPM.
- Better investment climate for REDD+, as local district institutions and KPHs, increase their management capacity and their capacity in engaging in community concerns.
- Potential for more transparent and equitable sharing of forest benefits, including REDD+ benefits through the collaboration with major funding programs, poverty reduction funding mechanisms and increased management capacity at the local level.
- Enhanced investment climate provides more business stability and a stronger basis for future growth.

40. Focusing on the rapidly deforesting provinces and on peatlands with empowered local governments has great potential for policy, implementation, management and governance improvements in the areas that most matter for reducing Indonesia's GHG emissions.

A1.2.5 Implementation readiness

41. There is growing awareness by the GOI of the need to address land rights issues in the context of REDD+. Indonesian civil society organizations have long been engaged in advocacy, as well as community mapping and stakeholder outreach, revolving around land rights for local communities. At a conference on forest tenure in Lombok in July 2011, the GOI announced its intention to prioritize the needs of its forest communities, to "recognize, respect and protect *Adat* rights," and to tackle the lack of coordination across government agencies in addressing forest tenure policies. At the event, the GOI officially launched a transparent and participative process that would seek the inputs of various stakeholders, including indigenous communities. This new level of interest combined with the findings of KPK's recent forest sector review provides important new opportunities for engagement on land issues.

42. In spite of remaining uncertainties concerning its design, the KPH program is well under way in Indonesia and provides a number of entry points for investments to support improved spatial planning. A countrywide KPH system is firmly anchored in the forestry legal framework and in forestry development plans. Law 41 of 1999 on Forestry calls for the development and establishment of a forest management system based on forest functions. The KPH concept was further defined by the Government Regulation on Forest Arrangement and Preparation of Forest Management Plan and Forest Utilization (PP 6/2007) and its amendment (PP 3/2008), which both required the establishment of KPHs. The Ministry of Home Affairs (MOHA) enacted a regulation at the end of 2010 that allows *bupatis* to establish and oversee KPHs. The legal underpinning for a nationwide KPH system is complemented by the prominence of KPH in MoFr Strategic Plans (*EnCana Strategies*, or *Rostra*), most recently in *Rostra* 2010-2014, which calls for the delineation of all KPH areas and the establishment of 120 operational KPH institutions

covering 20% of KPH area already delineated by 2014. The Ministry of Forestry has identified 13 Model KPHs that it believes are advanced enough to benefit from collaboration with the FIP program (Table 1, above).

A1.2.6 Potential national and international partners

43. Where feasible, the initiatives would be coordinated with private sector FIP initiatives led by IFC and public sector initiatives led by ADB, as well as those of donor and multilateral organizations.
44. Potential national partners at the community level include small grants organizations. These are currently involved in providing small grants to communities for a number of areas with direct relevance to REDD+ and community empowerment in general. *Kemitraan* and Community Foundations in several regions support stakeholder consultation processes in selected districts. The National Indigenous Peoples' Alliance (AMAN) would also be a potential implementing partner.
45. AusAID and GIZ are logical partners for collaboration on KPH units. Currently GIZ is providing technical assistance for the establishment of three KPHs, located in Kapuas Hulu (W. Kalimantan), Berau (E. Kalimantan), and Malinau (E. Kalimantan). GIZ also supports the Ministry of Forestry in developing strategies to roll out the KPH program, develop human resources needed for KPH management, and advises on the development of relevant regulations. AusAID has been supporting community programs and institutional development in peat areas for some years already.
46. Key partners on analytical work include CIFOR and ICRAF. The latter organization is supporting the Working Group on Tenure to develop tools for tenure assessment and conflict management.
47. GOI's National Program for Community Empowerment in Rural Areas Project (PNPM-Rural), which is a community-driven development program implemented by the Ministry of Home Affairs (MoHA) Directorate General of Village Community Empowerment (PMD). PNPM-Rural and Green PNPM disburse block grants to rural *kecamatan* to fund productive development activities that are identified and prioritized by village representatives through a gender-inclusive, participatory approach.
48. Other partners will be identified based on the final geographic location of the program. In Central Kalimantan AusAID (through the KFCP) would be well placed to provide support for spatial planning. In East Kalimantan, TNC is involved in providing advice on KPH establishment in Berau as part of the Berau Forest Carbon Program. In Jambi, the FCPF will be engaged in policy development and other REDD+ readiness activities, but other organizations such as WWF also play a major role.

A1.2.7 Rationale for FIP Funding

FIP Criterion	Justification
Climate change mitigation potential	Total annual business-as-usual emissions from forest loss and peat degradation in nine potential districts are estimated at 381 million tonnes of CO ₂ e over the five-year period from 2014 to 2018. It is expected that the program will be active in around four of the districts and will lead to a 10 to 15 percent reduction of emissions there. Total emissions reductions are expected to be at between 16.9 and 25.4 million tonnes of CO ₂ e.
Potential for scale-up	The activity presents a substantial initial engagement in spatial planning activities at the village level, which could be scaled up to other major forest areas. Also, the MoFr's KPH program is being launched nationwide and lessons on integrating KPH institutions in spatial planning will be widely applicable. Improved spatial planning would lead to an improved business climate for REDD+ projects and should lead to reduced GHG emissions through increased investments in REDD+ as well as in SFM.
Cost effectiveness	With a FIP investment of US\$ 17.5 million, the cost per tonne of CO ₂ e would be between USD0.7 and 1.0.
Implementation potential	While the political economy of land rights and the poor initial institutional and legal framework present challenges, increased recognition of the need for improved spatial planning has created significant momentum for reform, as evidenced by the recent Lombok Commitments. The ambitious KPH program presents an important opportunity for leveraging reform in the forestry sector and local institutional strengthening.
Integration of sustainable development (co-benefits)	Improved spatial planning and more clearly defined land rights would have a number of transformational impacts, including the following: Reduction of illegal practices such as illegal logging and forest occupation – including mining and palm oil. Recognition of legitimate rights to land including ancestral claims. Increased investment in degraded areas, enhancing their contribution to poverty reduction, timber production and environmental services. Better investment climate for REDD+ as costs of negotiation over land and likelihood of competing land claims and conflict decline. More transparent and equitable sharing of forest benefits, including REDD+ benefits. Enhanced investment climate provides more business stability and a stronger basis for future growth.

FIP Criterion	Justification
Safeguards	The activities carried out through this program must comply with World Bank safeguard policies regarding the management of environmental and social impacts. The program will build upon the safeguards tools that are being developed through the FCPF REDD+ Readiness Grant. In particular, the FCPF's Environmental and Social Management Framework would be applied to any site-specific interventions. A key goal of the program will be to promote stakeholders' effective participation in spatial planning. Consultations will be conducted in accordance with the World Bank's indigenous peoples' policy and applicable national law, to the extent that national law may set higher standards.

A1.2.8 Safeguard Measures

49. The activities carried out through this project must comply with World Bank safeguard policies regarding the management of environmental and social impacts. It is recognized that a poorly designed REDD+ scheme could lead to an inequitable and inefficient distribution of benefits, and this is associated with significant environmental and social risks. For example, stakeholders are concerned that unless critical governance issues are adequately addressed, REDD+ would not achieve its objectives and further marginalization of forest-dependent peoples or replacement of natural habitat with plantations could occur.
50. A key goal of the project will be to promote stakeholders' effective participation in spatial planning. To this end, consultations will be conducted in accordance with the World Bank's indigenous peoples' policy and applicable national law, to the extent that national law may set higher standards. Consultations will be inclusive, conducted in local languages as appropriate, and will allow for enough time for community reaction.
51. The project will build upon the safeguards tools that are being developed through the FCPF REDD+ Readiness Grant. In anticipation of the environmental and social risks that potential future investments would entail, the FCPF is developing an Environmental and Social Management Framework (ESMF). The ESMF will set out the principles, rules, guidelines, and procedures to assess potential environmental and social impacts and risks, and will contain measures to reduce, mitigate, and/or offset adverse environmental and social impacts and enhance positive impacts and opportunities of said projects. The ESMF will be the framework to address safeguard issues in REDD+ projects financed by the World Bank.

A1.2.9 Financing Plan

World Bank Funding Component	WB FIP Grant (Million USD)	Co-finance (tbc)
1. Support for Institutional Capacity Building	2.75	KPH, other donors (possibly GIZ, AusAID)
2. Support to Communities for REDD+ Readiness and Implementation	14.75	Norway Lol, PNPM, FCPF (tbd)

A1.2.10 Project Preparation Timetable

Stage	Steps	Indicative dates
Preparation	Preparatory mission	December 2012
	Project document preparation	March 2013
Evaluation	Multilateral review of documents	June 2013
	Refinement of project documents	September 2013
Approval by FIP SC	Submit request for project approval	November 2013
Approval by WB Board	Submission to the WB Board	January 2014
	Signing of grant agreement with GOI	March 2014

A1.2.11 Request for Project Preparation Grant

52. A FIP Project Preparation Grant is requested to cover all project preparation activities as follows:

FOREST INVESTMENT PROGRAM Project/Program Preparation Grant Request			
1. Country/Region:	Indonesia	2. CIF Project ID#:	(Trustee will assign ID)
3. Project Title:	<i>Promoting Sustainable Community Based NRM and Institutional Development</i>		
4. Tentative FIP Funding Request (in million USD total) for Project ²⁷ at the time of Investment Plan submission (concept stage):	Grant: \$17.5 m		
5. Preparation Grant Request (in USD):	\$0.5 m	MDB: World Bank	
6. National FIP Focal Point:	Dr. Hadi S. Pasaribu Senior Advisor Ministry of Forestry (MoFr) hadispsb@gmail.com		
7. National Implementing Agency (project/program):	Ministry of Forestry (MoFr) Directorate General of Forestry Planning Ministry of Home Affairs Directorate General of Village Community Empowerment		
8. MDB FIP Focal Point and Project/Program Task Team Leader (TTL):	Headquarters-FIP Focal Point: Dr. Gerhard Dieterle Adviser gdieterle@worldbank.org	TTL: Mr. Werner Kornexl Senior Climate Change Specialist wkornexl@worldbank.org	

²⁷ Including the preparation grant request.

9. Description of activities covered by the preparation grant:	
<ul style="list-style-type: none"> - Identification of priority KPH for collaboration and support - Identification of target communities - Baseline data collection: socioeconomic data, environmental data, land ownership data, inventory of livelihood activities - Mapping/identification of stakeholders and relevant institutions - Identification of potential partnerships - Development of implementation plan, modality, timeframe and monitoring framework - Focus group discussions and stakeholder engagement initiatives to validate data, information and plan of action 	
10. Outputs:	
Deliverable	Timeline
(a) Baseline data collection / identification of stakeholders	November 2012 (start)
(b) Validation workshop	February 2013
(c) Scoping study complete	March 2013
11. Budget (indicative):	
Expenditures²⁸	Amount (USD) - estimates
Consultants	260,000
Workshops/seminars	65,000
Travel/transportation	100,000
Others (admin costs/operational costs)	30,000
Contingencies (max. 10%)	45,000
Total Cost	500,000
Other contributions:	
• Government (in-kind)	100,000
• MDB	100,000
• Private Sector	
• Others (please specify)	
16. Timeframe (tentative):	
Submission of project preparatory grant request: November 2012	
Identification of firm/consultants and commencement of study: February 2013	
Completion of study: September 2013	
Submission of Program/Project Proposal for FIP Sub-Committee Approval: November 2013	
Expected MDB Management ²⁹ approval date: January 2014	
12. Other Partners involved in project design and implementation³⁰:	
Ministry of Forestry, IFC/ADB, international and local consultants, other government departments from the Ministry of Finance, Ministry of Cooperatives, Ministry of Industry, civil society organizations, local government.	

²⁸ These expenditure categories may be adjusted during project preparation according to emerging needs.

²⁹ In some cases activities will not require MDB Board approval

³⁰ Other local, national and international partners expected to be involved in design and implementation of the project.

<p>13. If applicable, explanation for why the grant is MDB executed:</p> <p>The preparation grant of US\$ 0.5 million is to be used to develop the proposal and detailed implementation plan for the overall project on Promoting Sustainable Community Based NRM and Institutional Development. An outcome of this work will be the identification of appropriate government partners for execution and implementation of the program.</p>
<p>14. Implementation Arrangements (incl. procurement of goods and services):</p> <p>This project preparation grant shall be implemented by the WB in close collaboration with the Ministry of Forestry, and the Ministry of Home Affairs. Implementation is also expected to engage relevant NGOs, IFC and ADB wherever applicable, communities and community organizations, local government agencies, and other relevant stakeholders as required.</p> <p>Consistent with <i>FIP Programming Guidance for MDBs</i> the procurement of goods and services under this project preparation grant will follow the World Bank’s procurement guidelines.</p>

A1.3 Project 3: Strengthening Forestry Enterprises to Mitigate Carbon Emissions

53. The Indonesia Forest investment plan identifies several areas where the use of FIP funded interventions can have a transformational impact on the carbon footprint of the country. Annexes 1.1 and 1.2 discuss projects to be led by the ADB and WB on behalf of the GOI, to improve forest management and reduce the pressure on forest ecosystems through public sector interventions. This private sector annex outlines where IFC could leverage its skills, relationships and financing through direct interventions to strengthen the productive capacities and business skills of small, medium and large forestry enterprises, with attention to engaging smallholders and communities. The forestry enterprise initiatives will complement those in the public sector in a combined effort to transform Indonesia’s forest management in a sustainable manner. IFC will work with its partners to promote sustainable forest management leading to emission reduction and protection of forest carbon stocks.

A1.3.1 Project Partners and Stakeholders

54. The Ministry of Forestry, Republic of Indonesia will serve as the lead government agency with the International Finance Corporation (IFC) serving as the MDB lead for investment and technical assistance initiatives oriented to private sector enterprises in forestry and associated sectors where forests are affected. Other partner agencies and stakeholders include:

MDB, government agencies, and direct stakeholders		Primary role
MDB and co-financier	IFC as MDB IFC Commercial banks, credit unions and financial institutions Bilateral donors	Manage FIP concessional and grant financing and provide technical assistance Co-financing Co-financing Technical assistance grant
Government agencies	MoFr National REDD+ Agency MCSME, MoF, CMEA PFO, KPH	Policy and steering Policy and steering National level coordination Provincial and district level execution
Direct stakeholders	Forest enterprises Contractors Cooperatives Groups of smallholders NGOs	Investor, concession holder, processor, manufacturer, , buyer Operations, technical and business services Member based woodlot and marketing operations Smallholder woodlot operators, participant Strengthening capacity of small businesses

A1.3.2 Problem statement

55. **Increasing timber demand and forest loss:** There are some 35 million ha of degraded forest and open lands across Indonesia, which includes both public and private ownership. These lands, with the right incentives and technical assistance, could not only help provide increasing wood volumes for local and export demand, but also mitigate climate change by sequestering additional atmospheric carbon. Market assessments conducted during 2005 estimate Indonesia's annual timber production at about 16 million m³, amounting to US \$5.4 billion of export value, or about 6.3% of the total value of exports (Central Statistics Agency, 2006). Total timber production for 2009 was 34.3 million m³, 11.5 million m³ of which originated from natural forests (HPH and IPK), 19.0 million m³ from industrial forests plantation (HTI and *Perum Perhutani*), and 3.8 million m³ from other legal licenses (Ministry of Forestry, 2010). Deforestation pressures are constant as competing land uses grow from other sectors operating at the forest frontier such as agribusiness estates, mining, etc. Land swaps and increases in productivity are seen as ways to make better use of degraded lands and reduce deforestation.
56. **Demand for wood products is high in Indonesia:** having increased from 33.2 million m³ in 2008 to 34.6 million m³ in 2009. Presently fiber supplies from natural forests are declining, while the demand for forest products is growing due to increasing human population and increasing per capita wealth. As a result, there is an increasing gap between legal production and demand, which is largely met by illegal logging, which in turn has exacerbated forest degradation. In addition to growing demand, the downstream forestry sector increasing requires wood supplied from certified sustainably managed forests, both planted and natural.
57. **Low valuation and sector competitiveness:** Another aspect of the problem is that since sustainable forestry is usually less profitable than other alternative uses, such as agriculture and mining, it makes little economic sense for owners to leave their forests standing. The private sector goal in FIP is to support the business of sustainable forestry, both natural and plantation, to be more efficient, cost-effective and productive. For investments in forestry to occur, however, the private sector needs support to adopt sustainable forest management solutions. Based on IFC's global experience with the forestry and wood products sector, we find that firms consistently fail to obtain tangible benefits from sustainable forestry. This is often due to lack of access to practical and cost-effective techniques, inadequate management experience, lack of financial analyses that consider the risk reduction value or differentiate between investments and expenses, and the inability to access commercial financing oriented to the needs of the sector.
58. **Expanding degradation and underutilized land:** Lands at the forest frontier continue to be degraded, often through shifting cultivation by migrants living at subsistence levels with few resources. Most of these lands have unclear tenure and administrative authority. As a result, investment is minimal and destructive techniques such as repeated use of fire quickly deplete the capacity of the land to support mono crop-based agriculture. In other parts of the country however there is a wealth of knowledge and experience in agroforestry techniques, which produces needed fiber and food, and often supports smallholder and community enterprises. Better utilization of land is clearly possible and can be strengthened by promoting agroforestry enterprises.
59. **Unstable revenues and market barriers:** In Indonesia, a program of large scale forest concessions (HPH, HTI, ERC) has been established and in theory is directed to sustainable management of both intact and degraded lands in the forest estate. Without the benefits of regular revenue generation during the early stages of concession management, firms have a strong incentive to use financial leverage to boost financial returns from forestry management projects, and this imperative provides a clear opportunity for banks to boost their lending activities. Both firms and financial intermediaries (FIs) remain reluctant to develop sustainable forestry projects, however. Market barriers faced by private companies include, among others:

