

**PROJECT INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: PIDA29437

<b>Project Name</b>	Forest Investment Program: Forest Management Unit Development (P144269)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Indonesia
<b>Sector(s)</b>	Forestry (100%)
<b>Theme(s)</b>	Other human development (20%), Other environment and natural resources management (60%), Participation and civic engagement (20%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P144269
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Ministry of Forestry
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	29-Jul-2015
<b>Estimated Date of First Grant Approval</b>	08-Dec-2015
<b>Appraisal Review Decision (from Decision Note)</b>	
<b>Other Decision</b>	

## **I. Project Context**

### **Country Context**

#### **A. Country Context**

Indonesia has made some landmark achievements in the past two decade. In 1998, Indonesia ushered in a new era of governance, increasingly transferring authority to the provincial and district governments. In 2004, Indonesia became a middle-income economy with a fast-growing private sector, with regional and global influence. Indonesia has continued to achieve significant economic growth. 20 million jobs were created from 2001 to 2011, halving poverty from 24 percent in 1999 to 12 percent. In 2012, rent from natural resources made up 7.1% of GDP.

Despite being a rapidly industrializing nation, inclusive socioeconomic development in Indonesia depends on natural resources. A large number of extremely poor people live in remote forests areas, with limited access to services and notable reliance on natural resources. Forestry-based activities and industries are important for growth and a major source of employment in Indonesia – including timber harvesting, wood, pulp and paper processing, as well as furniture making. In addition, several million people are employed in small-scale agro-forestry systems. Agriculture contributed approximately 60 percent of the country's non-oil exports and is the primary target of investment for small to large-scale

businesses.

Many of Indonesia's communities have longstanding, direct and multi-faceted relations with natural ecosystems, relying on them for subsistence, livelihood and economic development. There are about 32,000 villages in and around forests boundaries. Approximately 50-60 million people dwell in state forest lands. By 2013, nearly 55 percent of the population remained dependent on land for their subsistence. On average, 20 percent of household income depends on natural resources. In some regions, like Papua, the value is higher – 50 percent. The cost for government to provide services to its population in remote forest areas is high, making sustainable use of forests important for the wellbeing of the poor.

Weak governance, including land control and management of natural resources, influences socioeconomic development and environmental degradation. Indonesia operates with a dual system of land control creating overlapping land-related regulations and guidelines, and ambiguous provisions regarding the management and administration of land and land-based natural resources. This is caused by the continued administrative separation between the Ministry of Environment and Forestry (MOEF) and the National Land Agency (BPN) with respect to land. In addition, there are customary (Adat) rights to land which are adhered to by large numbers of the general population and landholders. The multiple claims to land weaken spatial planning processes at different levels of government and across sectors, making them mostly inconsistent with each other. The complex tenure arrangements and lack of protection and recognition of customary rights makes land, and associated natural resources, a source of conflict. This needs to be addressed, for the long-term development of small and marginal landholders and forest dependent communities and for broader national growth and sustainable natural resource management.

Indonesia's National Medium Term Development Plan (RPJMN) emphasizes economic feasibility, social acceptability and environmental sustainability. With 63 percent of Indonesia's poor being rural, and approximately 14 percent of rural population being considered extremely poor, Indonesia has to reverse the increasing inequality of current growth patterns and improve natural resource management, taking measures to resolve conflicts over land and internalize climate change considerations in planning and use and management of resources.

### **Sectoral and institutional Context**

Indonesia holds the third-largest area of tropical forest, with an estimated 94 million hectares of natural and planted forests or 52 percent of total land area; and is known for its biodiversity. However, 133 million hectares or 68.3 percent of the country's total land area has been classified as 'Forest Estate' by the MOEF. The Forest Estate represents areas ranging from primary forest, agricultural land, roads to human settlements. The Forest Estate is zoned as permanent forest for production, protection and conservation purposes, and convertible production forest which may be removed from the Forest Estate and allocated for other purposes such as estate crops, agriculture, mining and settlement. Indonesia's forests are critical for national economic development, the livelihood of local people, and functioning of the global environmental system.

Indonesia has embraced the concept of financial compensation for reducing emissions from deforestation and forest degradation (REDD+). In Indonesia the annual greenhouse gas (GHG) emissions caused by deforestation, forest degradation and peat decomposition is estimated to be between 320 and 430 million tons of carbon dioxide equivalent (CO<sub>2</sub>e) between 2001 and 2012. The Government of Indonesia (GoI) has prioritized reducing GHG emissions by 41% by 2020 (with international assistance) and codified this into a Presidential Instruction and National Action Plan for Reducing GHGs (RAN-GRK). To achieve the set targets, the National Planning Ministry (Bappenas)

has identified forests and peatland as one of six key sectors, and set emission reduction targets of 0.672 GtCO<sub>2</sub>e and 1.039 GtCO<sub>2</sub>e respectively.

