

AIDE MEMOIRE
First Joint Mission, 13 – 22 July 2011

Indonesia: Forest Investment Program (FIP)

I. INTRODUCTION

1. The Forest Investment Program (FIP) is one of the three targeted programs of the Strategic Climate Fund set up under the Climate Investment Funds. The main purpose of the FIP is to support developing countries REDD-efforts, providing up-front bridge financing for readiness reforms and public and private investments identified through national REDD readiness strategy building efforts, while taking into account opportunities to help them adapt to the impact of climate change on forests and to contribute to multiple benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, poverty reduction and rural livelihoods enhancement.

2. Indonesia is one of the eight pilot countries selected worldwide for participation in FIP. The Ministry of Finance (MOF), as the overall focal point for the Climate Investment Funds in Indonesia, designated the Ministry of Forestry (MOFr) as the FIP focal agency. The notional funding resource envelope for FIP in Indonesia is up to \$70 million, including up to \$37.5 million as grants and up to \$32.5 million as concessional loan. An additional grant pool of about \$6.5 million is likely to be available to Indonesia through the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities. The FIP in Indonesia is to be jointly supported by three multilateral development banks (MDBs) – the Asian Development Bank (ADB), the International Finance Corporation (IFC) and the World Bank – with participation and possible co-financing from other development partners.

3. On 11 June 2010, the Government of Indonesia (GOI) requested for a preparatory grant assistance to develop the forest investment plan. A scoping mission was carried out by GOI and MDBs in August 2010. A Preparation Grant for \$225,000 to be administered by ADB was approved in January 2011 to assist the GOI in preparing for joint missions and in contributing to the development of investment plan.

4. Based on the findings of the Scoping Mission in August 2010 and an inception workshop in April 2011 under the preparation grant, FIP preparation is planned to be carried out through two joint missions of the GOI and MDBs. Accordingly, the first Joint Mission¹ led by the Ministries of Finance (MOF) and Forestry (MoFr) with support from the ADB, IFC and the World Bank, was fielded from 13 to 22 July 2011. The First Joint Mission had five primary objectives:

- a. Review the work carried out by consultants contracted through the preparation grant as well as MDB country programming and their counterpart teams, especially on

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- issues such as drivers of deforestation and forest degradation, institutional arrangements, ongoing REDD+ initiatives and lessons learned, and approaches for engagement of stakeholders including women and other vulnerable forest communities;
- b. Undertake field visits to selected provinces (Jambi, Central Java and Yogyakarta, and West Kalimantan) to discuss perspectives of local stakeholders on key drivers for deforestation and forest degradation, and opportunities relevant to climate change mitigation and adaptation;
 - c. Discuss with a wide range of stakeholders including line ministries and agencies of the government, civil society, private sector and development partners;
 - d. Assess the status of REDD+ preparedness and examine potential options and priorities for investment for support to the national REDD+ strategy through a FIP investment plan; and
 - e. Identify next steps for ensuring wider consultation with key stakeholders and for formulating an investment plan for submission to the FIP/SC.
5. The mission appreciates the leadership provided by various GOI institutions, and thanks all other stakeholders (national and provincial institutions, and representatives of civil society, private sector, and the development partners) for their support and cooperation. The mission wishes to specifically thank the staff of Ministry of Forestry, and Resident Missions of ADB, IFC and the World Bank in Jakarta for their assistance and facilitation provided during the mission.

II. CURRENT UNDERSTANDING OF KEY ISSUES

A. Drivers of Deforestation and Forest Degradation

6. FAO (2010)² estimated that Indonesia lost some 24.1 million hectares of forest cover between 1990 and 2010 (from 118.5 million ha in 1990 to 94.4 million ha in 2010), an extent second only to Brazil. Forest degradation caused by logging activities alone was estimated at 626,000 ha per year³. In addition, periodic serious fires have affected large areas of forest, especially in Kalimantan and parts of Sumatra, partly influenced by the El Niño/ Southern Oscillation phenomenon in 1997 and aggravated by land clearance for estate crops and mining, disputes over land tenure, and the presence of burning coal seams in the sub-surface strata. The draft national REDD+ Strategy⁴ noted that average annual deforestation rate was 1.87 million hectares during 1990 to 1996. It continued to increase during 1997-2000 (3.51 million hectares per annum) and then declined during the periods 2001-2003 (1.08 million hectares per annum) and 2004-06 to 1.17 million hectares per annum^{5, 6}, and further down to 0.8 million hectares per annum during 2007-2009. It should be noted that forest and land fire rate is low

² FAO (2010a). Global forest resources assessment 2010 country report: Indonesia - Page 10 (available at <http://www.fao.org/forestry/fra/67090/en/>).