- a. more financially rewarding (and less risky) investment opportunities in agriculture, mining and other sectors;
 - b. entry barriers such as inability to access financing, organizational biases against capital investment for cost reduction (versus production expansion), and a perception of enhanced risk by commercial lenders which limits the availability of financing for such projects beyond traditional corporate loans;
 - c. lack of proven track record of profitable projects;
 - d. lack of technical information (e.g., lack of familiarity with techniques like RIL, better inventory techniques, good financial analysis); and
 - e. high initial costs of forest management. The latter include the transaction costs and uncertainties associated with being the first to enter the sector, where there is insufficient experience and capacity amongst developers, contractors, regulators and lenders, and higher technology and completion risks, particularly with unclear land tenure.
60. **Need for stronger SME business capacity:** Although the government has taken great interest in supporting and expanding community forest concessions and associated community forest management enterprises (CFME), it has been unable to effectively help communities and small holders in creating and sustaining small-scale plantation enterprises – as evidenced by the large remaining areas of open land. At the community level, Indonesia has established programs for private (HR) and public (HTR, HK, HD) forestation, which includes land resources legally set aside for forest plantations. In Java alone, there are degraded private lands of up to 900,000 ha with potential for HR expansion. In Aceh, the government has allocated 661,150 ha for HTR development.
61. While the main constraint is the communities' lack of experience in business in general, and the forestry sector specifically, other obstacles include the lack of capital and financial schemes suitable for small holder plantations, technical capacity to effectively manage reforestation projects, sales skills, and information on the buyers, manufacturers and other downstream members of the value chain. However, the first order of business is to assist CFMEs and others to improve their internal governance and basic business skills. Once an organization is operating with a minimum degree of efficiency, it can then effectively look for finance, expand its technical operations, and target new clients and partners.
62. **Low participation of financial sector:** The dispersed nature of forestry project opportunities requires mechanisms for market aggregation. The financial sector, commercial banks in particular, could help provide an efficient common entry point for firms and industries seeking financial solutions, all of which require some financial outlay. But there is a gap in the delivery of market-based financial solutions. Commercial banks and other FIs have very limited exposure to financing forestry enterprise projects on either public or privately-held non-forest lands across Indonesia. FIs have little capacity to analyze or evaluate such forestry projects, while project developers and equipment providers have not as yet developed partnerships with FIs. CFMEs, for their part, are few and are not widely understood by the large project developers in forestry or the FIs.

A1.3.3 Proposed Investment Strategy

63. The IFC supported forestry enterprise project is aimed at strengthening the productive capacities and business skills of forestry enterprises and firms in other related sectors, by leveraging private sector investments (Table A1.3.1). Innovative and transformative investments are needed for all scales of enterprise, particularly those initiatives that highlight their potential to reduce forest carbon emissions (Table A1.3.2).
64. **Prioritizing interventions:** Motivated forestry and related enterprises will be selected from both forested and deforested regions of Indonesia, and where forest products and services demand is high. Interventions with enterprises utilizing natural forests are intended to reduce degradation

and associated emissions, while those in non forested areas will enhance carbon stocks through planted forests. Interventions will be prioritized according to criteria in the following order:

1. Potential for forest carbon emissions reductions through business based mitigation activities.
2. Replication and scaling up potential.
3. Business viability and relations with other enterprises along the upstream and downstream forest value chain.
4. Ability to meet due diligence requirements and adhere to MDB social and environmental safeguards, including sustainable forest management (SFM) principles (*i.e.* reliable forest inventories, sound volume projections based on sustainable cut levels, reduced impact logging (RIL), *etc.*).
5. Activities contributing to development of KPHs (Forest Management Unit).
6. Ability and motivation to expand and strengthen organizational and business capacity, including access to financial support modalities such as grants, loans, credit, off take agreements, advance payments, and guarantees.
7. Opportunity to derive multiple revenues from forests (e.g., timber and non-timber products, payments from ecosystem services such as carbon and water, and agroforestry).

Table A1.3.1: Framework and overview of potential private sector FIP initiatives over the 5-year life of the project. Initiatives include both upstream forest sector enterprises (1-4) and downstream firms including other related sectors (5-7).

No	Initiative type	Land* status	Initial land cover	Potential location	Target area (ha)	Private sector entity	Main activity	Downstream investment links	External finance need (FIP, other)
Forest sector:									
1	Community forestry, smallholder forestry, agroforestry, payment for environmental services (PES)	HTR, HR	Degraded forest, grassland	Aceh, Java, Sulawesi, West Kalimantan	20,000 (with impact potential to scale up another 20,000 ha in adjacent undeveloped concession areas)	Individual farmers; community forest management enterprises (CFME); FIs; manufacturers in value chain; companies that pay for PES	Establish nurseries and plantations; develop PES programs; compliment other community forestry projects; strengthen community business organizations; develop credit program; establish links to businesses in value chain; certification	Sawmills, wood products, energy & co-generation	Grant, micro-credit or GOI loan (BLU), concessional finance, commercial finance for downstream, donor TA potential, etc.
2	Plantation management	HTI	Degraded forest, grassland	West and East Kalimantan Sulawesi, Sumatra	100,000 (with impact potential to scale up another 200,000 ha in other concession areas)	Large firms, community SME contractors, FIs, off takers, public private partnerships	Establish nurseries and plantation; strategic community engagement; certification; access to finance; agroforestry; land use planning	Processing plants (chips, pellets, lumber, wood products, pulp & paper), energy and cogeneration	Concessional and commercial finance, equity, advisory service (co-share),
3	Timber production via sustainable forest management	HPH	Intact forest, some with active harvesting	West Papua, Sulawesi, East and West Kalimantan	200,000 (with impact potential to scale up another 500,000 ha in other concession areas)	Large firms, traders, FIs	Enhanced SFM; certification; SLVK; access to finance; reduced impact logging; improved corporate governance	Processing plants (lumber plywood, furniture), waste energy and cogen.	Concessional and commercial finance, equity, advisory service (co-share)
4	Ecosystem restoration via strict protection and/or sustainable forest management	ERC	Degraded and intact forest	West and Central Kalimantan	100,000 (with impact potential to scale up another 200,000 ha in other concession areas)	Large and medium firms, SME contractors, FIs	Enhanced SFM; certification; protection; carbon revenue finance; establish links to carbon markets; community partnerships; licensing	Carbon offset oriented investments, funds, bonds, trusts, TIMOs	Concessional and commercial finance, equity, advisory service (co-share)

* HR-private smallholder, HTR-community plantation, HPH-natural production forest, HTI-industrial forest plantation, ERC-ecosystem restoration.

Continued...

No	Initiative type	Land status	Initial land cover	Potential location	Target area (ha)	Private sector entity	Main activity	Downstream investment links	External finance need (FIP, other)
Other related sectors:									
5	Downstream initiatives that create demand for sustainably managed forest products and services (No 1-4)	na	na	Papua, Sulawesi, Kalimantan, Java, Sumatra	Minimum demand of 20,000 ha (with impact potential to scale up another 200,000 ha in other concession areas)	Small, medium and large downstream firms	Sawmills, wood products, energy & co-generation, processing plants (chips, pellets, lumber, wood products, pulp & paper), carbon market investors, etc.	na	Concessional and commercial finance, equity
6	Reduced deforestation in agri sector	APL, HPK	Intact forest, degraded land	Kalimantan, Sulawesi, Sumatra	50,000 (with impact potential to scale up another 50,000 ha in other areas)	Palm oil and other estates, smallholders, mills, suppliers, FIs and buyers	Land swaps, productivity increases, establishing independent smallholders and mills	Processing mills, suppliers, producers of end products	Concessional and commercial finance, advisory service (co-share)
7	Reduced deforestation in other sectors	HPH, HTI, ERC, APL	Intact forest, degraded land	Kalimantan, Sulawesi, Sumatra, Papua, Java	25,000 (with impact potential to scale up another 25,000 ha in other areas)	Extractives (mining, oil & gas), tourism, FIs	Land swaps, reclamation, compensation, conservation protection, etc.	Mining, processing, suppliers, refining, hotels, transportation	Concessional and commercial finance, equity, advisory service (co-share)

APL = Other land use outside state administered forests, HPK = Convertible production forest

Table A1.3.2: Potential carbon sequestration of initiatives in the forest enterprise project

No	Initiative Type	Land status*	Initial land cover (BaU)	Potential Location	Initiative Scenario(s)	Potential Area (hectares)	Cumulative net emissions reduction at 2020, year 7 (Mt CO ₂ e)	Cumulative emissions from BaU at 2020, year 7 (Mt CO ₂ e)
1	Plantation management	HTI	Degraded forest, grassland	West and East Kalimantan, Sulawesi, Sumatra	Annual planted area 20,000 ha/yr, grassland baseline : 13.8 t C/ha	100,000	15.2	5.1
2	Production forest, sustainable forest management (SFM)	HPH	natural forest, some with active harvesting	West Papua, Sulawesi, East and West Kalimantan	CO ₂ e emission reduction with RIL 106.3 t CO ₂ e/ha, annual logging 5,000 ha (35 yr rotation)	200,000	3.8	17.3 (CNV) 13.5 (RIL)
3	Ecosystem restoration, SFM	ERC	Degraded and natural forest	West and Central Kalimantan	NO enrichment planting; reduction of deforestation rate by 60%	100,000	1.7 [^]	3.3
4	Community and Smallholder Forestry, PES	HTR, HR	Degraded forest, grassland	Aceh, Central Java, Sulawesi, West Kalimantan	Annual planted area 2,000 ha/yr; Total CO ₂ increase including soils 33.9 tonnes CO ₂ e yr ⁻¹ ; potential additional benefit of reduced shifting cultivation	20,000	1.8	0.7

* concession type. HR-private smallholder, HTR-community plantation, HPH-natural production forest, HTI-industrial forest plantation, ERC-ecosystem restoration

[^] calculation based on assumed 10% annual decrease in rate of forest degradation in Kalimantan

A1.3.4 Proposed Transformational Impact and Co-benefits

65. **Range of initiatives:** Several interventions will be proposed to meet the needs of different private sector entities. As with other FIP investment plans, the proposals for private sector interventions in Indonesia will retain flexibility to respond to dynamic market conditions and unidentified upstream and downstream market opportunities.
66. IFC's interventions with FIP funding will focus on developing tailor-made financial instruments and strengthening the capacity of both small and large forestry enterprises to manage costs, practice solid accounting principles, prepare valid financial statements, make legitimate financial projections and successfully catalyze financing into sustainable forestry projects. Some interventions would provide direct financial incentives or risk products to market leaders to encourage them to implement new approaches and establish new standards and benchmarks for sustainable forestry management projects. By working with companies that have market influence, the interventions would seek to have a large impact by capturing a large share of the industry's emissions reduction potential, and by fostering competition and a need for other market players to follow suit. Other interventions would engage smaller players indirectly through programs with financial institutions.
67. **Stronger role of financial intermediaries:** Increased investments in the forestry sector by FIs, using FIP concessional financing, will help leverage additional investments in small and medium forest enterprises from public forestry support programs and private sector investors who currently view these investments as economically unviable and high risk.
68. IFC has been evaluating the forestry market and exploring opportunities to facilitate financing by Indonesia's commercial banking sector. Based on interactions to date, commercial banks are interested to explore servicing this potentially large market, provided appropriate financial incentives and technical support are made available. Support is needed to build capacity of FI staff to analyze the financial viability and risk profile of forestry management projects, create partnership alliances with appropriate technology suppliers, and improve coordination with industry specialists who can support the new bank clients. IFC, together with FIP, will provide various financing instruments in order to transform banks' behavior and build commercial banks' portfolios of forestry loans. Indonesia's commercial banks, particularly its private commercial banks, are capable of expanding their lending into new sectors. Banks are typically conservative and highly risk-averse, however, and bank personnel are not generally skilled in technical analysis of forestry. For initiatives involving larger forestry enterprises, private equity firms, timber investment management organizations (TIMO) and alternative investors, will also be targeted.
69. **Technical assistance:** In addition to project financing, FIP could accelerate the transformation of the market by supporting technical assistance and advisory services that address the barriers mentioned earlier and encourage the standard business practice to become one of sustainable forest management. One example could be a collaborative FIP initiative that entails:
- a. working with industry associations and other market players to increase understanding of the opportunities for sustainable forestry;
 - b. promoting use of local expertise/capacity in sustainable forestry services;
 - c. building business management skills; and
 - d. developing the technical skills of FIs to lend for forestry projects. This would entail working with Indonesian commercial banks, industry associations, CFMEs

and private forestry companies as well as donor and bi-lateral organizations, that can promote market-level awareness to create impact.

70. **Coordination with other projects:** Where feasible, the private sector initiatives would be coordinated with public sector FIP initiatives led by other MDBs as well as those of donor and multilateral organizations, to ensure the barriers identified above are addressed in aggregate in the most cost-efficient and effective manner. IFC has good experience of successfully implementing similar projects in other emerging market economies.
71. Each initiative in the private sector project proposal will detail the barriers to be addressed with FIP funds, and estimate the direct GHG emissions reduction impact (Table A1.3.2). The proposal will address the question of additionality (supporting the lowest cost, most qualified producer with the best organizational presence and track record) by either supporting successful bidders or by supporting developers and financiers that meet specified and transparent credit criteria established by IFC in accordance with the FIP Climate Investment Fund (CIF) guidelines.
72. Co-benefits of strengthening forestry and related enterprises are expected to include contributions to local economies by providing livelihoods to people living in the vicinity of forest areas, reductions in wood demand from adjacent natural forests (e.g., through agroforestry), and enhanced access to non-timber forest products.

A1.3.5 Implementation Readiness

73. During the FIP Joint Missions and separately, IFC has been in dialogue with several forestry enterprises and FIs regarding forestry investment opportunities under FIP. It is anticipated that at least two forestry initiatives will be ready for financing starting 2012-2013. Table A1.3.1 provides a framework of the types of initiatives to be developed and the anticipated areas of forest to be included by concession type and forest condition. It also includes initiatives in other related sectors where there are strong links to reducing deforestation and opportunities for GHG emission reductions.
74. FIP intervention through local FIs and government credit programs will boost the expansion of HR and HTR on up to 20,000 ha and provide a profitable model for other small forest enterprises, lead firms and FIs to follow in other locations. Links will also be made with larger enterprises that are directly investing and taking risks in new and innovative approaches to boost the expansion of sustainably managed natural and plantation forest on up to 500,000 ha of concession area (Table A1.3.1). IFC, together with FIP, will provide technical services and concessional financing to strengthen business capacity of the community and larger forestry enterprises, as well as guidance on the use of appropriate financial mechanisms to lower risk to acceptable levels. Several local institutions have expressed interest in participating in the program. IFC, in the normal course of business, carries out a robust due diligence process in the selection of partners.

A1.3.6 Potential National and International Partners

75. Potential partners for the project include: forestry enterprises (e.g., smallholder groups, cooperatives, small locally owned companies, and larger firms, etc.); processors and manufacturers, investors, government credit and revolving fund programs; and domestic banks who will be the primary conduit for financing;; private sector partners to provide market off-take guarantees and technical assistance (Table A1.3.1). IFC's Indonesia Sustainable Forestry program and Global Forestry & Wood Products group will provide technical assistance on financing structures, industrial forest and plantation management, CO₂emission tracking, financial planning, community forestry and other themes. Additionally,

there may be opportunities to cooperate with several bilateral and multilateral donor-supported community forestry projects, which would be complimented through private sector linkages.

