

Beyond Bilateral Funding: Creating New Mechanisms for REDD+ Operationalization in Indonesia
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REDD+ Finance Mechanism and Its Optimum Use:
How to incentivize forest conservation

**Beyond Bilateral Funding:
Creating New Mechanisms for
REDD+ Operationalization in Indonesia**

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Talk about

1. Scope of REDD+ in Indonesia
2. Sources and scales of REDD+ finance
3. Emerging financial mechanisms
4. A way forward

For the next 10 minutes, I am going to talk about three things. First, the scope of REDD in the context of Indonesia; second, sources and scales of REDD finance; third, emerging financial mechanisms, particularly focusing on the trust fund.

1. Scoping REDD+ in Indonesia

1. Scope of REDD+ in Indonesia

- Institutional arrangement (e.g.)
MRV; Safeguard; Funding instrument
- Policies and measures as well as projects (e.g.)
Policy: Moratorium; Customary rights
Institution: Forest Management Unit (FMU)
Project: Input-based / Investment
Private sector: Zero deforestation

Finance for REDD+ → How to finance these activities

Let me start with the scope of REDD+. Since yesterday, we are talking about financing REDD. My question at the very beginning is, financing what actions? What is the scope of REDD? What are REDD activities that are financed? When we talk about REDD, it is often categorized into two broad categories. One is readiness or, I call it, institutional arrangement including MRV or safeguard or strategies or these kinds of the basic arrangement without which REDD+ cannot function.

The second aspect is actual activities addressing deforestation and degradation, including policies and measures as well as projects. These are a set of instruments and actions to address deforestations. If we look at the Indonesian context, there are a wide range of instruments and activities that can be observed under the scope of policies and measures and project.

For example, at the policy level, as William already discussed while ago, the moratorium policy is there. This means no new concession licenses over primary forest and peat land. But it excludes secondary

forest as William described. It is not really perfect, but at least the primary forest conversion was prohibited. The assumption is that, once this policy is effectively implemented, no deforestation should be observed in primary forests.

The other significant policy is the legalization of customary forests. Let us say that 40 million hectares could be conserved or sustainably managed under customary communities. One key point is that AMAN¹, the indigenous group, is saying that it is not simply recognizing the legal right of forests for communities but forests should be permanent. Therefore, even if customary right is legally recognized, it cannot be utilized for other purposes. It is only for the forest. That is the basic tenet of this legal proposal.

If you look at the institutional level, the Ministry of Forestry has been actively promoting the institutional development of the Forest Management Unit (FMU). In Indonesia, it is said that around 35 million hectares of forests are under an open access regime, which means no institutional arrangement is made such as concessions or community management. These 35 million hectares are prone to conversion and degradation. The idea of the government is to put forest management institutions on these lands and be responsible for the governance, so trying to reduce the rate of deforestation.

There are also projects for addressing deforestation. 'Input-based' means ODA projects or NGO projects. Although the number is small, there are investment projects like the Rimba Raya in Central Kalimantan which already obtained VCS credits and sold out.

What I specifically would like to mention here is on the private sector policy. Peter mentioned yesterday about no deforestation commodities. In Indonesia, there are several large companies working on the plantation development like oil palm and fast-wood plantations. Some of them have already declared no deforestation or zero deforestation. That means, when they establish new plantations, they do not convert natural forests anymore but they establish plantations on degraded lands or the existing plantations. If these companies actually implement the policy, the deforestation rate should be declined. These are a set of actions and instruments that need to be paid attention to in the context of financing REDD+.

2. Current Financial Sources for REDD+

| 2. Sources and scales of REDD+ finance | | | | | |
|--|----------------------|--------------|-------|-------|----------------|
| (1) Sources | | | | | |
| REDD+ related activities (e.g.) | | Nat'l budget | Donor | | Private sector |
| | | | LoI* | Other | |
| Institutional arrangement | MRV | Y | Y | Y | |
| | Safeguard | Y | Y | Y | |
| | Funding instruments | Y | Y | Y | |
| Policies and measures; project | Moratorium | Y | Y | | |
| | Customary right | Y | Y | Y | |
| | FMU | Y | | Y | |
| | Input-based Projects | Y | Y | Y | Y |
| | Investment project | | | | Y |
| | Zero deforestation | | | | Y |

* The work conducted by REDD+ Agency, which is funded by Norwegian government under the Letter of Intent (LoI).

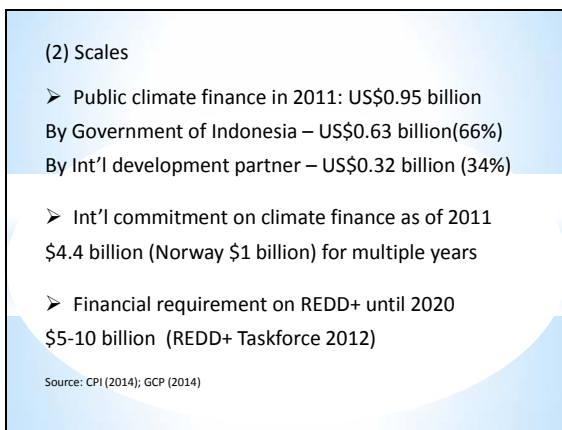
Next is about sources and scales of REDD finance. These are instruments and activities primarily

¹ Indigenous Peoples Alliance of the Archipelago: <http://www.aman.or.id/en/>

financed by the national budget, donor funding, and partly private sector funding as well. I want to refer to the letter of intent (LOI) that was made between the Norwegian government and Government of Indonesia in 2010. The Norwegian government committed \$1 billion for the REDD+, among which \$800 million are for results-based payment and \$200 million are for readiness and policy and measures. The money is spent through the implementation of these activities, and they are mainly conducted by the REDD+ Agency.