³ Scheyvens and Setyarso, A. 2009. Development of national REDD+ system in Indonesia. Available online at <http://redd-database.iges.or.jp/redd/download/link?id=2>

⁴ REDD+ Strategi Nasional REDD+ Final draft for online Public Disclosure – Page 16; Available online at http://ukp.go.id/informasi-publik/doc_download/12-draft-final-strategi-nasional-redd;

⁵ Ministry of Forestry 2010 Strategi Nasional REDD+ Versi 4 November 2010 Jakarta

⁶ Ministry of Forestry 2009. Forestry Statistics of Indonesia. Department of Forestry, Ministry of Forestry, Jakarta.; Verchot, L.V., Petkova, E., Obidzinski, K., Atmaja, S., Yuliana, E.L., Dermawan, A., Murdiyarso, D., and Amira, S. 2010. Reducing forestry emissions in Indonesia. CIFOR, Bogor, Indonesia.

during the La Nina phenomenon in the last three years, which also corresponds to the decline in deforestation rate.

7. Deforestation and degradation of peat lands constitute Indonesia's largest sources of greenhouse gas (GHG) emissions. They also represent the largest opportunities to abate emissions. Under the business as usual scenario, GHG emissions are projected to increase from 1.76 gigatons carbon dioxide equivalent (GtCO₂e) in 2005 to 2.95 GtCO₂e in 2020.⁷ Recent analytical work indicates that it is technically feasible to mitigate most of these emissions, i.e., about 1.8 GtCO₂e per year, out of which about 1.1 GtCO₂e per year would be from forests and 0.68 GtCO₂e per year from peat⁸. These works, among others, provide a strong knowledge base to establish priorities for GHG mitigation through emission reduction and carbon sequestration opportunities across key sectors, without compromising economic development or conservation values.

8. The draft National REDD+ Strategy recognizes ineffective land use planning, tenure issues, unsustainable forest management, and weak governance and law enforcement as key drivers of deforestation and forest degradation. According to the draft REDD+ Strategy, deforestation and land degradation within the forestry sector is triggered by (i) illegal logging or unsustainable forest management; (ii) forest fires; (iii) conversion of high quality natural forest into industrial plantations via illegal conversions; and (iv) weak enforcement of regulations in forest management. Further causes of deforestation and forest degradation are (but are not limited to) (i) the expansion of large scale estate crops⁹ (oil palm¹⁰, rubber, cacao, coffee); (ii) aquaculture, especially shrimp culture, in mangrove forests; (iii) expansion of areas under pastures and farms; (iv) mining concessions; (v) unsustainable shifting cultivation; (vi) expansion of settlements, both legal and illegal; and (vii) administrative area splits, which results in clearing of large tracts of forests for development of social infrastructure.

B. Institutional arrangements

9. Design of the Forest Investment Plan in Indonesia is conducted in the context of a rapid evolution of Indonesia's REDD+ policies and institutions. Moreover, REDD+ is now perceived as an approach to generating new financing for forest conservation and sustainable rural development. The Forestry Research and Development Agency (FORDA) took the lead by forming in 2007 the Indonesia Forest Climate Alliance (IFCA), which was meant to articulate a national approach in response to shifting opportunities emerging from international negotiations on climate action and financing.

⁷ National Council for Climate Change (Dewan Nasional Perubahan Iklim - DNPI) and UNFCCC. 2009. *National Economic, Environment and Development Study (NEEDS) for Climate Change. Indonesia Country Study*. Final Report, Jakarta. Available online at: http://unfccc.int/files/adaptation/application/pdf/indonesianeeds.pdf?bcsi_scan_97E98328E2B67804=0&bcsi_scan_filename=indonesianeeds.pdf; Hansen, M.C., Stehman, S.V., Potapov, P.V., Arunarwati, B., Stolle, F., and Pittman, K., 2009, Quantifying changes in the rates of forest clearing in Indonesia from 1990 to 2005 using remotely sensed data sets, *Environmental Research Letters*, 4(3) doi: 10.1088/1748-9326/4/3/034001.

