

**Meeting of FIP Pilot Countries
Yogyakarta, Indonesia
September 24-26, 2013**

Progress Updates from FIP Pilots

INDONESIA

<i>What activities have been undertaken to review progress and coordinate implementation of the FIP investment plan at the country level since the last Pilot Country Meeting? With what regularity do such reviews take place?</i>	
Inter-agency	<ul style="list-style-type: none"> • The FIP Indonesia team is interagency, including Ministry of Forestry, Ministry of Finance, National Development Planning Agency, REDD+ Task Force, Coordinating Ministry on Economics, and the supporting MDBs. • A broad inter-agency meeting was held on 14 February 2013, which was attended by around 75 people representing the inter-agency FIP Team, the National Forest Council, and Development Partners. The Secretary General of the Ministry of Forestry chaired the meeting, while the FIP Focal Point Indonesia presented a briefing. The meeting stressed, among others, on the importance of coordination and integration of the planing and implementation of the three projects of FIP Indonesia. • A FIP National Steering Committee was established on 4 April 2013, chaired by the Secretary General of the Ministry of Forestry, while Vice-Chair is from Ministry of Finance, and membership from Ministry of Home Affairs, National Development Planning Agency, Presidential Delivery Unit, and National Forest Council representing its five chambers (Private Sector, Community, NGOs, Academics, and Government). The MDBs are observers. The FIP steering committee meetings are held at least once in 6 months. • Other inter-agency meetings are held at a short notice to address immediate issues.
Development partners	<ul style="list-style-type: none"> • Apart from the MDBs, other development partners are consulted in the FIP process, including for example, through the broad consultation on 14 February 2013. • They are also consulted separately in the process of project development. For example, German International

	<p>Cooperation Agency GIZ is a major partner in the development of Project 2 which focuses on supporting FMU development, which GIZ has also been working on.</p> <ul style="list-style-type: none"> • Some development partners are considering to cooperate not only in technical aspects of FIP project implementation but also through providing additional co-financing.
Multi-stakeholder	<ul style="list-style-type: none"> • Since quite early, FIP Indonesia's multi-stakeholder dialogue has been facilitated by the National Forest Council (DKN) which has five chambers. They are legitimate in terms of the mandate from their constituents, and they are independent. • Recently the DKN held two major meetings of its chambers to discuss FIP, that is on 28 June 2013 in Bogor and 19 July 2013 in Yogyakarta. The chambers have their respective positions on FIP, some supporting others questioning or against. The National Forest Council has been committed to supporting FIP by providing an objective forum for all groups of stakeholders to discuss FIP and its progress in implementation, and to convey the salient points to FIP Steering Committee.

Please provide an update on activities carried out, challenges encountered, and progress made to set up the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in your country.

- Indonesia has been represented by AMAN and other Indonesian CSO representatives in the global process of DGM.
- Upon request from the CIF Administrative Unit, the Indonesia FIP Focal Point held a kick off meeting on the preparation of a National DGM Steering Committee where the DKN was asked to steer this process.
- The DKN held a national meeting to discuss the setting up of the DGM Steering Committee on 17 June 2013 in Yogyakarta, and continued with a workshop on the same issue on 19 July 2013 in Yogyakarta.
- The meetings discussed the (i) work-principles, (ii) tasks and responsibilities, (iii) roles and authorities, (iv) structure, mechanism and work-rules, and (v) selection mechanism of the DGM National Steering Committee.
- It is expected that the DKN organized process to discuss the Steering Committee will take several months until the end of 2013. Project preparation will start immediately after.
- A serious challenge for DGM is how to manage multiple expectations of DGM by local communities in a large, diverse country like Indonesia. This might need additional resources to discuss potential benefits of DGM and opportunities for linking DGM activities with activities of FIP investment projects in selected provinces.

What are the opportunities and challenges you have encountered, or expect to encounter, with

the implementation of the FIP results framework in the context of your country?

- The baselines will be established through an early activity of the projects. Challenges will arise and need addressing or amendment of the result framework.
- The selection of Forest Management Unit development as the key area for engagement represents a broad consensus between national stakeholders, as it will concentrate on the most needed governance arrangements in the forest sector. As the FIP process promotes one of the most important reform processes in the forest sector, major changes are expected on the medium term, including the reduction of emissions. It has been difficult to convey this message to donors and global participants.
- The FIP Indonesia team feels that there are still too many indicators in the results framework and that resources available for monitoring the indicators would be considerable. The baseline setting alone would have substantial transaction costs, and the attribution to FIP remains a major challenge given the fact that Indonesia has several ongoing sustainable forest management programs in the same areas where FIP investment projects are going to be implemented. Further clarity on simplified results framework is expected in Yogyakarta meeting.
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Please provide an update on the status of your country's FIP projects involving the private sector (note: this includes public sector projects with a private sector focus).