Some of you may know that the REDD+ Agency was created two years ago and just disbanded two weeks ago. It was due to the basic policy of the new government of pursuing the efficiency of the administration. It is not simply this REDD+ Agency that was disbanded, but many agencies were basically integrated in ministries to promote the efficiency and avoid overlapping. Now, this REDD+ Agency's function and duty are integrated into the Ministry of Environment and Forestry. They will set up new Directorate General (DG) to deal with climate change issues. Therefore, new work arrangement will emerge shortly.

3. Scale of Financing



Scale of the funding: we do not really have the exact figures for REDD+, so this is just a reference. Climate finance is not limited to the forestry and the peat land management, but also including the sectors of energy, industry, transportation and waste. We have the figure of one billion dollar in 2011 for the entire climate finance. As greenhouse gas emissions from Indonesia are largely coming from the land and forest sector, we can assume that the significant amount must have been contributed to this sector, and the international funding as well. Also, the forecast is made. It is said that five to 10 billion will be required for REDD+ by 2020.

4. Emerging Financial Mechanism

3. Emerging financial mechanisms

➤ Trust Fund: to follow Presidential Regulation 80/2011

| Trust Fund | Responsible Agency | Funding Sources | Focus Area in Mitigation |
|---|--|--|---|
| Indonesia Climate Change Trust Fund (ICCTF) | Ministry of National Development Planning (Bappenas) | International Development Cooperation & State budget | Land based mitigation; Energy |
| <i>Fund for REDD+ Indonesia (FREDDI)</i> | <i>REDD+ Agency⁽¹⁾</i> | <i>International Development Cooperation</i> | <i>Implementation of Nat'l REDD+ Strategy</i> |

Remark: (1) Presidential Regulation 16/2015 stipulates the revoke of Presidential Regulation 62/2013 on the establishment of National REDD+ Agency.
Source: ICCTF Business Plan 2014-2020 (2014)

Coming to the emerging financial mechanism, the government of Indonesia issued Presidential Regulation in 2011 on trust fund. At the moment there are two trust funds that are related to REDD+. The first one, Indonesia Climate Change Trust Fund², which is already in operation, is managed by national development planning ministry or Bappenas. The funding areas include the land-based mitigations, energy, and also adaptations. The second one is the fund for REDD+ Indonesia; we call it FREDDI³, which is still under preparation. This is being promoted and developed by the REDD+ Agency. The purpose of this fund is to support the implementation of the national REDD strategy. That means that it is totally for REDD+.

➤ ICCTF: Indonesian Climate Change Trust Fund

- So far \$16 million of International contribution
- Grants provided to Ministries, CSO, research inst.
- Plans to apply as a National Implementing Entity (NIE) of Green Climate Fund (GCF)
- Pilot projects in the land based mitigation sector
 - (1) Sustainable Peat Management (2010-14)
 - (2) Community-Based Wood Pellets Production (2012-14)

Because ICCTF⁴ is already in operation, let me just overview what it is and how it works. So far, \$16 million are already contributed by the UK, Australia, Germany, and Sweden. Compared with Norwegian funding, it is quite small, and the grants are already provided to concerned ministries. In addition to it, small grants are provided to civil society organizations and research institutes. What is interesting here is that ICCTF is very explicit to apply as a national implementing entity of the Green Climate Fund. Therefore, they intend to channel the funds from international society to the Indonesian climate sector. In the context of land based mitigation sector, there are already two projects being funded and implemented.

² <http://www.icctf.or.id/>

³ Financing Reduction Emission Degradation and Deforestation Instrument

⁴ Indonesia Climate Change Trust Fund

- Instrument and mechanism under preparation
- (1) FREDDI – Four funding windows
 - Strategic (Readiness, Nat'l priorities, Emergency)
 - Sub-national priority (CB, Performance-based payment)
 - Competitive (Proposals)
 - Small scale grant (For community-based activities)
- (2) JCM: Joint Crediting Mechanism
 - Bilateral crediting mechanism between Indonesia and Japan (initially) as non-tradable credits.

Another emerging instrument or mechanism is FREDDI, which is still under preparation. While the ICCTF is the trust fund for the project funding, FREDDI can provide not only project funding but also to support readiness activities, national priorities; that means policies and measures and also performance-based payment. The scope of FREDDI is really flexible. How this can be operationalized is really the challenge of the Ministry of Environment and Forestry in the coming years. Another emerging mechanism includes the joint crediting mechanism which was discussed yesterday.

5. A Way Forward

- 4. A way forward**
- Scope of REDD+ activities is broad and they are supported by multiple sources. On addressing deforestation and forest/peatland degradation, both policies and measures as well as investment projects need to be continuously funded.
 - As REDD+ Agency used to take key roles in designing and implementing REDD+ activities, new arrangement of dealing with readiness work needs to be urgently developed, including the operationalization of FREDDI and the mechanism of fostering funding from Green Climate Fund.

I summarize two main points. First, the scope of REDD+ Indonesia is very broad. It is not only investment projects or so called demonstration projects, but also policies and measures that potentially give impact on deforestation and degradations. These activities need to be paid attention to. Secondly, the REDD+ Agency, which was taking a very important role to advance REDD+ program implementation in Indonesia, is now disbanded. How the new arrangement can be made and proposed is really important. We need to support the emergence of new institutional arrangement. That includes the operationalization of the FREDDI and also we need to look at a mechanism of how the international funding (the Green Climate Fund as well) is channeled to Indonesia.

DAY2
Session 2