⁸ DNPI 2010. Indonesia's greenhouse gas abatement cost curve. Dewan Nasional Perubahan Iklim, Indonesia.

⁹ Verchot, L.V., Petkova, E., Obidzinski, K., Atmaja, S., Yuliana, E.L., Dermawan, A., Murdiyarso, D., and Amira, S. 2010. Reducing forestry emissions in Indonesia. CIFOR, Bogor, Indonesia.

¹⁰ Kementerian Lingkungan Hidup 2009 Delegasi RI: menuju industry kelapa sawit yang berkelanjutan. Siaran Pers. 16 December 2009; Sheil, D., Casson, A., Meijaard, F., van Noordwijk, M., Gaskell, J., Sunderland-Groves, J., Wertz-Kanounnikoff, S. and Kanninen, M. 2009. The Impacts and opportunities of oil palm in Southeast Asia: What do we know and what do we need to know? Occasional Paper 51, CIFOR, Bogor, Indonesia.

10. A number of policy decisions regarding development and management of REDD+ in Indonesia followed, including (i) Ministry of Forestry regulations governing REDD+ demonstration activities, (ii) Presidential Decision establishing a National REDD+ Task Force (in place until December 2012) under the leadership of the Presidential Delivery Unit for Monitoring and Implementation of Development (UKP4) and the membership of representatives from the Ministry of Forestry, BAPPENAS, Ministry of Environment, State Secretariat, Land Administration Agency, National Commission on Climate Change and Ministry of Finance, (iii) publication of *Reducing Emissions from Deforestation and Forest Degradation in Indonesia: Readiness Strategy, 2009-2012* (REDDI), (iv) establishment of the Ministry of Forestry's Working Group on Climate Change, and (v) Presidential Instruction Number 10/2011, on Postponement of the Issuance of New Permits and Perfecting the Governance of Primary Natural Forest and Peat Land. REDD+ policy and institutional reforms are also important elements of the *Climate Change Program Loan* agreement, through which the Government receives budgetary support from ADB, AFD, Japan and the World Bank.

11. A principal task and output of the National REDD+ Task Force was preparation the *National REDD+ Strategy*, which is now in the process of requesting approval from the President. The draft National REDD+ Strategy has been prepared and posted on web site for feedback from the public. The Strategy, presented to the Joint Mission by BAPPENAS, provides the guiding direction for the design of the FIP Investment Plan. The Task Force will continue to oversee implementation of Presidential Instruction 10/2011, develop plans for establishment of a National REDD+ Agency, and establish a national entity to lead the measurement, reporting and verification of REDD+ activities and results. Indonesia's REDD+ readiness activities will continue to receive support from the Forest Carbon Partnership Facility and the UN-REDD Programme, and several other important REDD+ initiatives in the country are also receiving international support, including those supported by the Governments of Australia, Germany, Japan, Norway, South Korea, UK and USA, as part of their "fast-start" REDD+ funding commitments. It is vital that the FIP design coordinate closely with these initiatives.

C. REDD+ activities and processes

12. At least 44 REDD+ readiness activities have been initiated across Indonesia¹¹. Of these, eight are considered pilot projects or demonstration activities by the GOI, as they were supported primarily by bilateral donors and UN-REDD. The remaining 36 initiatives are voluntary. Of these, three have been proposed by private companies, and three from international investment banks, and the remaining 30 from international and local NGOs.

13. There have been some successes with the above initiatives including development of avoided deforestation methodology for peat lands; district level REDD+ approaches; and development and field testing of a national forest carbon accounting system. However, voluntary initiatives face several barriers including (i) inadequate reporting mechanisms especially to the national forestry agencies, (ii) uncertainties regarding future benefits, (iii) gaps in communication among stakeholders, (iv) unclear tenure arrangements, and (v) little knowledge on REDD+ processes and procedures. Demonstration projects also face problems with communication and

¹¹ For details, refer to Annex 3.

technical challenges, including monitoring, reporting and verification (MRV)¹². FIP design and implementation should address such barriers, and advance REDD+ readiness but should also provide investments leading towards forest carbon and performance-based payments in the future.

D. Stakeholder engagement process

14. Strategic engagement of key stakeholders to address complexity and interrelated causal problems related to REDD+ is important to provide the room to develop, maintain and synergize their role in 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 process involves representativeness, dialogue, sensitivity to different points of view, and mutual understanding. A series of stakeholder consultations are required to understand national and local perspectives as well as sector-specific concerns and priorities. These consultations help identify drivers of deforestation and forest degradation, measures taken by each stakeholder group including women, problems faced and their expectations. The process also requires stakeholder engagement in the early stages of Investment Plan preparation for it to be bottom up and inclusive.