76. Public sector supporting and coordination partners are listed in section A1.3.1. Key international partners include CIFOR, ICRAF and ACIAR, each of which has experience and expertise in small and medium forestry enterprise development.

A1.3.7 Rationale for FIP Financing

77. The proposed project is aligned with Road Map of the Ministry of Forestry 2006-2025 to increase sustainable timber supply from plantations, including community forest concessions and production on private lands. It is also aligned with the Indonesia REDD+ Strategy, which recognizes the private sector role in sustainable management of natural forests, and in forestation of degraded lands. The project is also aligned with the FIP investment criterion as follows:

FIP Criterion	Justification
Climate change mitigation potential	Establishment of forest enterprise initiatives on 420,000 ha of degraded and intact land will result in reduced emissions and carbon sequestration estimated at between 20 and 25 Mt CO ₂ e over the 5-year period; additional gains are expected from the avoidance of deforestation through the provision of alternative livelihoods.
Potential for large scale-up (see Table A1.3.1)	Potential for replication and expansion of as much as 1 million ha in the areas covered by initiatives and more in other locations where the same concession types occur.
Cost effectiveness	The costs per tonne of CO ₂ e for a FIP investment of USD 32.5M would be between USD 1.3 and 1.6
Implementation potential	Strengthening forestry enterprises supports Indonesia’s objectives for REDD+ efforts; will utilize tested institutional and implementation arrangements in MoFr; and involves communities as participants in land management and decision-making.
Integration of sustainable development (co-benefits)	Conservation of biodiversity and sustaining ecosystem services in forests which would otherwise be degraded or cleared for agriculture; avoided deforestation enhances the adaptive capacity of forest ecosystems and forest dependent communities to the impacts of climate change; contributes to livelihood development and to human development in rural communities.
Safeguards	Community and industrial plantation development will be on lands that have already been deforested and are difficult to reforest by natural means; prevents further conversion of forests to agriculture; commitments to obtain international forest certification standards will be required; as will free, prior and informed consent of affected indigenous communities in initiative locations.

78. FIP financing will be needed both to fill financing gaps and to provide concessionary terms that overcome additional first-mover costs and provide sufficient returns to pioneer projects commensurate to the risk the project will take. While there is interest in entering the market, private developers and FIs will be reticent and progress will be slow without some concessional support. FIP funds are also needed to overcome perceived risks of the market for FIs and the longer payback periods associated with plantation forestry projects.

79. The location of project Initiatives will be selected based on factors including: degraded land conditions; forestry development opportunities on private and public lands; proximity to

forests undergoing degradation; and presence of CFMEs and larger firms. Opportunities for initiatives have been tentatively identified in several locations across Indonesia (Table A1.3.1). A possible location is Aceh Province, where there are large areas of public lands for HTR plantation development directly adjacent to natural forests. Extensive areas of degraded private lands occur in central Java, DI Yogyakarta and East Java, where there are also growing plantation wood sector and downstream processors. Potential initiatives are being explored in other locations in Sumatra, Kalimantan, Papua and Sulawesi involving lead firms engaged in innovative natural and planted forest developments. Initiative selection will be based on the availability of licensed concessions, motivated and suitable private enterprise partners, lead firms, and viable forest product markets.

A1.3.8 Safeguard Measures

80. The IFC Performance Standards will be used as the safeguard policy for initiatives in the project. Other MDB safeguards will be applied based on their engagement in the private sector project initiatives. The standards, which have recently been updated, include: Assessment and Management of Social and Environmental Risks and Impacts; Labor and Working Conditions; Resource Efficiency and Pollution Prevention; Community Health, Safety and Security; Land Acquisition and Involuntary Resettlement; Biodiversity Conservation and Sustainable Management of Living Natural Resources; Indigenous Peoples; and Cultural Heritage.

A1.3.9 Financing Plan

81. IFC will propose a financing plan that includes concessional finance funding to be used with local enterprises and FIs (to be identified during project preparation period) in the form of loans, credit, off take agreements, advance payments, and guarantees. This financing will be supported by grant funding for client advisory services and capacity building, as well as feasibility assessments. The indicative financing plan is presented in the table below.

82. Due to the challenges to date of investing in Indonesia's sustainable forestry sector, IFC will take a conservative and phased approach in utilizing the FIP concessional finance in combination with its own funds, as well as assumptions about other private sector co-financing. During the proposal preparation IFC may opt for a first phase of investment commitments with clients of approximately USD 10 million of FIP concessional funds, leveraged by IFC funds and other sector co-financing. A subsequent phase would then achieve commitments with clients of the remaining USD 22.5 million of concessional funds. Additional leveraging by IFC and other co-financing is expected. The phased approach reflects the uncertainty of securing private sector initiatives until specific clients are identified during the proposal preparation period.

Indonesia FIP Investment Plan Document

Funding Source	Million USD
FIP grant for advisory services	2.5
FIP concessional finance for investments	32.5
IFC co-financing for advisory and investments	49*
Other private sector co-financing	50*
GOI	0
Total	134

Source: IFC estimates

*Leveraged amounts based on the first phase of USD 10 million FIP concessional funds.

A1.3.10 Project Preparation Timetable

Stage	Steps	Indicative dates
Preparation	Preparatory mission Project document preparation	December 2012 February 2013
Evaluation	Multilateral review of documents Refinement of project documents	March 2013 April 2013
Approval by FIP SC	Submit request for project approval	April 2013
Approval by IFC Board	Submission to the IFC Board Signing of grant agreement with GOI	May 2013 June 2013 onwards

83. The project proposal will be prepared following FIP Sub-Committee clearance of the Investment Plan for Indonesia. IFC procedures require new projects to undergo internal concept review and approval, involving both investment and advisory oversight. IFC will submit the project proposal as soon as possible following endorsement of the Indonesia investment plan.

A1.3.11 Request for Project Preparation Grant

84. A FIP Project Preparation Grant is requested to cover all project preparation activities as follows:

FOREST INVESTMENT PROGRAM Project/Program Preparation Grant Request			
1. Country/Region:	Indonesia	2. CIF Project ID#:	(Trustee will assign ID)
3. Project Title:	<i>Forestry Enterprise Project</i>		
4. Tentative FIP Funding Request (in million USD total) for Project ³¹ at the time of Investment Plan submission (concept stage):	<i>Grant: \$2.5 m</i>	<i>Loan: \$32.5 m (concessional finance)</i>	
5. Preparation Grant Request (in USD):	<i>\$0.3 m</i>	<i>MDB: IFC</i>	
6. National Project Focal Point:	<i>Dr. Hadi S. Pasaribu</i> <i>Senior Advisor, Ministry of Forestry (MoFr)</i> <i>hadisparibu@yahoo.com</i>		

³¹ Including the preparation grant request.

7. National Implementing Agency (project/program):	Ministry of Forestry (MoFr) Directorate General of Forest Utilization Directorate General of Watershed Management and Social Forestry Development	
8. MDB FIP Focal Point and Project/Program Task Team Leader (TTL):	Headquarters-FIP Focal Point: Ms. Joyita Mukherjee JMukherjee1@ifc.org	TTL: Dr. Michael Brady Forest Program Manager mbrady1@ifc.org
9. Description of activities covered by the preparation grant:		
<ul style="list-style-type: none"> - Identification of provinces / areas to direct support - Identification of private sector partners, government and communities that would possibly be involved - Baseline data collection in terms of farmers, livelihoods, land ownership, forestry practices, tree varieties grown, forest yield level, SFM practices, business planning and marketing, etc. - Mapping/identification of other organizations currently working in the specified areas - Development of implementation plan, modality, timeframe and monitoring framework - Assessment of market demand, feasible partnership arrangements - Focus group discussions and stakeholder engagement initiatives to validate data, information and plan of action 		
10. Outputs:		
Deliverable	Timeline	
(a) Baseline data collection / identification of stakeholders	December 2012 (start)	
(b) Validation workshop	February 2013	
(c) Scoping study complete	March 2013	
11. Budget (indicative):		
Expenditures³²	Amount (USD) - estimates	
Consultants	160,000	
Equipment		
Workshops/seminars	65,000	
Travel/transportation	40,000	
Others (admin costs/operational costs)	19,000	
Contingencies (max. 10%)	16,000	
Total Cost	300,000	
Other contributions:		
• Government (in-kind)		
• MDB	100,000	
• Private Sector		
• Others (please specify)		

³² These expenditure categories may be adjusted during project preparation according to emerging needs.

<p>12. Timeframe (tentative): Submission of project preparatory grant request: November 2012 Identification of firm/consultants and commencement of study: November 2012 Completion of study: March 2013 Submission of Program/Project Proposal for FIP Sub-Committee Approval: March 2013 Expected MDB Management³³ approval date: March 2013</p>
<p>13. Other Partners involved in project design and implementation³⁴: Ministry of Forestry, IBRD/ADB, international and local consultants, other government departments from the Ministry of Finance, Ministry of Cooperatives, Ministry of Industry, private firms operating in the forestry sector in Indonesia, civil society organizations, local government.</p>
<p>14. If applicable, explanation for why the grant is MDB executed: The preparation grant of US\$ 0.3 million is to be used to develop the proposal and detailed implementation plan for the overall project on Strengthening Forestry Enterprises. As this exercise would elaborate the roles and engagement potentials of different entities and institutions, there is need to bring in a private sector lens alongside the public sector's role and engagement. In this regard, IFC has a unique comparative advantage to meaningfully engage the private sector in the process because of its exclusive focus on private sector development and its experience working with the private sector globally, as well as with the public/private networks built in Indonesia. IFC has also been engaged in similar projects in the agribusiness sector, and has worked in the manufacturing and furniture sector in the past as well. Through the IFC-sponsored Indonesia Forestry Executives Roundtable in particular a great network has been established that could mobilize both public and private sector agents in the pursuit of the project. With these factors in mind, IFC will execute the preparatory grant.</p>
<p>15. Implementation Arrangements (incl. procurement of goods and services): This project preparation grant shall be implemented by IFC in close collaboration with the Ministry of Forestry, the Ministry of Finance and relevant departments from the Ministry of Cooperatives and SME as necessary. Implementation is also expected to engage relevant NGOs, IBRD and ADB wherever applicable, communities and community organizations, local government agencies, interested private sector companies, and other relevant stakeholders as required. Consistent with <i>FIP Programming Guidance for MDBs</i> the procurement of goods and services under this project will follow IFC's procurement guidelines.</p>

³³ In some cases activities will not require MDB Board approval

³⁴ Other local, national and international partners expected to be involved in design and implementation of the project.

Annex 2: Stakeholder Involvement Plan

1. Strategic engagement of key stakeholders is important to address complexity and interrelated causal problems related to REDD+, as well to provide the room for various actors to develop, maintain and synergize their approaches to dealing with such issues effectively. The FIP in Indonesia, as in other pilot countries, prioritizes effective stakeholder involvement in both design and implementation. To this end, the stakeholder involvement process strives for representativeness, dialogue, sensitivity to different points of view, and mutual understanding.
2. It is important to emphasize that consultative processes to engage stakeholders are divided into phases: the first being the development of the investment plan, namely a series of stakeholder consultations to understand national and local perspectives as well as sector-specific concerns and priorities; and following that are specific consultations for individual projects under development by the three MDBs.

Design Process with Stakeholders

3. Design of the FIP Investment Plan for Indonesia began in 2010 following a Government of Indonesia (GOI) request for such assistance as a pilot FIP country. The Ministry of Finance (MOF) is the GOI's overall focal point for the Climate Investment Funds. The MOF designated the Ministry of Forestry (MoFr) as the Government's FIP focal agency, through the office of its Secretary General.
4. Planning for FIP missions and development of an investment plan by MoFr and MOF with support of MDBs proceeds through a multi-stakeholder process, and in consultation and coordination with other relevant entities, including the National REDD+ Task Force (Satgas REDD-Plus), as well as the National Development Planning Agency (*Bappenas*), the National Council on Climate Change (DNPI), the Ministry of Environment (KLH) and the Coordinating Ministry for Economic Affairs (*Menko Perekonomian*).
5. The main platform for engaging stakeholders in the design of the Investment Plan was selected to be the National Forestry Council (*Dewan Kehutanan Nasional – DKN*). This Council, established during the Fourth Indonesian Forestry Congress in 1999, represents a national platform for multi-stakeholder dialogue and is organized into five chambers: (i) local communities, including indigenous peoples, (ii) private sector; (iii) government, (iv) non-governmental organizations, and, (v) academe.
6. Consultations were held in the early stages of the Investment Plan to identify key stakeholders, get their perspectives on the drivers of deforestation and forest degradation, measures being taken, problems faced and their expectations. Prior to the first Joint Mission in July 2011, several activities were held, including:
 - An assessment of relevant stakeholders in Indonesia and their roles in REDD+ was produced and included as Annex 4 of the First Joint Mission Aide Memoire;
 - A preliminary survey (in *Bahasa Indonesia*) was conducted to solicit views from stakeholders through the following questions:
 - In your view, what are the three most important causes of deforestation and forest degradation in Indonesia?
 - For each of the identified causes, which past interventions (policies, institutions, incentives, private sector engagement, other field-based approaches, etc.), in your

- view, have been successful to arrest deforestation and degradation, and enhance carbon sequestration in Indonesia?
- For each of the identified causes, what are new and innovative interventions, in your view, that should be supported through the Forest Investment Program?
 - A series of meetings were conducted by DKN in June and July 2011, with:
 - Stakeholders in Semarang, Central Java – 1st week of June 2011
 - Civil society and local government in Pontianak, West Kalimantan - end of June 2011
 - NGO leaders in Jambi – 1st week of July 2011
 - NGO leaders in Central Java-and Yogyakarta - 1st week of July
 - Information sessions on FIP:
 - Socialization of FIP to private sector – 1st week of June 2011
 - Posting on the DKN website – mid June 2011
 - Posting FIP Briefing in various mailing lists – Mid June 2011
 - During National Coordination Meeting of the Forest Management Units (KPH)– 3rd week of June 2011
 - Dissemination of Terms of Reference (TORs) for site visits – 6 July 2011
 - During the International Conference on Tenure at Lombok – 12 July 2011
 - Public disclosure on JM TOR made available on the CIF website in mid-June 2011
7. The **first Joint Mission** of the Government and MDBs was conducted from 13-22 July 2011³⁵. Discussions were held with various stakeholder groups – government, civil society, private sector and development partners – to gain their perspectives on how best the FIP design can contribute to Indonesia’s efforts to address the drivers of deforestation and forest degradation:

Date	Event	Venue	No. of Participants*	Reference
20 July 2011, 13:30-16:30	Meeting with Government Ministries and Agencies	Ministry of Forestry office	25	JM1 Aide Memoire, Annex 6.1
19 July 2011, 9:00-12:00	Meeting with Civil Society	Ministry of Forestry office	33	JM1 Aide Memoire, Annex 6.3
19 July 2011, 13:30-16:30	Meeting with Private Sector	Ministry of Forestry office	28	JM1 Aide Memoire, Annex 6.2
20 July 2011, 9:00-12:00	Meeting with Development Partners	WB office	33	JM1 Aide Memoire, Annex 6.4
21 July 2011, 9:00-13:00	National Meeting with all Stakeholders	Santika Hotel	49	JM1 Aide Memoire, Annex 6.5

* number excludes participants from MDBs

8. Field visits to selected provinces - Central Java and Yogyakarta, Jambi, and West Kalimantan - were held from 14-17 July 2011 wherein consultations were conducted with local representatives from key stakeholder groups. These provinces were selected as representative of various drivers of deforestation and other concerns and opportunities

³⁵Government of Indonesia and MDBs, 2011. *Aide Memoire: Indonesia First Joint Mission for the Forest Investment Program, 13-22 July 2011*, Jakarta. <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/indonesias-fip-programming>

relevant to REDD+ and FIP design. Visits to these particular provinces do not necessarily mean that FIP investments will be directed to these provinces.

9. The results of discussions during the first Joint Mission were used to come up with early ideas that served as the basis to lay out a variety of opportunities for GHG abatement for consideration in the design of the FIP Indonesia Investment Plan. More information on the Investment Plan is included in Chapter 6 of this document.
10. Given the diversity of stakeholders and geographic spread of activities, the Mission recognized the need for additional meetings and venues for feedback, to build consensus among stakeholders including government, private sector representatives, forest-based communities including women, civil society organizations, and national and international development partners. In between the First and Second Joint Missions, additional FIP meetings have been held using different avenues, but the main engagement has been through events facilitated by the National Indonesian Forest Council (DKN), including the:
 - FIP information sharing at the DKN Forum for Climate Change and REDD+ at the Fifth Indonesian Forestry Congress, Manggala Wanabakti, Jakarta, 21-24 November 2011;
 - FIP consultation at the DKN Forum for REDD+: Forest Investment Plan, Mega Anggrek Hotel and Convention Center, Jakarta, 8-9 December 2011.
11. The DKN hosted information sharing (socialization) and consultation events for the FIP on behalf of the GOI and the three MDBs. During these events, DKN members across the organization's five chambers – community groups, the private sector, government representatives, civil society and academics – received information about the FIP and during the consultations, provided their inputs towards the creation of an Investment Plan for the FIP funds in Indonesia. Participants were organized across the five DKN chambers (communities, private sector, government, CSOs, and academics).
12. The **second Joint Mission** of the Government and MDBs was conducted from 12-16 December 2011³⁶ to obtain feedback on the early ideas for GHG abatement. The same process during the First Joint Mission was used, wherein dedicated meetings were held for each stakeholder group (government, civil society, private sector and development partners), and culminated in a national meeting with all key stakeholders.