Project description (brief):

- Project 3 of FIP Indonesia “Strengthening Forestry Enterprises to Mitigate Carbon Emissions” is dedicated to the private sector, using the concessional loan of 32.5 million USD, plus a grant portion of 2.5 million USD.
- The project will partner with downstream and integrated forestry lead firms to improve wood supplies, increase planted forests, and improve environmental and social (E&S) performance and production efficiency.
- This will be done through services around strategic community investment, development of new supply chains, establishment of extension services for community forestry enterprises (CFE), creation of innovative partnerships for CFE plantations (including access to finance and markets), implementation of client E&S systems and resource efficiency analysis.
- The project will contribute to GHG emissions reduction, and increased farmers reached and access to finance. Additionally, the project also aims to improve firm and CFE performance and generate new investment opportunities.

Findings of preparatory studies:

- There is a mismatch between supply and demand. In particular, there is not enough legal, high quality, commercially available industrial roundwood available for the wood processing industry.
- Reasons for this supply shortage are two-fold. Companies have been (and are) hesitant to expand industrial forests (HTI) based on risks related to social or land conflicts, lack of financing or the complicated regulatory environment in Indonesia. Communities have been (and are) hesitant to apply for and plant community concessions (HTR) because of the lack of a strong business case (in particular for pulp), the complicated application process, lack of financing, and their general lack of business and forestry skills.
- Root causes of these problems include a general lack of education for rural communities in

Indonesia, long rotation cycles for most wood species combined with a short-term economic mindset of many communities, a history of rent-seeking behavior around forestry concessions by forestry firms and the government, an imperfect land allocation system, and regulatory market distortions for certain wood products (e.g. pulp).

- A number of specific market failures can be identified in this context:
 - Problems in access to forestry land and wood supplies due to lack of trust (between firms and communities) and problems around the concession allocation system, leading to insufficient investment and new planting of forest land.
 - Lack of cashflow to complete the wood harvest cycle (for communities) - even if the business case is solid, not all communities can afford to invest with a promise of returns in 8 - 14 years' time.
 - Lack of affordable services for CFEs around contract negotiation, general business administration and operational forest management. This lack of support makes it for CFEs difficult to deal with large forestry companies, see the business opportunities, or apply for external financing.

Challenges encountered and approaches to address them:

- Wood supply chains typically involve communities on or around the concession plantation area. Given the imperfect land concession situation in Indonesia, it has proven extremely hard to achieve satisfactory solutions for this through the legal system. The project will provide firms a product called Strategic Community Investment (SCI), focused on strategically assessing and improving its relationship and investments with affected communities.
- In upstream forestry, additional supply chains and mixed plantations can play an important role in managing and improving cash flows, specifically with cash-poor suppliers (e.g. communities). Examples include mixed cropping with industrial crops (e.g. cassava for paper production) or food crops for secondary supply chains into lead firms. New supply chains can also focus on developing wood by-products that can be used as inputs for further processing, like charcoal or biomass for energy generation. The project will work with external suppliers on setting up new supply chains, developing business cases and plans, providing assistance in setting up contracts, quality control, general business training and overall assistance in commercial operations.
- In the Indonesian context, private-led extension units can serve as a welcome complement to government-established FMUs (KPHs), and can play an important role in developing best practices and serving as a model for FMU operations going forward. The project will set up and improve private sector-led extension services to smallholders or (forest) communities.
- Where communities and lead firms are both interested, the project will provide knowledge, investment capacity and contacts in the financial and agribusiness sectors to develop new models for forestry management. Examples of these partnerships include: agri-finance through lead firms; contract farming; re-forestation through in-kind loans; securitization of wood volume growth, etc.
- A key obstacle for working with socially and environmentally responsible financiers in general, is the need to provide detailed information on E&S issues and manage these at an ongoing basis. The project will help firms and CFEs set up and enhance E&S management systems.
- Forestry firms and CFEs can save costs, prevent waste, and reduce greenhouse gas emissions

through more efficient use of energy, water, and materials. The project will provide information and knowledge on best practices, customize solutions on cleaner production methods and technologies, and build awareness on opportunities available in improved efficiency.

Transfer/application of knowledge/lessons/experience beyond FIP activities:

- Access to forestry financing through value chains and local financial intermediaries (FI) is a bottle neck throughout the sector. By providing support and sharing some financial risks, the project can demonstrate examples of different financing approaches. These can then be replicated and help transform the Indonesia forestry sector.

Please highlight any additional advances, challenges, lessons, or impacts you want to share from your FIP activities that have not otherwise been addressed in this update.

FIP Indonesia team contributed to regional discussions on REDD+ and sustainable forest management. For example (a) FIP's contribution to the issue of transboundary management of forest resources in Kalimantan was discussed at the Ministerial meeting of the Heart of Borneo Initiative (Brunei, Malaysia and Indonesia) held on 7 September 2013. (b) a special session on social forestry and FIP was organized as part of 4th conference of the ASEAN Social Forestry Network (16-18 June 2013) in Luang Prabang, Lao PDR, to discuss the best practices from social forestry relevant for effective implementation of FIP in Indonesia.