III. JOINT MISSION ACTIVITIES AND KEY FINDINGS

E. Consultation Process

15. Several preliminary stakeholder consultations and information sharing meetings were held both prior to and during the first Joint Mission. Stakeholder perspectives on how best the FIP design can address drivers of deforestation and forest degradation were obtained through individual and group meetings and stakeholders were informed about the objectives and processes of the FIP. The discussions involved a variety of stakeholders – government, civil society, private sector and development partners – as described below. Prior to the mission, information on the Joint Mission dates were disseminated through both the CIF and DKN (Indonesian Forestry Council) web sites. Field visits to selected provinces (Central Java and Yogyakarta, Jambi, and West Kalimantan) took place and several meetings were organized at the national level in Jakarta. The objective of the field visits was to gather information on various drivers of deforestation and other concerns and ideas relevant to future REDD+ and FIP design options. Visits to these particular provinces does not necessarily mean that FIP investments will be directed to these provinces.

F. Key Findings from Provincial Visits

16. **Central Java and Yogyakarta:** Forest degradation was a serious problem in Java, with poverty being the major driver. Afforestation and reforestation campaign since early 1980's has been successful to address some of the key drivers. Three locations were visited representing different land and forest management initiatives. These are (i) an expanding community teak

¹² For example, a range of international voluntary standards offer guidance on monitoring, measurement and reporting. Final or official standards for REDD+ in Indonesia may require REDD+ proponents at field level to make some adjustment in procedures, baselines, reporting, etc.

plantation in Gunung Kidul which is among the first to have community forests and village forests (HKM/HD); (ii) a forest plantation cooperative also at Gunung Kidul, which is using the Indonesian Eco-labelling Institute (LEI) forest certification; and (iii) a forest cooperative at Wonogiri, currently in the process of marketing wood supplies with local processing industries. At all three locations, increase in timber prices in response to growing demand has encouraged communities to plant trees on their land. Consequently, the contribution of timber to basic needs has reached 60% in the area. Moreover, there are opportunities to expand plantations on degraded land for up-scaling development of community based forests in Java and Yogyakarta.

17. Discussions with stakeholders focused on (i) the assessment of the governmental ownership for potential FIP investments; (ii) major components potentially proposed for FIP support; (iii) financial mechanism options, and (iv) potential implementation options for programs in Central Java and Yogyakarta. The Joint Mission found that there is potential for (i) interventions to strengthen community-based forestry enterprises; (ii) development of information and management systems; and (iii) associated capacity building, including assistance to local banks to evaluate community based forest enterprise business plans as well as to monitor performance and disseminate lessons in other places.

18. The Joint Mission, in discussions with the stakeholders on improved financial mechanisms for community plantations, explored the possibility of using FIP funds as a catalyst to transform the existing community forest based management and business practices into more profitable and *'bankable'* interventions, not only limited to plantations but also the associated industries. Technical assistance through FIP grant resources may help accelerate the process of business transformation. Addressing the financing challenges faced by most small scale forestry enterprises at this location would have relevance throughout the country.

19. **Jambi:** Deforestation and forest degradation are serious challenges in Jambi. The Joint Mission visited Jambi city (hosted by KKI Warsi) and Guguk village in Merangin district to discuss with an *adat*-forest group (Kelompok Hutan Adat). Stakeholders identified the following main drivers of deforestation and forest degradation: expansion of oil palm plantations, weak forest governance, unclear tenure, mining in forested areas, conversion of natural forests to industrial plantations (HTI) as allowed by licenses issued in the past, conflict between communities and HTI concessions, unclear forest boundaries, inadequate enforcement of spatial plans and encroachment by migrants. Jambi has a number of ongoing REDD projects, including a project supported by AusAID, and a project supported by the Zoological Society of London. Jambi is also the site of one of Indonesia's first Ecosystem Restoration Concessions.