Date	Event	Venue	No. of Participants*	Reference
12 Dec 2011, 9:00-12:00	Meeting with Government Ministries and Agencies	MoFr office	18	JM2 Aide Memoire, Annex 2.1
12 Dec 2011, 13:30-16:30	Meeting with Private Sector	MoFr office	16	JM2 Aide Memoire, Annex 2.2
13 Dec 2011, 9:00-12:00	Meeting with Civil Society	MoFr office	11	JM2 Aide Memoire, Annex 2.3
13 Dec 2011, 14:00-16:00	Meeting with Development Partners	MoFr office	11	JM2 Aide Memoire, Annex 2.4
14 July 2011, 9:00-13:00	National Meeting with all Stakeholders	Santika Hotel	50	JM2 Aide Memoire, Annex 2.5

* number excludes participants from MDBs

³⁶Government of Indonesia and MDBs, 2011. *Aide Memoire: Indonesia First Joint Mission for the Forest Investment Program, 12-16 December 2011*, Jakarta. <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/indonesias-fip-programming>

13. During the second Joint Mission, participants were informed of a dedicated email address (indonesia.fip@gmail.com) created to provide another space for feedback from stakeholders beyond the face-to-face sessions, and obtain contributions for the elaboration and implementation of the Plan. Comments and inputs were received via the Google mail address until March 2012, and they are included along with the FIP team responses to them in Annex 6 of this document.
14. The submission of the draft FIP investment plan in March 2012 was postponed following complaints from several stakeholders that the document was not posted on the Ministry of Forestry website in Bahasa Indonesia alongside the English version; that there was not enough time to provide substantial input during the two week public review period; that public consultation best practices were not used during the drafting of the document and in the consultative events led by DKN; and that the document did not support the implementation of the national REDD+ strategy that was then being developed.
15. As a result of this postponement, the Government requested that the DKN facilitate additional meetings in order to seek further inputs and comments on the FIP investment plan. Commission 4 on the Environment and Climate Change agreed to facilitate the process and engage with its chambers. Following a series of informal meetings, the DKN conceptualized the next round of consultative events for the FIP and submitted its plan, which was accepted fully by the GOI. Two 'focus group discussions' were facilitated by the DKN's Commission 4, the first on 10 August 2012 and the second on 14 September 2012, both in Jakarta. The 10 August discussion was limited to DKN representatives as well as representatives of the signatory organizations to the postponement request letter on 16 March 2012. The 14 September discussion included Government and MDB representatives in order to receive inputs and comments, as well as to clarify questions from participants.

Public access to information and consultation through the Internet

16. The Indonesia FI-Plan will be available for public consultation on the websites of:
 - Climate Investment Funds - <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/indonesias-fip-programming>
 - Ministry of Forestry - <http://www.dephut.go.id>
17. The dedicated email address, indonesia.fip@gmail.com, will continue to be used as an online avenue for the public to provide feedback on the Investment Plan. The email address is owned and managed by the Center of International Cooperation, Secretariat-General of the Ministry of Forestry.
18. All contributions to the FIP Indonesia Investment Plan have been systematized and taken into account by the team. While it would not be possible for the team to respond to each contribution on an individual basis, the above-mentioned websites and email address will be used to provide information about the progress of the FIP process, address concerns raised, provide clarifications, and receive inputs and suggestions.
19. Inputs received during the additional DKN focus group discussions on 10 August and 14 September 2012 – and the FIP team responses to them – are included in Annex 6 of this document. Comments include notes and minutes prepared by the DKN as well as written submissions from individuals and organizations.

20. **Comments received between 24 September to 28 October** will be reflected in an additional comments matrix to be prepared and circulated to the FIP subcommittee, and posted on Ministry of Forestry and CIF web sites by 10 November (just after FIP subcommittee meeting on 5 November).
21. **Comments received from 29 October to 30 November** (including those from subcommittee members) will be reflected in the final comments matrix to be prepared and posted on Ministry of Forestry and CIF web sites by 10 December.
22. Following the 5 November Sub-Committee meeting, the main IP will be revised only if necessary. Otherwise, only a supplementary document addressing various concerns will be prepared after the sub-committee meeting. If the sub-committee notes that the comments be reflected only in project design and implementation, no further revisions will be made to IP and no supplementary document will be prepared. However, all comments received will be considered during project design and implementation.

Meetings with stakeholders for the development of investment projects

23. In addition to the online public consultation, discussions on the Investment Plan will be held with key actors in specific meetings as requested during this time.
24. The involvement of stakeholders will continue during the design stage of the specific projects, according to the procedures laid down for project preparation adopted by the respective Multilateral Development Banks (MDBs). Stakeholders at the site level will be engaged during the inception phase of each project, including for the refinement of project-level indicators for the results framework.

Participant Organizations during FIP Stakeholder Meetings³⁷

National Government Institutions

Coordinating Ministry for Economic Affairs (Komenko Ekon)
Ministry of Agriculture
Ministry of Environment
Ministry of Finance
Ministry of Industry
Ministry of Mining and Mineral Resources
Ministry of Trade
National Development Planning Agency (Bappenas – KKSDA)
National Council on Climate Change (DNPI)
National Land Use Agency
National Institute of Aeronautics and Space (Lembaga Penerbangan dan Antariksa Nasional – LAPAN)

³⁷ Based on participants' lists from meetings with stakeholder groups held during FIP-Indonesia missions:

- First Joint Mission, 13-22 July 2011, Jakarta, Central Java, West Kalimantan, Jambi
- Second Joint Mission, 12-16 December 2011, Jakarta
- Technical Mission, 27-29 February 2012, West Kalimantan
- DKN Dialogue on Indonesia Forest Investment Plan, 10 August 2012, Jakarta
- DKN Dialogue on Indonesia Forest Investment Plan, 14 September 2012, Jakarta

Presidential Delivery Unit for REDD+ (UKP4)

Ministry of Forestry

Center for Standardization and Environment (Pustanling Pusat Standarisasi Lingkungan)
Directorate of Forest Processing and Marketing (Direktorat Bina Pengolahan dan Pemasaran Hasil Hutan - Dit. BPPHH)

Directorate General of Forest Protection and Nature Conservation (Direktorat Jenderal Perlindungan Hutan dan Konservasi Alam - Ditjen PHKA)

Directorate General of Forest Utilization (Ditjen Bina Usaha Kehutanan - Ditjen BUK)

Directorate General Watershed Management and Social Forestry (Ditjen Bina Pengelolaan Daerah Aliran Sungai dan Perhutanan Sosial - Ditjen BPDASPS)

Directorate General for Forest Planning (Ditjen Planologi)

Forest Policy and Climate Change Center (Puspijak)

Forestry Research and Development Agency (FORDA)

International Cooperation Center (Pusat KLN)

Secretariat General of Ministry of Forestry (Setjen Kemhut)

Provincial Government Institutions

Central Java Provincial Forestry Agency (Dishut Jawa Tengah)

Jambi Provincial Forestry Agency (Dishut Jambi)

West Kalimantan Provincial Development Planning Agency (Bappeda Kalimantan Barat)

West Kalimantan Provincial Forestry Agency (Dishut Kalimantan Barat)

District Government Institutions

Merakai Forest Management Unit (KPH Merakai), Sintang District, West Kalimantan Province

Sintang District Government Office (Sintang Bupati), West Kalimantan Province

Sintang District Forestry Office, West Kalimantan Province

Subagyo District Forestry Office

Wonosobo District Forestry Office, Central Java Province

Village, Sub-Village, and Local Community Organizations

Mengerat Sub-Village, Tanjung Sari, Sintang, West Kalimantan

Senangan Besar Sub-Village, Tanjung Sari, Sintang, West Kalimantan

Tanjung Sari Village, Sintang, West Kalimantan

Multi-Purpose Cooperative Wana Manunggal Lestari Gunung Kidul (KWML), Gunung Kidul, Central Java

Perkumpulan Pelestari Hutan Rakyat Catur (PPHR), Wonogiri, Central Java

Semoyo Conservation Village, Central Java

Civil Society Organizations

Aliansi Perempuan – Women’s Alliance

Aliansi Masyarakat Adat Nusantara (AMAN) - Indigenous Peoples Alliance of the Archipelago

ARuPA – Volunteer Alliance for Saving Nature

Bank Information Center (BiC)

BKSI – Action for Gender, Social and Ecological Justice

Burung – Indonesia

Center for International Forestry Research (CIFOR)

CER Indonesia

Clinton Foundation

Conservation International (CI)

Flora and Fauna International (FFI)

Debt WATCH Indonesia
ELAW Indonesia
Forum Komunikasi Kehutanan Masyarakat (FKKM)
Ford Foundation
Forest Watch
Forest Peoples Programme (FPP)
Perkumpulan untuk Pembaharuan Hukum Berbasis Masyarakat dan Ekologis (HuMA)
World Agroforestry Center (ICRAF)
Institute for Global Environmental Strategies (IGES)
Institut Pertanian Bogor (IPB) – Bogor Agricultural University
Jaringan Advokasi Tambang (JATAM) – Mining Advocacy Network
Java Learning Center (JAVLEC)
Jaringan Pemantau Independen Kehutanan (JPIK) - Independent Forest Monitoring Network
Indonesian Center for Environmental Law (ICEL)
Institute of Natural & Regional Resources (INRR)
Kehati – Indonesian Biodiversity Foundation
Kemitraan – Partnership for Governance Reform in Indonesia
Konsorsium Pendukung Sistem Hutan Kerakyatan (KpSHK) – Consortium for Supporting
Community Based Forest System Management
Lembaga Alam Tropika Indonesia (LATIN)
Lembaga Ekolabel Indonesia (LEI)
Perhimpunan untuk Studi Pengembangan Sosial dan Ekonomi (Persepsi)
Perempuan AMAN
Persatuan Sarjana Kehutanan Indonesia (Persaki)
Pokja Heart of Borneo Program
Regional Forestry Information Center
Rimba Indonesia
Rimbawan Interaktif
Sawit Watch – Oil Palm Watch
Shorea
Solidaritas Perempuan – Women Solidarity
Sumatra Sustainable Support (SSS)
Telapak
Transparency International – Indonesia (TI-Indonesia)
The Nature Conservancy (TNC)
Ulu Foundation
University Gadjad Mada (UGM)
Wahana Lingkungan Hidup (WALHI), Seknas – Friends of the Earth Indonesia
Warsi - Indonesian Conservation Community
Wildlife Conservation Society (WCS)
Wetland Indonesia Program
Working Group on Tenure (WG Tenure)
World Wide Fund for Nature (WWF) – Indonesia
World Resources Institute (WRI)

Private Sector

Association of Indonesian Forest Concessionaires (APHI)
Indonesian Wood Panel Producers Association (APKINDO)
Global Eco Rescue
Koperasi Perumahan Wanabhakti Nusantara (KPWN)
Perhutani

PT Arara Abadi
PT Arfak Indra
PT Denvhi
PT Finantara Intiga
PT Indotama Internasional
PT Indoveneer
PT Inhutani I, III, IV, V
PT Jaring
PT Jaring Akar Ranting
PT Marubeni
PT MNDP/DKN
PT MPG & BKI
PT Musim Mas Group
PT Nityasa Idola
PT REKI Harapan Forest
PT Rimba Makmur Utama
PT Sinar Fajar Agro Lestari
PT Sukajaya Makmur
PT Sumber Graha Sejahtera
PT Sumber Graha Sejahtera
PT Tirta Mahakam
PT Tri Putra BN
PT Wana Subur Lestari
Rimba Raya C
Sinar Mas
Tropical Forest Trust (TFT)
The Borneo Initiative

Development Partners

Agence Française de Développement (AFD)
Australian Agency for International Development (AUSAID)
Australian Embassy
Canadian International Development Agency (CIDA)/Canadian Embassy
Danish International Development Agency (DANIDA)
Embassy of Finland
Embassy of Norway
European Union (EU)
German Agency for International Cooperation (GIZ) - FORCLIME
German Development Bank (Kfw)
International Tropical Timber Organization (ITTO)
Japan Embassy
Japan International Cooperation Agency (JICA-FFORTRA)
Korea International Cooperation Agency (KOICA)
Millennium Challenge Corporation (MCC)
Netherlands Embassy
Swedish International Development Cooperation Agency (SIDA)
United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD) - Indonesia
United Nations Office on Drugs and Crime (UNODC)
United Kingdom Department for International Development (UK - DFID)
United Nations Development Programme (UNDP)

Indonesia Investment Plan Document

United States Agency for International Development (USAID)

Annex 3: Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in the Context of the Forest Investment Program

1. This annex contains information about how the funds of the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM) can make a complementary contribution to the Indonesia Investment Plan.

Indigenous Peoples and Traditional Communities in Indonesia:

2. Strategic Context: Reducing poverty is a key priority in Indonesia's development plans. According to the 2010-2014 National Medium Term Development Plan, the Government of Indonesia (GOI) aims to reduce absolute poverty from 14.1% in 2009 to 8-10% in 2014. This will be achieved through improved income distribution, through social protection that is based on the family, through community empowerment, and through expansion of economic opportunities for the poor.
3. About a quarter (50-60 million) of Indonesia's population lives in the mostly rural, state-claimed "forest zone," and these people are poorer than the national average. This area is also home to most of Indonesia's customary (*adat*) communities, many of who are forest-dependent and poor or vulnerable to poverty. Poverty alleviation remains a challenge in the forest-zone. Communities that live there generally do not have formal rights to their land and this leads to open conflict over land use with logging and plantation companies, and a poor investment climate. While forests provide important resources to local communities, unclear use rights, bureaucracy, poor access to markets, and lack of institutional capacity often prevent the full economic use of these resources. Forest dependent people are directly affected by forest policy developments but lack of empowerment has meant that local communities have been excluded from policy processes. Forest dependent people have been largely excluded from the forest policy processes that have direct impacts on their lives and have not had the opportunities to become protagonists in their own strategic development due to lack of capacity and empowerment.
4. The State recognizes the existence of indigenous peoples in Indonesia through a number of Acts and regulations. The following are the most important:
 - The State Constitution of 1945 (with its amendments) recognizes the collective rights of indigenous peoples in Indonesia and requires the state to protect and fulfill these constitutional rights
 - Act Number 22 Year 1999 on Regional Government (later amended by Act No. 32 Year 2004) provides recognition of Indigenous Peoples' village autonomy.
 - Act No. 39 Year 1999 on human rights, explicitly states the rights of Indigenous Peoples, including the customary right to land (*hak ulayat*) as a human right.
 - The Coastal Management Act and Environmental Management Act recognizes Indigenous Peoples' rights to coastal and marine areas and indigenous knowledge in environmental management are also recognized
5. Indigenous peoples can be defined as a groups based on ancestral origin, living in a specific geographical area, having distinct values and socio-cultural systems, sovereignty over lands and natural resources, and managing by means of customary laws and institutions. AMAN estimates the population of indigenous peoples in Indonesia at

between 50 and 80 million. From this population, 1,163 indigenous communities in Indonesia are AMAN members.

Potential role of the DGM in Indonesia

6. The DGM is designed to support investments made by FIP projects sponsored by the IFC, ADB and World Bank. Several activities focus either on community forest management or land use planning processes, linked to livelihood improvement where there is potential thematic overlap between the FIP activities and the DGM.
7. The regional focus in most of the project interventions remains to be identified and will be determined during the project preparation phase supported by the respective MDBs and led by the Government of Indonesia. The implementation of the DGM should be supported by the principle of self determination, where indigenous peoples will express their priority activities within the context of the objectives and principles set in the DGM.
8. The channeling of resources, type and scope of project interventions have not been discussed yet. Indigenous peoples groups and local communities will need to define principles for engagement and the representation system that will govern engagement mechanisms. The dialogue is ongoing and the Government of Indonesia and respective MDBs are expected to increase engagement during project development.
9. Potential thematic areas under which activities could be financed include, but are not limited to: (a) land tenure policy work to strengthening the IPs rights over their land and natural resources particularly in forest areas (mentioned in para 3) (b) REDD+-related livelihood and resilience activities and improved business management skills; (c) participatory land-use planning through mapping and profiling, land use identification and land management design; (c) mapping and technical skills for REDD+; and,(d) enhancing community stewardship and management of forests.

Preparation of the DGM in Indonesia

10. The Ministry of Forestry, as the national FIP focal point, has formally requested the Indonesian Forestry Council (DKN) to assist in the design of a mechanism and the organization of works related to the formation of the Indonesia FIP DGM, following guidelines set out in the DGM Design Document. This decision was supported by AMAN, who has been representing Indonesia at the global-level design process, and who will be involved in the formation of the national-level management structure. The DKN has agreed to assign the task to the DKN local communities chamber to facilitate discussions to nominate representatives to the Global Steering Committee, the Global Executive Agency, and the National Steering Committee; as well as facilitate discussions to appoint a national Intermediary Institution and appoint one of the MDBs to act as the national Executing Agency. As of the publication of this Investment Plan, preparations for these discussions are ongoing.

Annex 4: Indonesia's Key REDD+ Policy Documents: Readiness Preparation Proposal, National Action Plan for Reducing GHG Emissions (RAN GRK) and National REDD+ Strategy

1. Indonesia finalized a Readiness Preparation Proposal (R-PP) in May 2009. The R-PP suggests a preliminary REDD+ strategy based on (i) the implementation of strategies for more effective conservation and management of Protected Areas and Production forests; (ii) strategies for forest and paper industry to procure their supply from sustainably managed sources created from degraded land; (iii) strategies for shifting the expansion of palm oil plantations towards non-forest(ed) land based on improved spatial planning; (iv) restoration of peatland; and (v) enhancement of the capacity of community groups, including adat communities to engage in forest management, through REDD+ activities. The full text of the R-PP is available at: <http://www.forestcarbonpartnership.org/fcp/ID>
2. In May 2010, Indonesia signed a Letter of Intent with Norway (Norway Lol) to enter a path-breaking, performance-based initiative for accelerating action on REDD+. The REDD+ Initiative establishes a phased program of action, focusing first on establishment of a national strategy, a management agency, an agency for monitoring, reporting and verification, a pilot province, and a financing instrument. In order to reach its 2020 emissions target and to comply with the timeline set forth in the Norway Lol, Indonesia has developed a National Action Plan to Reduce GHG Emissions ("RAN GRK"). Another Presidential Decree (No. 71/2011) on regular updating of GHG inventory as a basis for monitoring emissions reduction was also issued. The full Indonesian text of the RAN-GRK is available at <http://www.bappenas.go.id/node/0/3390/images-ran-grk/>.
3. The National REDD+ Strategy is a part of RAN GRK. The Strategy was developed through a consultative process with multiple stakeholders and places emphasis on addressing underlying drivers of deforestation while improving the livelihoods and security of forest-dependent communities, and enhancing the protection of biodiversity. The strategy is available at: <http://www.satgasreddplus.org/download/150612.REDD+.National.Strategy.Indonesia.pdf>
4. In 2010, the GOIUKP4 established the REDD+ Task Force to coordinate the country's national REDD+ strategy. In its first year (2010-2011), the Task Force produced a map that identifies the forest areas to be included in the two-year moratorium on new permits for logging in primary forests and peatlands agreed with the government of Norway. The map is available at: <http://appgis.dephut.go.id/appgis/petamoratorium.html>.

Annex 5: Peer Review

Peer Review 1: Dodik Ridho Nurrochmat (submitted 13 April 2012)

Part I: General Criteria

1. **Complies with the principles, objectives and criteria of the relevant program as specified in the design documents and programming modalities.** In general, I found that the FIP document has complied with the principles, objectives and criteria of the relevant program. I just want to give a short comment for the position of REDD+ and sustainable forest management (SFM) in the FIP document. From my point of view, although SFM is an important option in reducing emission from deforestation and deforestation+ (REDD+), it does not mean that SFM is part of REDD+. On contrary, REDD+(as a scheme) shall be placed as one of the supporting schemes for SFM (and then in the broader context, sustainable development).
2. **Takes into account the country capacity to implement the plan.** The FIP document has reported comprehensively about the country capacity to implement the plan. However, I suggest that the FIP should start with the identification of infrastructure framework of forest and tenure governance. It is very important because an improper infrastructure framework of forest (and tenure) governance is one of the most influencing factors for deforestation and forest degradation. The deficiencies in forest governance's infrastructure such as policies and legislation, tenure, organizational structure and bureaucratic apathy are among others, some macro level issues threatened to sustainability of forests resources. To review infrastructure framework and mechanism of SFM, evaluation of content and hierarchy, ambiguity, and implementation gap of policies related to forest management in Indonesia is necessary.
3. **Has been developed on the basis of sound technical assessments.** Generally the FIP document has discussed some factors related to the technical assessment. However, it would be much better if the FIP document provides explanation about the basis concept used for the technical assessment on REDD+. The technical assessments shall classify into the group of activities, i.e. 1) activities related to the economic valuation of forests, 2) activities related to (carbon) trading mechanism, and 3) activities related to the transaction.
4. **provides for prioritization of investments, stakeholder consultation and engagement, adequate capturing and dissemination of lessons learned, and monitoring and evaluation and links to the results framework.** The FIP document has described the priorities of investment as well as stakeholder consultation and engagement, adequate capturing and dissemination of lessons learned, monitoring and evaluation and links to the results framework. However, the document did not state clearly the steps of each priority. A "time framing", even in overall, is needed to guide the stages of activities in certain program. The most urgent priority at current situation is to ensure the legal status of forests. On February 2012, the Constitution Court (*Mahkamah Konstitusi*) has accepted the judicial review on the "definition of forest estate" (article 1, point 3) of the Forestry Law 41/1999. The court decided that the status of forest estate is legally binding if the area has been enacted (*ditetapkan*) as forest estate. After the judicial review the legal status of forest estate is unclear, debatable, and multi interpretations because the current status of 130.68 million hectares of forest estate in Indonesia (RKTN 2011) are mostly appointed (*ditunjuk*) by Forestry Minister (ca. 85%) and only the rest 15% has been officially enacted as forest estate. This situation occurred because of very slow progress of forest area boundary arrangement and very hard process in defining regional spatial plan (RTRW) due to strong sectoral and regional egoisms. Therefore, the FIP shall support any policy initiatives, programs, or activities to strengthening legal status of forest estate. It is a pivotal task

before conducting programs related to forests (REDD+, etc) because without strong and clear legal status of forest, the sustainability of those programs will be uncertain.

5. **Adequately addresses social and environmental issues, including gender.** The FIP document has described many aspects of social and environmental issues. However, it needs to be more focus on which issues of social, environmental as well as gender will be addressed. I found that gender issues are less accommodated in the current FIP document.
6. **Supports new investments or funding is additional to on-going/planned MDB investments.** The list of on-going and planned MDB investments on REDD+ in Indonesia has been described comprehensively in the FIP document. However, how and which ways to support new investments or additional funding for REDD+ is not yet clearly stated. It needs to define the flow of activities in an investment plan package, i.e. payment mechanisms, fund distribution, and budget allocation.
7. **Takes into account institutional arrangements and coordination.** The FIP document has mentioned numbers of institution related to forests and tenure arrangement. The investment plan has to highlight a very important institutional arrangement related to the decentralization policy and development of Forest Management Unit (FMU). The contextual setting of FMU in Forestry Law 41/1999 is decentralization, while decentralization law placed the management of forest as one of the authority shifted to the region. The problems became complicated when the political reality of supporting devolution stay in the opposite with the historical format of FMU, which is strongly support for deconcentration. Considering that the development of FMU should also respect to historical aspects, then the institution of FMU has to be a compromising between deconcentration and devolution. Considering those situations, it is very important for FIP to support studies, public consultation meetings, as well as empowering regulations that offer space of options for various institutional models of FMUs based on the local specifics.
8. **Promotes poverty reduction.** The FIP document has given many examples of programs that promote poverty reduction such as community forest plantation (HTR), community forest (HKm), village forest (Hutan Desa), and smallholder private forest (Hutan Rakyat). The FIP describes comprehensively the previous and on-going programs of smallholder forestry, but less corresponding with the national forestry planning (RKTN 2011-2030). Referring to the RKTN, the forest allocation for smallholders is very low, i.e. only 6.97 million hectares of 130.68 million hectares of Indonesia forest estate (5.33%). Accordingly, it is very difficult to promote poverty reduction significantly through the current schemes of smallholder forestry. Therefore, it would be very useful if the FIP defines more options of smallholder forest programs, additional to the current schemes
9. **Considers cost effectiveness of investments.** The cost effectiveness of investment shall consider not only the direct and co-benefit, but also potential impacts of FIP. The direct and co-benefits as well as risks have been explained in the FIP document. However, the potential negative impacts of REDD+, for instance, on some important development indicators, e.g. economic linkages as well as multiplier impacts (output, outcome, and employment) are not considered explicitly in the FIP document.

Part II: Compliance with the investment criteria of FIP

10. **Climate change mitigation potential: The investment plan should provide an estimate of the direct GHG savings.** Several data and estimations of direct GHG saving has been stated in the FIP document. However, I find that actually, it is very difficult to estimate direct GHG savings in certain investment plan, since there is no single methodology, nor approach, which is scientifically accepted in different situations of forest and social context.
11. **Demonstration potential at scale: The investment plan should support replicable pilot programs in order to demonstrate how to scale up public, private and other resources and activities so as to achieve transformational change. FIP investments should address REDD+ priorities as presented in national REDD+ strategies or action plans**

(or equivalents). The FIP document has given several examples of the replicable pilot programs as well as investment plans. However, since the FIP did not explain explicitly the “transfer of rights” used for each of the investment programs (e.g. following the concepts of PES, LR, or PDR), then I find that it will be difficult to replicate the programs effectively.

12. **Cost-effectiveness: The investment plan should leverage additional financial resources, including from the private sector where feasible. It should catalyze self-sustaining economically viable models for REDD+ at scale without the need for continuing subsidies and promotes coordination among relevant institutions at the country-level with respect to implementing and financing proposed investments.** The investment plan will be able to leverage financial resources, if it can define the position of each program in the investment cycle (payment, distribution, or allocation) and strongly considering the local specifics (ecology, economy, social). Nevertheless, the cost effectiveness will be not achieved.
13. **Co-benefits: The investment plan should consider the potential to contribute to the livelihoods and human development of forest dependent populations, including indigenous peoples and local communities, and to sustain biodiversity and ecosystem services and enhance the adaptive capacity of forest ecosystems and forest dependent communities to the impacts of climate change.** Several programs, such as forest and land rehabilitations, HTR, HKm, *Hutan Rakyat*, Ecosystem Restoration Concession (ERC), Reduced Impact Logging (RIL), etc. can create social and environmental co-benefits. Some other programs, such as logging moratorium and suspension of plantation development, besides promising co-benefits at the same time also create many potential risks. Since agriculture sector (included crop plantation) and forestry sector have the highest forward linkage as well as high multiplier impacts in terms of output, income and employment compared to the other 21 economic sectors, then any policies disturbing or decreasing production in agriculture or forestry sectors have to be decided carefully because it will cause “domino effect” to the other economic sectors. Another program, such as legal verification system of timber (SVLK), shall be evaluated because it will cause “high cost economy” and will also discourage the motivation of smallholders to plant trees as valuable commodities. The SVLK shall be integrated with the other current procedures for timber business permits, e.g. SKSKB or SKAU.
14. **Demonstrates how it will initiate transformative impact.** The investment plan will initiate transformative impact, if it considers benefits and risks comprehensively. Usually, an investment of low carbon scheme considers not only the direct benefits but also issue of leakage as potential risks. It is not enough. The risk of low carbon economy is not only leakage, but also the loss of linkages as well as multiplier impacts (output, income, and employment) of the forest products’ value chain. To avoid those risks, the payment mechanisms, fund distributions, and budget allocations of certain low carbon scheme have to be carefully formulated and controlled.
15. **Implementation potential: The investment plan should have a high potential for successful implementation.** The FIP document did not mention measurable indicators to examine, whether the investment plan has a high potential for successful implementation. The investment plan will be successfully implemented, if it considers three important factors, i.e. respect to the local specifics, define “the right of transfers” clearly, and make plan for whole stages of investment cycle (payment mechanisms, fund distributions, and budget allocations).
16. **Natural forests: The investment plan should safeguard natural forests and should not support the conversion, deforestation or degradation of such forests, *inter alia*, through industrial logging, conversion of natural forests to tree plantations or other large-scale agricultural conversion.** There are many examples of program that are expected to be a safeguard of natural forests mentioned in the FIP document. However,

some problems seem to be simplified. Carbon sequestration (sink) and release (source) in climax vegetation such as undisturbed natural forest is usually “net balance”. Thus, natural forest plays important role in stocking carbon, but actually it is not a good carbon sinker. Growing young trees in plantation forests and/or crop plantations (rubber, coffee, oil-palm, cocoa, etc.) provide better service for carbon sequestration rather than natural forests. It does not mean that plantation is better than natural forest. Although the natural forest is not a good carbon sinker, it is the best form of ecosystem that provides optimum environmental services, e.g. hydrological function, biodiversity, carbon sequestration and stocking, etc. Unfortunately a region that has large undisturbed natural forests such as protected forests or conservation forests usually receives less direct economic benefits from carbon offsetting schemes, because usually there is no “additionality” of carbon stock in undisturbed natural forests. Conversion of “forest estate” to be crop plantation does not always release carbon. Vice versa, it could enhance carbon stocking, if the real condition of “forest estate” before conversion is not covered by forest anymore (imperata or bare lands).

Part III: Recommendations

17. REDD+ schemes shall be positioned as part of SFM. Therefore, the implementation of REDD+ has to be parallel with the three pillars of SFM, i.e. ecologically viable, socially acceptable, and economically feasible. The construction of SFM’s framework for REDD+ shall be also transparent, accountable and promote the rule of law. The infrastructure framework of SFM has to assure that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of forest resources.
18. To transform (potential) economic values of forest ecological functions, schemes of green trading mechanism is needed. There are three important schemes of green trading mechanism that are Payment for Environmental Services (PES), Purchasing Development Right (PDR) and Liability Rule (LR). At operational level, those schemes could be implemented through various mechanisms, such as Clean Development Mechanism (CDM), Reducing Emission from Deforestation and Forest Degradation (REDD, included REDD+), etc. Those mechanisms, however, cannot guarantee a transaction. Transaction could be realized by a mutual agreement between respective parties or by enforcing regulations. It would be more understandable and applicable, if the basis of sound technical assessment of FIP is structured referring to the following conceptual framework (**Figure 1**):

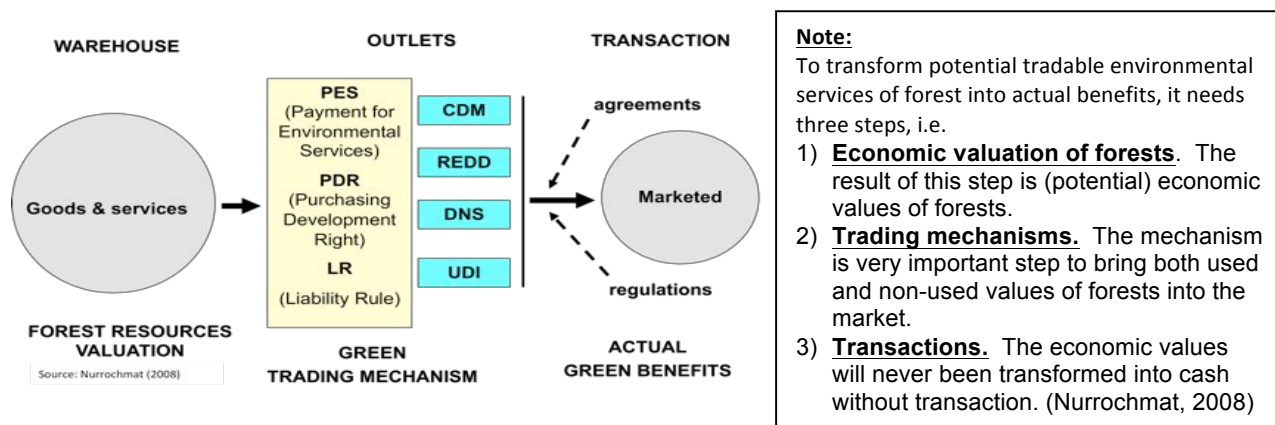


Figure 1. The stages of economic transformation of forest environmental services

19. It is recommended to define three clusters of activities in a whole cycle of investment schemes, i.e.
 - a. Payment mechanisms (PES/Payment for Environmental Services; LR/Liability Rules; and PDR/Purchasing Development Right)

- b. Distribution of funds (vertical distribution - central government, province, regency, and society; horizontal distribution - sectoral distribution, profit sharing among actors)
 - c. Budget allocation (Fund spending/budget allocation)
20. To attract more investments and additional funding on REDD+, all possible options of tradable services for forest carbon in Indonesia has to be transformed into integrated spatial map (**Figure 2**).