20. In discussions with the Joint Mission, stakeholders expressed interest in FIP's potential to support improvements in forest management and governance. Support and further development of Forest Management Units (*Kesatuan Pengelolaan Hutan*, or KPH) is seen as a way to improve forest governance to promote Sustainable Management of Forest (SMF) at the site level with FIP support. The Joint Mission recognized that there is a further need for improved spatial planning and strong law enforcement. In addition, local governance needs to be improved through more transparent and participatory decision making processes. Several innovative community forestry models (*Hutan Desa*, *Hutan Kemasyarakatan*, *Hutan Adat*, and *Hutan Tanaman Rakyat*) have been, or are being, launched in Jambi, including Indonesia's first *Hutan Adat* which is supported by village level regulations and a local Government decree. The Joint Mission found that these community models represent good examples for collaborative management of forests by local communities which could be a potential opportunity for FIP support.

21. **West Kalimantan:** In West Kalimantan, nearly nine out of 14 million hectares are state-owned forests comprising production forests, conservation forests, protected forests, and conversion forests. Within and adjacent to forest areas, however, there are 513 villages (Desa) where people are mostly dependent on forests for their livelihood. The Mission was informed that key causes of deforestation and forest degradation included expansion of palm oil and rubber plantations, mining, other land based economic activities, and over-exploitation by forest concessionaires. In production forest areas, until 2006 more than 100 companies (HPHs and HTI and IPKs) operated at one time to extract round wood but now only very few companies exist. Illegal logging accelerated in 1998 consequent to economic and political crises in the country, which was followed by decentralization of public services including forestry. However, such illegal activities have significantly decreased in part due to the establishment of GOI team for combating illegal logging...

22. The Joint Mission learned about an innovative intervention in Kapuas Hulu District, which developed a conservation-focused spatial plan for economic development with support from central and provincial governments. The district's 20-year economic development plan is based on ecotourism, forestry, agriculture and fisheries, rather than mining. The Joint Mission learned about efforts by various stakeholders to reduce deforestation and forest degradation and in supporting the private sector to implement best practices by both palm oil companies and forest concession companies. Recently one forest company (HPH) has been certified by FSC and several palm oil companies received RSPO certification. Village forests (Hutan Desa) in Kapuas Hulu and Pulau Maya provide another success story demonstrated by the work of local community and NGOs in West Kalimantan. It is also noted that market extension for local handicraft has been facilitated by NGOs to improve local livelihood through development of market access for local NTFP products (handicraft, honey, etc). Local livelihood improvement through development of revolving fund mechanisms are also a success story within the region. Overall, these efforts have resulted in recognition of Kapuas Hulu as a conservation district. However, the local government and other analysts have noted that Indonesia's inter-governmental fiscal transfer system for natural resource revenue sharing does not appropriately reward conservation and stewardship activities by local governments, such as Kapuas Hulu. The Joint Mission recognized the need for a comprehensive information management and communication strategy on conservation-based economic development, and determining the replicability of such models in other districts which may be supported through FIP.

G. Meeting with Government Ministries and Agencies

23. Several representatives asked for clarification on types, amount, composition and terms of FIP financing. The GOI signaled acceptance of soft loan portion in the total financing to be directed to the private sector for some transformational business investment. MOFr, Bappenas, MOF and UKP4 all called for assurance of coherence with existing government policies with respect to forest and climate change issues. Special reference was given to (1) RAN-GRK; (2) REDD+ National Strategy; (3) Presidential instruction no.10/2011 on the Postponement of New Forest Land Use Licensing; and (4) Minister of Forestry Regulation no 49/2011 on the Longterm National Forestry Plan (RKTN). UKP4 called for FIP formulation process to go through a multistakeholders joint planning session, and use of an accountable entity/mechanism to ensure acceptance by stakeholders and support from government and FIP donors.

24. The Joint Mission clarified FIP financing terms and noted that FIP activities would follow existing laws and regulations, while also supporting efforts toward (i) consolidation and reform of upstream policies especially those pertaining to spatial planning, forest land use, forest land demarcation and gazettement, forest revenue management and fiscal transfers, and land tenure system; and (ii) building on existing momentum and regulations to harmonize maps, taking advantage of Moratorium Decree (Inpres 10/2011), forest mapping and carbon accounting exercises through INCAS project, and the RKTN processes (MOFr Decree no 49/2011). The Joint Mission supported the idea for having a practical multistakeholder joint planning session to formulate the Forest Investment Plan for Indonesia.