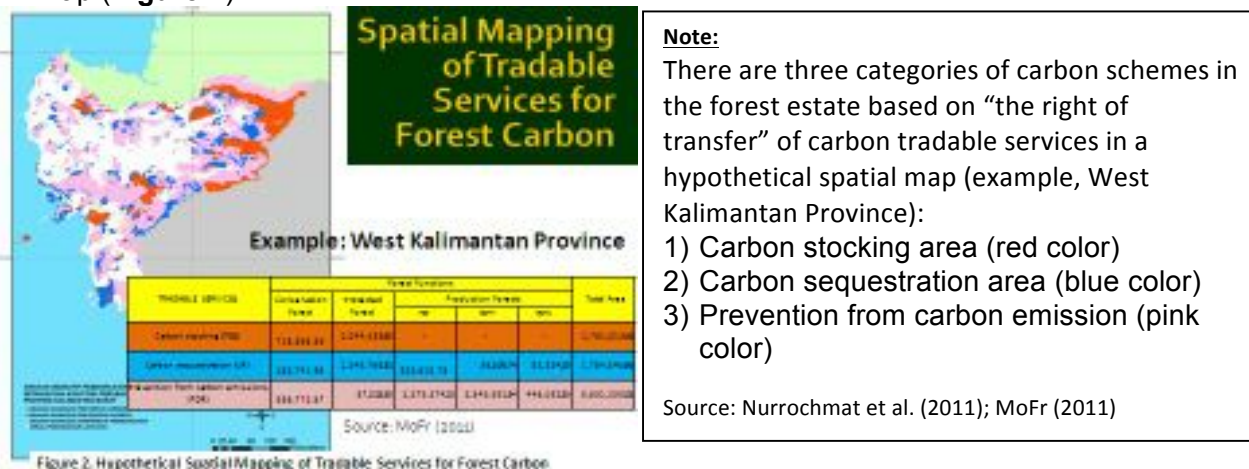


Figure 2. Hypothetical Spatial Mapping of Tradable Services for Forest Carbon

Peer Review II: Doris Capistrano (submitted 26 April 2012)

Part I: General Criteria

21. **Complies with the principles, objectives and criteria of the program as specified in the design documents and programming modalities.** The Indonesia Investment Plan generally complies with FIP principles, objectives and criteria. The document provides a strategic framework for priority investments in REDD+ and presents background analyses, rationale and main features of three selected projects: Project 1 - Community-Focused Investments to Address Deforestation and Forest Degradation; Project 2 - Promoting Sustainable Management of Forests and Peatlands through Capacity Building for Spatial Planning at the Sub-national and Community Levels; and Project 3 - Strengthening Forest Enterprises to Mitigate Carbon Emissions.
22. **Takes into account the country capacity to implement the plan.** The Plan broadly considers the capacity of the country to implement the identified Projects and provides a general assessment of the key institutions vital to successful implementation. However, detailed consideration of the capacity, strengths and weaknesses of partners and implementing agencies in each Project is deferred for a later phase of Project Design.
23. **Has been developed on the basis of sound technical assessments.** The Plan is based on solid technical assessment using the latest available data and information. The Plan draws on data, background analysis and findings from a large body of completed and on-going REDD-related assessments and research and experience from the more than 40 REDD+ projects currently underway in Indonesia. The major drivers and underlying causes of deforestation and forest degradation and promising response options are broadly assessed. However, more detailed, project-specific technical assessments will need to be done in subsequent stages. For example, the technical feasibility, economic viability and competitiveness of plantation establishment on degraded lands have to be carefully assessed especially if local communities are expected to invest their time and resources in this activity.

24. **Demonstrates how it will initiate transformative impact.** Projects individually and jointly trace plausible paths towards institutional transformation through mutually reinforcing investments and regional and sectoral interventions. The emphasis on clarifying and strengthening forest rights and land tenure promises to be particularly transformative, potentially encouraging greater investment in sustainable forest management and more equitable distribution of the resulting benefits. Interventions propose to address underlying institutional and governance issues and critical capacity and information gaps to varying degrees. These could change the “rules of the game” and influence future REDD-related decisions and actions with potential ripple effects beyond the FIP Project areas.
25. **Provides for prioritization of investments, stakeholder consultation and engagement, adequate capturing and dissemination of lessons learned, and monitoring and evaluation and links to the results framework.** The Plan document clearly explains the criteria used to prioritize investments. The document explicitly discusses how the planned investments will link to the Government of Indonesia’s priorities and programs as reflected in the National REDD+ Strategy. It includes provisions for monitoring and evaluation and specifies indicators with which to assess progress towards desired results.
26. The Plan was developed through a country-driven process of consultation and planning which started in 2010. Different stakeholder groups including civil society organizations, local communities and indigenous people have been engaged in the process. However, it is unclear from the document to what extent the diverse range of civil society perspectives on REDD+ has been represented in the process. An annex listing the types and categories of stakeholder groups and perspectives represented in the consultation process can help clarify.
27. The Plan builds on lessons and ideas from other REDD projects and consultation processes and stakeholder inputs on key issues, including ticklish issues such as forest tenure and land reform. Given the complexity of the issues REDD+ needs to address, the challenges of ensuring effective communication and the relatively compressed time frame for FIP consultation, it is not surprising if some stakeholders regard the FIP consultation process as inadequate. Stakeholders lacking information and capacity to engage due to language and other barriers require more time and space for meaningful input than the process may have provided so far.
28. **Adequately addresses social and environmental issues, including gender.** The Plan document includes an analysis of the major social and environmental issues and challenges confronting REDD+ and identifies needed actions as well as the risks involved. There is explicit commitment to adopt safeguards in Project implementation by incorporating the social and environmental safeguards of respective MDB partners and by investing in capacity to develop more issue- and context-specific safeguards. For example, in Project 1, ADB Safeguards for indigenous peoples, environment and involuntary resettlement will be adopted and investments will be made to enable the development of information system on safeguards at the district level. While social and environmental issues are considered, there is little, if any, consideration of gender dimensions in the investment strategy and in each of the priority Projects.
29. **Supports new investments or funding is additional to on-going/planned MDB investments.** The Plan is designed to support complementary investments that could add value and leverage resources from on-going/ planned investments of MDBs, Government of Indonesia and other development partners.
30. **Takes into account institutional arrangements and coordination.** The Plan considers current REDD-related institutional arrangements and coordination mechanisms, including their weaknesses and gaps. A significant portion of planned investments will address identified weaknesses in institutional arrangements and coordination mechanisms.

31. **Promotes poverty reduction.** The Plan seeks to promote poverty reduction through investments in community forestry and agroforestry, incentives for local community production through tax deductions, licensing and certification, and enabling measures including improved governance, land tenure reform, increased access to forest resources and provision of technology, training and production. However, while poverty reduction is an objective, the Plan's primary focus is on reducing emissions and enhancing carbon stocks. Community Forestry which can be a vehicle for addressing poverty has a relatively small area of coverage. Under Project 1 to be implemented in two districts in West Kalimantan, only 20,000 hectares and possibly 20,000 more are targeted for community forestry. The scale of investments in direct poverty reduction and livelihood promotion is relatively modest compared to the total Plan budget. The major portion of poverty- and livelihood-targeted investments is expected to be leveraged from other programs and partners including Forest Management Units (KPHs).
32. **Considers cost effectiveness of investments.** The Plan makes a strong case for the cost effectiveness of its proposed investments to meet multiple objectives and deliver results on several fronts simultaneously. However, the Plan does not include an explicit cost effectiveness analysis. This analysis requires more detailed specification of planned interventions, assumptions and alternative options.

Part II: Specific Criteria

33. **Climate change mitigation potential.** The Plan discusses strategic opportunities for REDD+ through a range of public and private sector interventions as well as the potential advantages and challenges associated with each intervention. Historic data on GHG emissions by source is presented as starting point for identifying promising areas for investment in institutional, regulatory, administrative and market reforms and in forest conservation and ecosystems rehabilitation. Estimates are provided for direct GHG savings from Ecosystem Restoration Concessions and from the establishment of forest enterprise initiatives on degraded and intact forest lands. Estimating direct GHG savings from other interventions will require finer levels of detail which have yet to be specified in the Plan.
34. **Demonstration potential at scale.** The Plan includes sub-national pilots as integral components of Indonesia's REDD+ Strategy and bilateral and multilateral REDD projects. The Plan proposes to draw on experience from Central Kalimantan, Indonesia's first pilot province where REDD+ interventions are starting to be implemented. The Government of Indonesia plans to support another two or three pilot provinces and to use FIP resources to test REDD+ systems and approaches in additional pilot provinces and demonstration sites. The learning and capacity building benefits and the potential for replication and scaling-up of this pilot-and-demonstration approach can be significant.
35. **Cost-effectiveness.** The Plan is premised on complementarity with on-going and planned projects and on financial and other contributions from public and private sources. Expected contributions from sources outside of FIP are specified for each Project in Section 8 (Financing Plans and Instruments) of the Plan document. In Project 3, contribution from Commercial Banks and other sources is expected to cover around 67% (US\$150 of US\$224) of total cost. The modes of investment proposed could potentially catalyze viable models for REDD+. However, realizing their potential to scale up into self-sustaining operations without continuing subsidies will need careful attention to project design and implementation and getting the right systems of incentive and institutional and regulatory frameworks in place.
36. **Co-benefits.** As a whole, the Plan is designed to produce a range of co-benefits, including livelihoods and human development benefits, biodiversity and ecosystem services, and adaptive capacity enhancement. However, individual Plan components will yield varying combinations and levels of co-benefits. In some cases there are likely to be trade-offs among the co-benefits, particularly between livelihoods and biodiversity and ecosystem

services. Project design should aim to minimize these trade-offs, and to clarify where these exist. Further opportunities to enhance and optimize livelihood benefits should be explored since without strong links to local livelihoods and income generation the likelihood of realizing other co-benefits will be greatly diminished.

37. **Implementation potential.** The Plan has reasonable potential for success. Certain components of the Plan will build directly on proven successful models. The strategic choice of investment areas, pilot sites, model KPHs and implementation partners with track record is meant to strengthen the foundation for success even in the more experimental, innovative components of the Plan. However, there are significant risks and threats to successful implementation at all levels, from the project site to the country level. Some of the major risk factors are noted throughout the document. Major country level risks are listed in Section 7 (Implementation Potential with Risk Assessment) along with measures to mitigate them. Careful attention to substantive content, process design and mechanisms for course correction during the detailed Project Design and Implementation phases can help reduce risks at all levels and increase the chances of success.
38. **Natural forests.** In line with Indonesia's National REDD+ Strategy, FIP investments will support community-based forest management and sub-national REDD+ pilot projects. The pilot projects could include agroforestry activities, demonstration actions to increase agricultural productivity, or actions to launch district or provincial level institutions to promote, guide and/or coordinate sustainable utilization of forests. Conceivably, intensification of crop production, e.g., oil palm, in and around natural forests can potentially encourage forest conversion. However, without further detail it is unclear from the Plan document whether and to what extent such projects funded through FIP investments would contribute to conversion or degradation of natural forests. Strict adherence to agreed monitoring processes and environmental safeguards and standards can reduce the chances of this happening.

Part III: Recommendations

39. **Increase investments in community forestry, smallholder forestry and small-scale enterprises.** There is scope to expand opportunities to support community forestry, smallholder forestry and small-scale enterprises in each of the FIP Projects. Doing so will increase the potential for improving livelihoods, strengthening local support for project interventions and enhancing the chances of their success. Project 3, in particular, can create new investment opportunities and offer innovative modes of support for enterprises of all sizes. However, financial incentives for sustainable forest management under this Project appear to be targeted to large enterprises and market leaders and to addressing the "supply side" of finance for sustainable enterprise models. Investments to address the "demand side" of forest finance need to be increased. Higher priority should be accorded to investments to boost or create effective demand for finance from communities, smallholders and small and medium scale enterprises. This could include investments to enable small and medium sized enterprises to achieve scale and increase their market share through federations, associations and other organizational models. The development of financial instruments to insure community and smallholder forestry against risk and means to reduce costs of market entry for start-up and small enterprises should also receive greater support.
40. **Monitor adherence to social and environmental safeguards and progress with tenure reform.** Adoption of social and environmental safeguards and implementation of land tenure reform can be the most potent instruments for transformation in Indonesia's forest sector. Adherence to safeguards and progress with tenure reform as part of FIP interventions need to be monitored. Mechanisms and processes for their monitoring and assessment should be explicitly designed and included as component of the monitoring and evaluation system.
41. **Mainstream institutional coordination across REDD+ initiatives.** The National REDD+ Strategy envisions the creation of a REDD+ Agency reporting directly to the President to

serve as governing and coordinating body for REDD+ activities in Indonesia, including FIP projects. The pros and cons of such coordination mechanism need further consideration. To be effective, the coordinating body will have to be organically connected to the mainstream of ministries and line agencies tasked with implementing REDD+ interventions.

Responses to Peer Review Comments

Dodik Ridho Nurrochmat

Comment	FIP Team Response
<p>Recommendations</p> <p>1. REDD+ schemes shall be positioned as part of SFM. Therefore, the implementation of REDD+ has to be parallel with the three pillars of SFM, i.e. ecologically viable, socially acceptable, and economically feasible. The construction of SFM's framework for REDD+ shall be also transparent, accountable and promote the rule of law. The infrastructure framework of SFM has to assure that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of forest resources.</p>	<p>1. Agreed.</p>
<p>2. To transform (potential) economic values of forest ecological functions, schemes of green trading mechanism is needed. There are three important schemes of green trading mechanism that are Payment for Environmental Services (PES), Purchasing Development Right (PDR) and Liability Rule (LR). At operational level, those schemes could be implemented through various mechanisms, such as Clean Development Mechanism (CDM), Reducing Emission from Deforestation and Forest Degradation (REDD, included REDD+), etc. Those mechanisms, however, cannot guarantee a transaction. Transaction could be realized by a mutual agreement between respective parties or by enforcing regulations. It would be more understandable and applicable, if the basis of sound technical assessment of FIP is structured referring to the following conceptual framework (Figure 1):</p> <p>3. It is recommended to define three clusters of activities in a whole cycle of investment schemes, i.e.</p> <p>a. Payment mechanisms (PES/Payment for Environmental Services; LR/Liability Rules; and PDR/Purchasing Development Right)</p>	<p>2.-4. The FIP team considered the conceptual framework and clustering approach to REDD+ activities, and the integrated map and agrees that these are useful approaches. Based on the process described in the document, it was deemed that the Investment Plan should focus on barriers to subnational implementation of Indonesia's National REDD+ Strategy, as well as reforms in forest management and tenure. Addressing the underlying drivers of deforestation will lead to reductions in GHGs and will also support Indonesia's progress toward readiness for REDD+.</p>

<p>b. Distribution of funds (vertical distribution - central government, province, regency, and society; horizontal distribution - sectoral distribution, profit sharing among actors)</p> <p>c. Budget allocation (Fund spending/budget allocation)</p> <p>4. To attract more investments and additional funding on REDD+, all possible options of tradable services for forest carbon in Indonesia has to be transformed into integrated spatial map (Figure 2).</p>	
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Doris Capistrano

Comment	FIP Team Response
<p><i>Increase investments in community forestry, smallholder forestry and small-scale enterprises.</i> There is scope to expand opportunities to support community forestry, smallholder forestry and small-scale enterprises in each of the FIP Projects. Doing so will increase the potential for improving livelihoods, strengthening local support for project interventions and enhancing the chances of their success. Project 3, in particular, can create new investment opportunities and offer innovative modes of support for enterprises of all sizes. However, financial incentives for sustainable forest management under this Project appear to be targeted to large enterprises and market leaders and to addressing the “supply side” of finance for sustainable enterprise models. Investments to address the “demand side” of forest finance need to be increased. Higher priority should be accorded to investments to boost or create effective demand for finance from communities, smallholders and small and medium scale enterprises. This could include investments to enable small and medium sized enterprises to achieve scale and increase their market share through federations, associations and other organizational models. The development of financial instruments to insure community and smallholder forestry against risk and means to reduce costs of market entry for start-up and small enterprises should also receive greater support.</p>	<p>Agreed. Much of investment themes 1 and 2 deals with creating conditions that allow communities to participate in forest management activities, such as integration into forest management planning, outreach, capacity building, and livelihoods development. In the long run these activities should improve the ‘demand’ side for sustainable forest finance. More direct opportunities for supporting CBFM will be explored during project development.</p>
<p><i>Monitor adherence to social and environmental safeguards and progress with tenure reform.</i> Adoption of social and</p>	<p>Projects will follow the MDB safeguards, which include systems for monitoring and evaluation. The program will also support</p>

<p>environmental safeguards and implementation of land tenure reform can be the most potent instruments for transformation in Indonesia's forest sector. Adherence to safeguards and progress with tenure reform as part of FIP interventions need to be monitored. Mechanisms and processes for their monitoring and assessment should be explicitly designed and included as component of the monitoring and evaluation system.</p>	<p>the development of national safeguards, as described in section 6.7</p>
<p>Mainstream institutional coordination across REDD+ initiatives. The National REDD+ Strategy envisions the creation of a REDD+ Agency reporting directly to the President to serve as governing and coordinating body for REDD+ activities in Indonesia, including FIP projects. The pros and cons of such coordination mechanism need further consideration. To be effective, the coordinating body will have to be organically connected to the mainstream of ministries and line agencies tasked with implementing REDD+ interventions.</p>	<p>Agreed. However, this lies beyond the scope of the Plan's revised development objective.</p>

Overall Comments from Both Reviewers with Responses Provided at Sub-Committee Meeting, May 2012

Comment	FIP Team Response
<p>Need for identification of infrastructure framework of forest and tenure governance; Additional technical assessment on REDD+ design recommended</p>	<p>Further views from the reviewer have been sought, and they will be reflected in the updated plan.</p>
<p>Preparation of an annex listing the types and categories of stakeholder groups and perspectives represented was suggested.</p>	<p>Annex 2 was modified to reflect reviewer's views; More time was provided for consultations.</p>
<p>Need to strengthen links to the draft REDD+ National Strategy</p>	<p>Links to draft REDD+ Strategy were strengthened and the Investment Plan is fully aligned.</p>
<p>"Time framing" needed to guide stages of activities. Interdependency of 8 ideas and order in which each is addressed. Project descriptions could be enhanced with an indication of order and timing of initiatives related to policy priorities.</p>	<p>The issues identified will be addressed during project design reflecting local circumstances.</p>
<p>Little, if any, consideration of gender dimensions in the IP, and project concepts.</p>	<p>Some projects already consider gender dimensions, but they will be reinforced in all projects.</p>

Important to support studies, public consultation meetings as well as empowering regulations that offer space of options for various institutional models of FMUs based on the local specifics.	Stakeholder inputs on FMU initiatives in FIP will be addressed in project proposals.
The scale of investments in direct poverty reduction and livelihood promotion is relatively modest compared to the total IP budget. Useful to define more options of smallholder forest programs, additional to the current schemes.	All three components focus on community forestry, livelihood and community benefits at large.
IP does not include an explicit cost effectiveness analysis.	Precise cost benefit assessments are difficult at this stage and further analysis will be conducted during project design.
Very difficult to estimate direct GHG savings in investment plan, since there is no single approved methodology, nor approach which is applicable to all contexts.	GHG calculation approaches will be standardized amongst projects and detailed in the proposals.
FIP did not explain explicitly the "transfer of rights" used for each programs (e.g. following the concepts of PES, LR, or PDR).	Efforts will be made during project design & implementation by getting the right systems of incentive and institutional and regulatory frameworks in place.
<p>Cost-effectiveness: Realizing potential of FIP investments to scale up into self-sustaining operations without subsidies will need careful attention.</p> <p>Co-benefits: Project design should aim to minimize trade-offs, and to clarify where these exist. Further opportunities to enhance and optimize livelihood benefits should be explored.</p> <p>Implementation potential: Pay attention to substantive content, process design and mechanisms for course correction during the detailed Project Design and Implementation phases. Consider three factors: respect to the local specifics, define "the right of transfers" clearly, and make plan for all stages of investment cycle.</p>	Will be addressed during project design and implementation.
Monitor progress with tenure reform and adherence to safeguards	M&E will be key component of FIP; Progress will be reported at regular intervals

<p>Mainstream institutional coordination across REDD+ initiatives.</p>	<p>Each project will address coordination processes in the proposals, recognizing that harmonizing institutional coordination is beyond the capacity of individual projects.</p>
<p>REDD+ schemes should be positioned as part of sustainable forest management (SFM). SFM requires economic valuation of forests, trading mechanisms and transactions.</p>	<p>Suggested options will be addressed in project design but the rules of forest carbon trading are not set yet.</p>
<p>Unclear on whether and to what extent projects funded through FIP would contribute to conversion or degradation of natural forests.</p>	<p>None of the projects will include activities that will support conversion or degradation of natural forests. MDB safeguards will be detailed in proposals.</p>
<p>Higher priority should be accorded to investments to boost or create effective demand for finance from communities, smallholders and small and medium scale enterprises; Development of financial instruments to insure community and smallholder forestry against risk, and means to reduce costs of market entry for start-up and small enterprises should also receive greater support</p>	<p>All FIP projects will invest in community-based initiatives and SMEs. Suggestions will be elaborated in detailed project proposals.</p>

Annex 6: Stakeholder Comments and FIP Team Responses

Stakeholders provided numerous comments on the previous draft of the FIP Investment Plan document. These comments helped to improve the Investment Plan and also helped identify areas where further explanation was needed. The following matrix provides a list of the main comments received up to September 18th 2012 with corresponding responses from the FIP Team. Comments were aggregated across main themes. Comments received after September 18th will be included in a separate matrix.

Stakeholder Comments	FIP Team Response
1. SAFEGUARDS	
<p>The FIP should also clearly identify the mechanism to ensure the accountability of a project as well as an effective complaints mechanism that can be easily accessed by the communities living in and around forest areas.</p> <p><i>Violence.</i> The FIP does not consider as a factor or as a risk the threat of violence against citizens, and there are no efforts to prevent violence.</p> <p><i>Rights to Information Neglected.</i> The FIP proposal does not put people, either men or women, whose lives are affected by the project and who live in and around the project area, as the subjects of the project. It appears that people, both men and women, are not considered as important individuals to receive information about the proposed FIP document. Even the media that are used do not pay attention to the situation of the communities, men and women.</p>	<p>The FIP projects will apply the safeguard policies of the supporting MDBs. This will take into account the existing national safeguards and institutional arrangements which are framed under the national safeguards for REDD+.</p> <p>MDB safeguard approaches include the design of a complaints mechanism, effective consultation processes, mechanisms to identify and manage social risks including violence, and mechanisms to ensure access to information for all affected stakeholders.</p>

<p>Many mentions of FPIC in Appendix 1, paragraph 8, FPIC must be applied to all SDA licenses (see REDD+ National Strategy), does this mean consent? Whose FPIC? IFC has consent; ADB broad community support; WB consultation.</p> <p>Proposal: Strengthen the form and usage of PRISAI (Principles, Criteria and Indicators of Safeguards of REDD+ Indonesia) that uses FPIC as a national safeguard that can be used for every section in every activity.</p> <p>FIP should support the safeguards process that is happening at the national level.</p> <p>National Safeguards should be seen as a precondition to be able to run a forestry investment plan. This new investment plan can be executed after the adoption of a national system of safeguards, not walking alone or preceding the process.</p> <p>Pilot areas should already have sufficient preconditions including in governance issues and the development of mechanisms to secure the rights of indigenous and local communities (safeguards).</p>	<p>At this stage the Investment Plan activities are designed to support Indonesia in achieving REDD+ readiness, which includes the development of national safeguards.</p> <p>While the FIP projects will apply the safeguard policies of the sponsoring MDBs, it is recognized that national safeguards, including a safeguards information system, for REDD+ related activities are either already in place or are being developed as part of national REDD+ readiness efforts (e.g. PRISAI, SIS-REDD+). FIP will work closely with the relevant Government agencies, CSOs, DKN protocols, FCPF program (Strategic Environmental and Social Assessment), and other donor funded initiatives, to support any efforts that would strengthen national safeguards and practical guidelines and policies for project implementation, e.g. FPIC and consultation processes. This may include testing of safeguards approaches and instruments at the project level, as well as documenting and disseminating lessons from FIP project implementation.</p>
<p>The draft FIP Indonesia document does not demonstrate a rights-based approach for communities whose lives depend on the forests, both for men and women. There is no guarantee that the application of rights that have been ratified by the Government of Indonesia, including the ICCPR, ESC, and CEDAW.</p>	<p>The GOI's developing efforts in tenure reform are well recognized, including the recent creation of the land tenure working group, which succeeds the earlier WG on Tenure established in 2001. These efforts open the possibility for the Investment plan to incorporate a rights based approach during project design.</p>

<p>2. LOANS</p>	
<p><i>Private Sector loans from local bank, (small and medium/ CBFM like PNPM) in paragraph 47. How is this interpreted? If the enterprise fails, will the plantation be seized? Experience from the ADB TRCP (Jambi) project where the certificate is still being held by the bank. The guarantee should not be the deed to the land. Save the Simpan Pinjam Perempuan (SPP or Women's Microcredit Group under PNPM-Mandiri) which is involved with debts (East Java), and strategies to empower the poorest of the poor are not apparent.</i></p> <p>Would KPH institutions receive loans or grants?</p> <p>There should be a clear concept to explore funding that does not come from debt, by optimizing funds that already exist. There should be a clear and transparent justification to the public about the source of funds and the allocation of funding.</p> <p>The state should not be the guarantor of private loans in case of default. On the other hand, there should be assurances of protection for communities that are targeted to become recipients of loans.</p> <p>If the project fails and the farmers suffer losses, there should be a mechanism to protect farmers from indebtedness that can remove their management rights or access.</p>	<p>Concessional finance arrangements will be based on agreements between IFC and private sector entities with guidance from the Steering Committee through the Executing Agency. The Government will not be liable for repayment of loans.</p> <p>KPH institutions, as part of the government, would be supported through grant funding only.</p> <p>Through its financial infrastructure program, IFC helps increase the availability and affordability of financial services for individuals and micro, small and medium enterprises. IFC's priorities are to help local financial institutions provide broad-based financial services to individuals (such as credit, savings, payments and insurance products) and to promote growth and employment generation by supporting sustainable lending to small and medium enterprises.</p>
<p>3. PRIVATE SECTOR PARTNERSHIPS</p>	
<p>CSOs voiced concerns regarding the private sector component, as it also focuses on large scale forest operations and concessions.</p> <p>FIP should ensure criteria such as integrity and the track record of prospective licensees for ecosystem restoration.</p> <p>A scheme must be established wherein the Ecosystem Restoration Permits can ensure that they do not conflict with other authorities, especially community tenure rights.</p> <p>Full audit / public disclosure of track record of forest sector private sector partners prior to partnership decision-making;</p> <p>Avoid use of opaque financial intermediaries – disclosure/transparency/environmental/social safeguards must apply.</p> <p>These projects are packaged as intermediary bank loans and have</p>	<p>The challenges of identifying suitable private sector partners for the FIP program are recognized. This issue has been added to the risk section of the plan (Chapter 7). Besides financial, legal and credit due diligence, integrity due diligence is an essential component of IFC's overall due diligence efforts for any engagement with outside parties. The Integrity Due Diligence (IDD) Procedure is a framework for identifying and documenting the potential risks associated with unethical and illegal activities which include environmental, social, governance and financial crime issues such as child labor, corruption, fraud, and money laundering. Furthermore, FIP will not provide finance to any company involved in conversion of natural habitat, including forest. IFC guidelines also restrict investments in forestry operations to companies that have, or are in the process of attaining, forest management certification from an internationally accredited independent certification agency.</p>

<p>escaped the public's attention, despite existing safeguards.</p> <p>The FIP proposal, with its fairly uncritical plan for the support of plantations, logging concessions, Ecosystem Restoration Concessions and financial intermediaries raises multiple concerns, given the track records of all these entities.</p>	
<p>No support for physical expansion of palm oil plantations – yield increases only via management measures</p>	<p>FIP will not provide financing or other support to oil palm companies.</p>
<p>We recommend that, <i>prior to moving forward with any support for new ERCs</i>, the FIP should arrange for an independent audit of the first ERC, including a thorough independent documentation of land and forest conflicts, an analysis of the extent to which social and environmental safeguards have been implemented, and an analysis of the implementation of the terms of the ERC agreement with the Ministry of Forestry which stipulates that if in the IUPHHK ER concession, land shall be removed from the IUPHHK Ecosystem Restoration of Natural Forest [concession] work area if there are lands belonging to villages, fields, rice fields or those which have already been occupied and farmed, officially, by third parties.</p>	<p>FIP will conduct an analysis of licensing processes and social impacts for forest concession licenses, including ERCs. Recommendations from the analyses will be integrated into project implementation (section 6.7).</p>
<p>Can FIP support business plan development for NGOs?</p>	<p>FIP aims to support community participation in forest management activities. Specific opportunities and potential implementation partners will be identified during project preparation.</p>

4. GENDER ISSUES	
<p>Recognition and protection of marginalized groups, such as women, children, the elderly, and persons with disabilities need to be specifically mentioned in the FIP investment document with 'affirmative action' approaches via the identification the shape and pattern of the vulnerability of marginalized groups (gender differentiated analysis).</p> <p>Impact assessment and consultation process should be clearly mentioned and should use methods that are also sensitive to marginalized communities and women's groups.</p> <p>No specific way to promote women's involvement</p> <p>The FIP document should emphasize that there will be assessment phase for each activity component on assessment aspects like Gender, Tenure and Conflict, Social Vulnerability, Ecological Vulnerability, without compromising the function of the necessary AMDAL.</p> <p>Place women as stakeholders, especially in any decision-making processes, using an approach that is inclusive, sensitive and gender responsive.</p> <p>Format the study of the underlying causes of deforestation and forest degradation from a gendered perspective</p> <p>Fulfill the requirements of gender considerations following MDB safeguards standards</p>	<p>All activities funded through the FIP will include support for consultative processes, which will be designed to provide space for the participation of local communities, IPs, poor people, and women and other marginalized groups. Specific opportunities for targeting women may be identified during project design.</p> <p>Environmental and social impact assessments that are part of project preparation will identify gender-specific impacts and mitigation measures.</p>
<p>The MDBs have various policies and pre-conditions on gender considerations amongst their various safeguards policies and performance standards. However, the FIP Indonesia investment plan does not meet these minimum pre-conditions.</p>	<p>Gender considerations will be incorporated during the project development phase and will be an important element of social impact assessments. Lessons from FIP will be integrated into the ongoing GOI gender program.</p>
5. FIP PROCESS AND DOCUMENT	
<p>The FIP should compile a list of terms that describe the meaning or definition of the substantive terms that it uses, e.g. IFC definitions of "Small", "Medium", "Large" Enterprises; definition of degraded land.</p> <p>This includes what the IFC calls microenterprises, in addition to cooperatives instead of so-called 'small' and 'medium' enterprises with US\$ 3 million to US\$ 15 million in assets.</p>	<p>The micro, small and medium enterprise (MSME) market sector consists of a range of enterprises of various sizes, as usually defined by number of employees, working capital and annual revenue. IFC defines MSMEs as businesses with less than 300 employees, according to the following classes:</p> <p>Microenterprise (employees = up to 10; total assets = up to \$100K; total annual sales = up to \$100K)</p>

	<p>Small Enterprise (employees = between 10-50; total assets = \$100K-\$3 million; total annual sales = \$100K-\$3 million)</p> <p>Medium Enterprise (employees = 50-300; total assets = \$3-\$15 million; total annual sales = \$3-\$15 million)</p> <p>Alternative criteria for defining the sector include annual sales, assets, and size of loan or investment.</p> <p>Meanwhile the GoI definition of MSMEs only focuses on total annual sales and total assets without defining the total number of employees (source: www.smeccda.com/deputi7/file_makalah/genewa.htm). GOI classifications as follows:</p> <p>Microenterprise (total annual sales up to Rp.50 million or about \$ 5,882)</p> <p>Small Enterprise (total assets excluding land and building up to Rp. 200 million or about \$ 23,529; total annual sales between Rp.50 million and Rp. 1 billion or between \$5,882 and \$117,647)</p> <p>Medium Enterprise (Total assets between Rp.200 million-Rp.10 billion or between \$ 23,529 and \$1,176,470, sales between Rp.1 billion and Rp.50 billion or between \$117,647 and \$5,882,350)</p> <p>NOTE: 1 USD = Rp. 8,500</p>
<p>The Bahasa Indonesia in the document, including the consultation materials, is very bad. Differences between the English meaning and that in Bahasa Indonesia, for example “land tenure security” becomes “sense of ownership”.</p>	<p>The revised document is being translated very carefully. The Bahasa Indonesia and English versions will be posted simultaneously. (Nevertheless, some differences in interpretation may remain.)</p>
<p><i>Designation of pilot areas.</i> There should be an explanation for the selection of locations based on concrete analysis of emission reduction targets, recognition of community rights, and the status of the forest area.</p> <p>The basis for locations was discussed only with the Government (para 161). Please show the civil society involvement in the choice of these location</p>	<p>The final selection of target areas will be completed as part of project preparation. The section on criteria for selection of target areas was expanded (section 6.8). Consultation with local stakeholders will be an integral component of project design.</p> <p>Assessments carried out during project preparation will identify environmental and social baselines including current and potential roles of communities in forest management, the status of recognition of community rights. After baselines have been identified, project specific indicators and targets will be developed.</p>