H. Meeting with Civil Society

25. At the meeting held on 19 July, civil society representatives sought several clarifications on FIP consultations, including the definition of “consultation process” being used by FIP. Participants inquired (i) if the consultation will involve civil society throughout the development process of the Forest Investment Plan; (ii) that complete information materials for consultation be made available up front; (iii) about expectations as to “consent to the Forest Investment Plan” versus “investments” that will involve civil society; (iv) whether reforms under the Forest Investment Plan will only address national level issues or will also include on field/local level investments, and (v) if FIP will address support for policy reform or will implement new projects related to REDD+ . They also inquired if consultation will involve “vulnerable groups,” including women and local communities, or just NGOs. Since loans will be used in FIP, civil society representatives indicated their desire to see these be used for the private sector rather than public sector projects, though the terms of these concessionary resources should not provide undue subsidy to the private sector. Since interested stakeholders among civil society currently have only limited information on FIP processes and plans, an informal representative of several organizations (ICEL, TNC, WWF, FFI, Kehati, CIFOR and others) indicated that detailed feedback will be provided in writing at a later date.

26. The Joint Mission responded to the questions and concerns as follows:

- a. The main objective of this stage in the information and consultation process is to solicit inputs and viewpoints. It is a process for the benefit of all stakeholders. After these consultations, there will be proposals for use of FIP resources which will be discussed again with stakeholders prior to and during the next joint mission. While recognizing that further materials and notice could have been provided, it was noted that general FIP materials were posted on the Dewan Kehutanan Nasional (DKN) website one month before the consultations, and the Joint Mission Terms of Reference was posted three weeks before the consultations. The FIP Mission agreed that the consultation principles and procedures in the FIP design document will guide all future consultations, including prior notice and posting of documents, as well as systematic use of the existing DKN consultation mechanisms.
- b. The FIP Investment Plan will reflect a national level programmatic approach that will include actions at both the national and sub-national levels, with all projects to be implemented in an integrated manner under the Plan.
- c. FIP will give due attention to involvement of customary law communities in a participatory manner at both the sub-national and national levels. Activities to be supported under the FIP Dedicated Grant Mechanism should be integrated within

- the Investment Plan, though this integration may take place later than would have been ideal given that the Mechanism will not be operational for some time.
- d. The joint mission is considering all feedback provided by civil society representatives during the consultations associated with the First Joint Mission, with further consultations to be held to solicit feedback before the Plan is finalized and endorsed by the Government.

I. Meeting with the Private Sector

27. During the discussion, several key issues related to the investment climate and doing business in the forest sector were raised. In response to several questions regarding the FIP concessional financing scheme, the Joint Mission clarified the nature and terms as detailed in the FIP document on Investment Criteria and Financing Modalities. The principle of minimum concessionality was explained and emphasized. Clarification was sought by participants on how the private sector could apply and be eligible for the financing, and the role of GOI. The Joint Mission learned from the MOF that the Government would not likely take on any of the concessional financing for public sector projects, and would prefer it to be administered through the private sector arms of the MDBs. This will reduce GOI's burden and risk on disbursement of FIP funds for loans. Some participants commented that the amount of concessional financing (tentatively limited to \$32.5 million) is small relative to the needs of the sector with respect to the transition to considering forest carbon as a valuable asset. The Joint Mission explained that the funds are intended to be a catalyst and vehicle to leverage other sources of financing for such a transition in the forest sector – including private investments. The opportunities are there to combine FIP resources with other and larger sources of funding, including performance-based REDD+ payments by donor countries and the forest carbon credit market (currently only a voluntary mechanism), as the market is slowly growing to accommodate REDD+ project activities. It was noted that establishing a domestic forest carbon price in Indonesia, which is currently under consideration, could also provide important support for engagement of the private sector in FIP and other REDD+ support efforts.

28. Several private sector participants asked about the criteria to be used to select partner enterprises for financial support. The Joint Mission explained that – within the context of investment contributing to the overall FIP Investment Plan objectives – each MDB, and IFC in particular, has its own performance standards and safeguards in place, and that these will be used to evaluate potential participation, in consultation with the Government. Several attendees proposed that priority for FIP financing be directed to small and medium sized enterprises that present good examples of sustainable forest-related business that can be scaled up. Other financing needs include support for the transfer of technology to the forest sector, with examples including cleaner technology in the area of biofuels and methods for preparing degraded lands as alternatives to the use of fire. The Joint Mission clarified the scope and type of FIP investments and suggested that some of these proposals would be more appropriate for other funding sources. Regarding questions of private sector access to FIP grant funds, the Joint Mission commented that FIP projects in the Investment Plan will address financing on a case-by-case basis, and that providing grant funds for certain types of activities might be possible. Such funds would not likely flow directly to private enterprises but rather through a public sector project, or an intermediary financial institution. In this manner, grants possibly could be used to engage the private sector alongside the GOI, communities, technical experts and CSOs to address problems related to: land tenure and the resolution of conflicting claims with local communities, and to expand and scale-up forest and plantation development on degraded