<p>Limited public consultation time. Need to ensure full community participation.</p>	<p>Submission was postponed from April 2012 to allow more time for consultations. The National Forestry Council (DKN) agreed to steer more focused discussions and consultations and agreed with CSOs on a more adequate process to address this need. It proposed a process that was fully supported by the FIP (see details in annex 2).</p>
<p>It was stressed that there is a need for better connecting the FIP funding with the REDD+ Strategy and FREDDI, and recommended to allocate some funding to the elaboration of bankable projects to be financed by FREDDI.</p> <p>Can FIP support the creation of a KPH that is involved in community forestry that can receive funding for REDD+ and other ecosystem services?</p>	<p>The FIP Investment Plan and the National REDD+ Strategy are closely aligned. The Investment Plan will support the development of model KPHs that develop forest management plans that include bankable projects. Specific opportunities for such projects will be identified during project development. Functioning KPHs will support the implementation of national programs at the local level, including the REDD+ Strategy.</p>
<p>The Independent Reviewer commented on the lack of cost-effectiveness analysis in the IP.....we would ask that the IP sets out, either quantitatively or in a qualitative narrative form, the fit with these criteria; more detailed analysis can take place at program/project level.</p>	<p>A section on cost effectiveness was added to the IP. See section 6.8</p>
<p>Connection between the FCPF and FIP</p> <p>FCPF-FIP-Carbon Funds, turns out that their various national processes are not connected. FIP is launching before FCPF.</p> <p>Apparently at the location/site-level the same thing is happening; readiness, investment and carbon funds and the different locations are different</p>	<p>By supporting the implementation of Indonesia's National REDD+ Strategy, the Investment Plan is closely aligned with Indonesia's REDD+ Strategy and complements other donor-supported programs, including FCPF and UNREDD. Linkages and opportunities to learn from FCPF, UNREDD, and other REDD+ processes and programs will be explored during project design. Where appropriate, site selection will prioritize areas where FCPF and other donor-supported REDD+ programs can provide synergies with FIP. Options for cross-program learning and collaboration will be explored both at the project and policy level, especially in the case of the Strategic Environmental and Social Assessment (SESA)</p>

<p>The governance of the project is not illustrated. Who are the responsible parties for the project? Government (who?) and MDBs (ADB, WB, IFC) are not clear, including who is responsible for government activities, who is responsible for loan activities from the FIP, so that there are no bail outs from loans by the Government (public money).</p> <p>Many Subcommittee members raised the issue about how the three components are linked and will be coordinated.</p> <p>A number of questions were raised about the rationale for the selection of the draft subprojects and how they would trigger transformational change and what would be the most strategic use of the funds. Also, how the three components will be coordinated between each other.</p>	<p>The Investment Plan has been redesigned to provide a more cohesive approach. The three investment themes are aligned through their support for the National REDD+ Strategy. Coordination will be carried out through a national steering committee, with additional oversight and coordination by the Ministry of Forestry. A section on implementation arrangements was added (section 6.10).</p> <p>Section 6.10 also describes the flow of loan funding directly to the private sector.</p>
<p>Inputs from the public are not apparent in the FIP document</p> <p>The FIP team should make a special attachment that discusses in detail about the process; the substance of inputs; and the status of those inputs submitted by various stakeholders.</p>	<p>A matrix of public comments and how they have been incorporated into the investment plan are included as Annex 6 in the final document. Annex 2 describes the stakeholder engagement process for the design of the Investment Plan.</p>
<p>Technical Assistance (Technical Assistance / TA) from the ADB amounting to USD 225.000 for the preparation of proposal documents for the FIP Indonesia. The preparation of this document does not comply with the provisions of ADB and other MDBs in terms of safeguards, openness, information / public communication as well as gender and development, and financial intermediaries. Also does not apply the principle of 'do no harm'; doesn't even analyze the potential risks and impacts of mitigation efforts.</p>	<p>The FIP preparation grant and investment plan preparation fully complied with procedures specified by the Climate Investment Funds (CIF). Please note that the ADB Safeguard Policy Statement requirements (including meaningful consultation) apply to all ADB financed and/or ADB-administered sovereign and non-sovereign projects/programs and their components, but do not apply to TAs themselves. Nevertheless, all MDBs including ADB will follow respective safeguards policies (including meaningful consultation) during design, preparation and implementation of individual projects upon endorsement of the investment plan.</p>
<p>6. FIP STRATEGY AND SCOPE</p>	
<p>The FIP proposal is based on the National REDD + Strategy document which still has its own problems because it is not accurate enough in the adoption of the results of 7 regional public consultations. The National REDD+ Strategy document provides a situational forestry overview that is far different, and even tends to simplify the problems of deforestation and forest degradation that are actually occurring in various places throughout Indonesia.</p>	<p>The National REDD+ Strategy was developed by a task force with high level representation from Indonesia's key ministries and with inputs from multiple stakeholders. The Strategy identifies a number of key underlying drivers of deforestation and provides a useful framework for the overall FIP program. Local level drivers of deforestation will be identified during project preparation.</p>

<p>The proposed FIP provides a free passage' for the penetration of the private sector, including the major causes of deforestation and forest degradation. The FIP's choice of activities is not intended to deal with 'drivers of deforestation and forest degradation, but rather is focused on improving aspects of carbon stocks and other opportunities for the private sector to engage in carbon trading. This is despite the fact that the 'drivers' of deforestation and their potential consequences should be prioritized. The pulp and paper sector and oil palm, for example, have major impacts on the forests of Indonesia, but FIP does not demonstrate a commitment towards dealing with this problem.</p> <p>Add language to the FIP, potentially in section 2.4, such as:</p> <p>2.4 (pg. 15, English Version (EV)) "Forest Law Enforcement and Illegal Logging" should be changed to "Law Enforcement and Illegal Logging" to reflect the fact that in addition to Forest Law, other laws, including laws, including Anti-Money Laundering and tax statutes, will play an important role in the fight against illegal logging.</p> <p>In addition, this entire section should be enriched with a description of a "follow the money" approach to illegal logging, including reference to UU 8, 2010 on Anti-Money Laundering, as well as tax law.</p> <p>Language should be added to "monitor the financial aspects of timber harvesting as well as tracking financial flows in the forest sector, including through the use of anti-money laundering measures and examination of tax revenues."</p> <p><i>Corruption.</i> The proposed FIP acknowledges corruption as a risk, but does not develop efforts to prevent corruption in its implementation. This is especially in the structuring of the licensing system and forestry institutions that open opportunities for corruption, tax manipulation and money laundering.</p>	<p>Illegal logging is recognized as an important direct driver of deforestation and degradation. Underlying this driver, are a number of governance issues, many of which FIP aims to address. The approach of the Investment Plan is to improve local level forest governance. This can reduce pressure on forests from a number of threats, including illegal logging and conversion to oil palm plantations.</p> <p>While the usefulness of a 'follow the money' approach is recognized, (relevant text was added to the end of section 2.2.3) this Investment Plan approach focuses on addressing subnational barriers to the implementation of Indonesia's REDD+ policies.</p>
<p>The 'drivers of deforestation' (Chapter 1) of the FIP document does not accurately address SVLK standards are weak and tend to 'greenwash' the legality of the projects, is coupled with concerns of the SVLK process in dealing with large-scale enterprises which is rated poorly, or affiliated with illegal business practices that are currently running.</p>	<p>The SVLK has been developed over many years with substantial technical and governance inputs through multi-stakeholder process. Literature review indicates that many recognize that the SVLK process has contributed substantially to a more transparent forest management system. Substantial technical and financial inputs continue to improve implementation of the program. The FIP document provides some background and context, but not a deep analysis of each forest program in Indonesia.</p>

<p>The 'drivers of deforestation' (Chapter 1) of the FIP document does not accurately address the fact that human rights violations, corrupt practices, including money laundering, tax evasion, and timber trafficking by the business world are made possible by policies and forest governance that are not transparent and accountable.</p>	<p>The document addresses how important good governance is for good forest management. The KPH should be addressing many of the well known shortcomings at the local level.</p>
<p>Given the significant impact of the paper and pulp and palm oil sectors on Indonesia's forests, the FIP should include a detailed analysis of current plans to expand paper and pulp production (including in South Sumatra) and palm oil production, including the number of additional hectares planned to be utilized given current growth rates and production practices.</p>	<p>The National REDD+ Strategy recognizes these drivers of deforestation (based on prior assessments, literature review, consultations and expert views) and the FIP document is aligned. Specific environmental and social threats in target areas will be identified as part of project preparation.</p>
<p>The definition of 'degraded land' must be clearly stated and must ensure that any 'degraded' lands are truly 'bare' scrub-lands, not lands with forest cover. In addition, there must be a social impact assessment to ensure that these lands are not currently occupied, managed or used by local communities.</p>	<p>Safeguards policies will be triggered during the screening process of specific projects. Social and environmental impacts are essential parts of the standard process during project preparation and will guide the safeguard instruments to be applied.</p> <p>Consensus has yet to be reached on a scientifically and universally accepted definition of degraded land and forest. IFC uses a habitat approach in its Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources, and the related Guidance Note 6. (http://www1.ifc.org/wps/wcm/connect/bff0a2804_9a790d6b8_35faa8c6a8312a/PS6_English_2012.pdf?MOD=AJPERES). Habitat is defined as a terrestrial, freshwater, or marine geographical unit or airway that supports assemblages of living organisms and their interactions with the non-living environment. For the purposes of the Performance Standard, habitats are divided into modified, natural, and critical. Modified and degraded habitats can be viewed similarly. Modified habitats are areas that may contain a large proportion of plant and/or animal species of non-native origin, and/or where human activity has substantially modified an area's primary ecological functions and species composition.</p>
<p>International Financial Institutions (like the World Bank, ADB and IFC) involved in lending projects as well as endorsing policies that encourage deforestation should be identified and recognized as one of the drivers of deforestation.</p> <p>Other sectors that are clearly linked and encourage deforestation (oil and mining) should also be recognized as drivers of deforestation.</p>	<p>The document mainly describes underlying drivers of deforestation; however, given the importance of palm oil expansion and mining as proximate drivers, appropriate text has been added at the end of section 1.4.</p> <p>The FIP has been designed with inputs and governance from both donor and recipient nations to be implemented through MDBs as partner agencies. It is the objective of the MDBs' safeguard system that</p>

	<p>operations do not cause adverse and negative impacts. All operations are screened against social and environmental criteria to be able to identify safeguards risks and design appropriate mitigation measures and strategies.</p>
<p>Licensing Regime in Decentralization is becoming a very important issue that should be discussed</p>	<p>Analytical work relating to these issues will be supported (section 6.7). By supporting the KPH system, the FIP will contribute to the decentralization of forest management.</p>
<p>FIP should encourage changes in forest policy, including openly encouraging changes to the Forestry Law in order to fully recognize indigenous and local community rights and revise the nature of criminalization inherent within it. This document should substantively refer to TAP IX/MPR/2001 in encouraging a review of various natural resource policies, including the Forestry Law.</p> <p><i>Legal Basis.</i> The FIP should explicitly encourage changes in forest policy: the recognition of rights and revisions to criminalization elements. The FIP should refer to TAP IX/MPR/2001 in order to encourage a review of the various natural resource policies, including the Forestry Law.</p> <p>Court Decision 45/PUU-IX/2011 should be made a legal reference to resolve the ambiguity problem of forest boundaries.</p> <p>Make the FIP program at the site-level in order to resolve forest tenure and support certainty for communities.</p> <p>The FIP should encourage changes in tenure dispute settlement schemes that are currently hampered by procedural complexity.</p> <p>FIP should be a project that encourages the clarification of procedures for the recognition of community rights, especially those who are marginalized.</p> <p>FIP should encourage and provide incentives for governance reforms at the local level, including by providing clarity regarding the licensing process and prerequisites for ensuring the protection of (potential) victims of the mismanagement of licensing.</p> <p><i>Legal Basis Based on Community Rights and Participation.</i> MPR Decree (para 89) should be considered as an enabling policy, not referring to it as a contradiction of laws, but a contradiction between law and policy.</p>	<p>Analysis covering the legal basis of community rights and participation will be conducted (section 6.7).</p> <p>The IP framework was revised specifically to include support for ongoing tenure reforms, including those initiated by the Ministry of Forestry Working Group for the Preparation of a Macro Forestry Tenure Plan (SK. 199/Menhut-II/2012 of May 2012). The investment plan focuses on improving access to forest areas for local communities through integration into forestry planning, capacity building, and support for CBFM. Support to KPHs is aimed at strengthening local forest management capacity, including integration of local communities and responding to tenure reforms.</p> <p>The revised development objective of the Investment Plan is to reduce barriers to subnational REDD+ implementation and to increase local capacity for REDD+ and SFM. The planned investments aim to improve overall governance of the forestry sector, which has multiple benefits beyond promoting REDD+ readiness. For example, much of investment themes 1 and 2 deals with creating conditions that allow communities to participate in forest management activities, such as integration into forest management planning, outreach, capacity building, and livelihoods development. In the long run these activities should improve the ‘demand’ side for sustainable forest finance. More direct opportunities for supporting CBFM will be explored during project development.</p>

<p>Comprehension of Tenure issues following Law 41/1999, disregarding the traditional authority that has not been recognized by the State, with the technical term of <i>recognition legitimate rights to land</i> (para 107 etc.). <i>Valid claims of IP and local communities</i> (para 96 etc.). Needs to accommodate other models and valid claims beyond the Law 41/1999</p> <p><i>Sufficient Space for Communities' (local and IPs) participation</i> via rights/permits in the current law are insufficient</p> <p>How can the FIP accommodate the legal reform processes that are currently and will continue to be an issue (JR 45/2011, JR 34/2012, JR 35/2012)?</p> <p>FIP needs to recognize sub-national political and economic dynamics that drive deforestation and try to answer them systematically through efforts to encourage and provide incentives for governance reforms at the local level, including providing clarity regarding the licensing process as well as ensuring the protection of (potential) victims of mishandled licensing.</p> <p>The FIP should encourage the creation of national agreements related to the concept of "Investments in the Forestry Sector" which thoroughly protect the rights of communities living in and around forests, especially related to the possible creation of a new kind of market that involves communities.</p> <p>The FIP must recognize and even adopt forest management practices that exist in the community, without rashly introducing a completely new forest management, which could potentially marginalize them from important assets in their lives.</p> <p>The FIP should be targeted towards the basic issue of CBFM, the complexity of licensing, lack of capacity, lack of government targets and initiatives, and outreach that does not cover those communities living in conservation areas. FIP financial support for CBFM should only be granted if the above fundamental problems are solved or at least run parallel with the financing support.</p>	
<p>FIP should have a clear target on how many communities will be recognized by state law under the FIP program.</p>	<p>An appropriate indicator has been included as part of the Results Framework in Chapter 9. A baseline and target for this indicator will be developed as part of project development.</p>

<p>The FIP should be promoting a more comprehensive KPH design, considering amongst other issues the control of licensing and recommending immediate actions to address overlapping licenses at the site-level. The FIP should promote the KPH as a forestry management unit and replace the existing licensing moment.</p>	<p>FIP support to KPHs includes support for forest management planning, mapping and community outreach and development. Increased local capacity in these areas is important for addressing issues of overlapping land claims. Increasing the capacity of KPHs in these areas also improves their capacity to play a greater role in the licensing process. FIP will also carry out analytical work on licensing (section 6.7).</p>
<p>FIP should be more focused on other types of schemes that do not refer to Law No. 41, such as Village Forests, Social Forests and Traditional Forests because these schemes come closer to accommodating peoples' rights and to supporting sustainable forest management.</p>	<p>Potential approaches for improving forest access to local communities will be identified during project design. Analytical work has been added to the program (section 6.7) that will cover the potential of existing schemes to contribute to better access and that analyses the legal framework for community participation.</p>