lands, as well as preparation of the area for ecosystem restoration. Several participants commented that business certainty in the forest and plantations sectors could be improved if: (i) support could be provided by the government (central and local) to support forestry business expansion, and (ii) laws and business regulations are enforced in the forest sector and other sectors where there are overlapping activities, such as agriculture and mining.

J. Meeting with Development Partners

29. Various development partners including representatives of the governments of Australia, Finland, France, Japan, Norway and the USA, including the US Millennium Challenge Corporation (MCC) attended the meeting. The meeting was also attended by representatives of UKP4, BAPPENAS, and MOFr. Representatives of AusAID, Norway, JICA, AFD, MCC, and EU presented brief summaries of their current and planned projects related to REDD and potential relationships to FIP. The representative of BAPPENAS, who chaired the meeting, underlined the importance of coordination at all levels, and of promoting Forest Management Units and their area delineation. The representatives of MOFr emphasized the challenges in REDD+ implementation, and the importance of coordination among REDD+ initiatives. The representative of UKP4 provided closing remarks – summarizing the urgency of REDD+ action and FIP contributions.

30. Several main themes emerged during discussion with development partners. First, there is a need to align FIP activities with existing government programs on REDD+ and to ensure good coordination with related activities of development partners. To this end, the National REDD+ Strategy developed by the GOI should be seen as an overarching guide for all such support, including the FIP Investment Plan. Second, FIP's resources are limited in comparison to the overall needs for REDD+ financing in Indonesia, so there is a need to focus on a limited number of programs or projects. Third, MOFr and UKP4 stressed the need to support the recent Lombok commitments on land and forest tenure reform (see: http://www.rightsandresources.org/publication_details.php?publicationID=2517.)

K. National Workshop

31. Participants included representatives from line ministries, national institutions, civil society, private sector, development partners, and research institutes such as Gadjah Mada University (UGM). A group of participants from central Java represented several community forests, CSOs and researchers. Representatives from private sector companies stressed that most forestry operations to date have had difficulty attracting financing by local banks, leaving the industry essentially “unbankable”. This was evident for community level and large enterprises. Issues needing improvements for financing include settling land tenure conflicts, establishing larger scale marketing bodies, improved financial competencies, managing fire, illegal logging, certification incentives (price premiums) and support, and forest carbon accounting. Several CSOs commented that the FIP consultation process was organized too quickly and that more time is needed by them to disseminate and evaluate materials, and formulate collective responses. The mission team acknowledged the need for better coordination of the consultations and increased time allocation. However it was clarified that consultation was meant to identify possible activities or program as a basis to draft a Forest Investment Plan (FIP), without prior prepared material for approval or consent. It was also understood that the consultation process will continue through the Indonesian Forestry Council's (DKN) already established consultation mechanisms (See: www.dkn.or.id).

32. A call was made for improved national policies toward customary law communities and their customary rights, including the observation that there are about 25,000 villages within and surrounding the forest boundaries nationally. FIP investments were encouraged to address the land tenure issue. Clarification was sought with respect to MDB policies and application of free, prior and informed consent (FPIC). In response, the Joint Mission replied that respective MDB safeguard policies, as well as country policies and regulations, will be applied during FIP implementation.

L. Identification of potential areas for FIP support

33. Based on stakeholder consultations, the Joint Mission felt that a programmatic approach encompassing three elements should be considered as the Forest Investment Program is formulated: (a) national level institutional strengthening, governance and policy reform for sustainable forest management, including capacity building, knowledge management and strategic coordination of the Plan; (b) on-the-ground public sector investments (e.g., dealing with issues of land tenure, community-based forest management, etc.); and (c) the leveraging of private sector investments (e.g., using ecosystem restoration concessions or dealing with degraded lands development). Some preliminary ideas for further development which emerged during the Joint Mission are listed below. These early concepts would have to be expanded and discussed in future consultation processes to ensure good understanding and acceptance of the approaches and investments needed for successful implementation (in line with the FIP criteria).

34. Preliminary Ideas for FIP support:

- a. REDD+ in Community Forestry: Promotion of Community Forestry (Village Forest/HD, Community Forest/HKM, Private Forest/HR, Community Based Plantation Forest/HTR), including the prospects for redirecting the current \$300+ million fund for HTR, improved credit systems, access to REDD+ performance-based payments, forest carbon markets, and payments for ecosystem services.
- b. Land and Forest Tenure Reform including policy reforms to improve enabling conditions for Sustainable Forest Management (SFM): Forest land tenure, dealing with tenure claims that can hinder REDD+ investment and implementation; and prospects for scaling up tenure clarification and adjudication systems that can serve as a platform for improved SFM and REDD+
- c. Addressing Illegal Logging and Associated Trade: Addressing the remaining hot spots for illegal logging, including the introduction of policy and institutional reforms, and introducing REDD+ incentives as alternatives to illegal behaviour.
- d. Forest Management Units and REDD+: Supporting and expanding development of Forest Management Units (FMUs) using REDD+ as a management objective and FMUs as REDD+ monitoring units, to introduce innovations for improved land and forest management.
- e. Degraded State Forest Lands Development: Improving policies in Redirecting plantations (pulp/paper and oil palm) from forests to degraded lands in conjunction with implementation of national REDD+ strategy.

- f. Ecosystem Restoration Concessions and REDD+: Scaling-up the use of Ecosystem Restoration Concessions, with an emphasis on generating REDD+ revenues as an important source of revenues.
- g. Market-based REDD+ Incentives: Expanding the use of REDD+ financial incentives to reshape land and forest management practices, including the integration of REDD+ into fiscal policy incentives to enable trillions of Rupiah of reflow from natural resource taxes/royalties to affect decision making in provinces and districts.
- h. Sub-national REDD+ Development: Testing and developing REDD+ systems and approaches at the sub-national level in additional pilot provinces or demonstration locations, prioritized by GOI REDD+ agencies, especially where the MDBs have track records or where FIP can serve as the lead partner program.

IV. OBSERVATIONS AND NEXT STEPS

35. The Joint Mission decided to submit the Investment Plan for endorsement by the FIP sub-committee only after necessary stakeholder consultations are completed and fulfil all requirements in the FIP procedures and guidelines. In order to achieve this goal, the mission made the following observations:

- a. The FIP procedures and guidelines should be more internalized by National FIP related ministries and agencies by ensuring a better knowledge and understanding of the procedures.
- b. All stakeholders and especially civil society, the private sector, other line ministries, and development partners must be involved in elaborating and validating the forest investment plan.
- c. There is need to establish an inclusive coordination framework involving all stakeholders and having the necessary means to ensure its sustainability (human, technical and financial resources).

36. The tentative schedule for various tasks is given below.

Task	Responsibility	Tentative deadline
Version Zero Forest Investment Plan	GOI and MDBs	Mid-November
Web-Posting of Version Zero of Forest Investment Plan	GOI	Mid-November
Second Joint Mission	GOI and MDBs	Mid-December
Selection of Peer reviewers	FIP Sub committee	Mid-December
Peer Review of Investment Plan	GOI and MDBs	Mid-January 2012
Incorporation of comments and preparation of final draft of investment plan	MDBs and GOI	Mid- February 2012
Submission to CIF AU	GOI	Mid- March 2012
Review by FIP Sub-committee	Sub-Committee	April 2012
Presentation and Endorsement	FIP sub-committee	May 2012

Annexes:

- Annex 1: Agenda of the Joint Mission
- Annex 2: Drivers of Deforestation and Forest Degradation
- Annex 3: REDD+ Policies and Activities in Indonesia – A Stocktaking Exercise
- Annex 4: Stakeholder Engagement Process in FIP
- Annex 5: Preliminary Survey on Indonesia’s Forest Investment Program
- Annex 6: Summary of Various Meetings, including the list of people met
 - Annex 6.1 Government Ministries, Agencies
 - Annex 6.2 Private Sector
 - Annex 6.3 Civil Society
 - Annex 6.4 Development Partners
 - Annex 6.5 National Workshop
- Annex 7: Summary of Field Visits to Selected Provinces, including the list of people met
 - Annex 7.1 Central Java and Yogyakarta
 - Annex 7.2 Jambi
 - Annex 7.3 West Kalimantan