Indonesia is participating in a number of REDD+ readiness programs, with a view to participating in performance based REDD+ schemes. In addition to the National REDD+ Strategy, significant progress has been made in developing Strategy and Action Plans for 11 priority provinces, the REDD+ safeguards approaches and Safeguards Information System (SIS), and a Measurement Reporting and Verification (MRV) framework. The Forest Investment Program (FIP) complements these efforts with its focus on improving forest and land governance and implementing sustainable forest management, as per the National REDD+ Strategy. These are preconditions to realizing the carbon and co-benefits of the sustainable forests and land use system.

Deforestation and forest degradation, however, remains a growing problem in Indonesia. 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. About 77% of this area was primary tropical forests rich in biologically diversity and carbon. In Indonesia, unplanned deforestation and degradation are triggered by: (i) illegal logging and unsustainable forest management; (ii) forest fires; and (iii) conversion of natural forest to industrial timber and oil palm plantations and mining concessions. The underlying causes include: (i) inconsistent and inadequate spatial planning (due to limited accurate data to inform Regional Spatial Plans (RTRW)); (ii) unclear land ownership and land conflicts; and (iii) weak governance (including uncoordinated sectoral development planning, overlapping permits for forest areas, weak spatial planning capacity, limited site level forest management oversight, contradictory regulations and laws, perverse fiscal incentives, inadequate law enforcement, and lack of inclusive and participatory processes). Degradation of forests is largely from demand for timber exceeding sustainable supply, with an average of 425,000ha of forests degraded per year.

In order to reduce deforestation, restore degraded forest landscapes, protect high conservation value forests and valuable ecosystem functions, GoI is promoting decentralized management of forests. In 1999, the Basic Forestry Law No. 41/1999 established decentralized units for forest landscape management - Kesatuan Pengelolaan Hutan (KPH). In 2007 GoI passed legislation that prioritized KPHs and the safeguarding of the public function of forest areas. This resulted in the overlaying of 600 nominal KPHs over the whole Forest Estate. KPHs are entities that should govern and manage all forest areas and functions at the local level, based on forest management plans, in close consultation with local government, community groups, local industries, license holders, and other stakeholders. The KPHs are designed to be part of local (district and provincial) government and to manage forests for their functional purpose (i.e., production, protection and conservation) while contributing to subnational growth and community wellbeing. KPHs are expected to improve forest administration and use of forest land by aligning participatory forest land use planning with the subnational spatial plans, providing on-site management of forests, being responsive to local needs, interests, and claims.

KPHs are meant to be repositories of information, work with local stakeholders, and harmonize utilization of forests by various parties with the available resource base in order to achieve sustainable management of forests. In accordance with GoI and MOEF regulations, the KPH's functions include:

- Undertaking forest use planning and boundary demarcation (within the forest landscape within KPH boundaries (herewith referred to as KPH area))
- Preparing the forest management plan for the KPH area,
- Undertaking guidance, monitoring and evaluation on performance in forest management by holders of forest utilization permits and forest area use permits, including in the fields of forest rehabilitation and reclamation, forest protection, and nature conservation
- Undertaking forest rehabilitation and reclamation

- Undertaking forest protection and nature conservation
- Undertaking forest management in certain areas, for KPH that are already implementing the financial management system of a Public Service Agency (BLU) or Regional Public Service Agency (BLUD)
- Turning forestry policy into forest management innovations and operations
- Upholding the forest laws, including protecting and securing the KPH area
- Mobilizing investment to achieve the objectives of sustainable forest management

Within MOEF, responsibility for operationalization of KPHs is spread among Directorate-Generals (DGs). The establishment of KPHs and the formulation of policies and regulations regarding KPHs is with the DG of Forestry Planning and Environmental Management (DG Planning). The DG of Forest Utilization (BUK) has the authority over implementation of KPHs located in areas zoned predominantly production forests. Similarly, the DG of Social Forestry and Environmental Partnership has the authority over implementation of KPHs located in areas zoned predominantly protection forests. A National KPH Secretariat (SEKNAS), established with donor-funding, is housed in MOEF. SEKNAS coordinates the operationalization of the KPHs across DGs in MOEF and with other relevant sectors. It does not have any executing power. Although Production and Protection KPHs theoretically respond to provincial government, and therefore are under the responsibility of Ministry of Home Affairs (MoHA), MOEF is financing technical capacity building to ensure proper forest management and stewardship.

## **II. Project Development Objective(s)**

The project development objective is to build institutions and local capacity to enhance partnerships and improve the decentralized management of forests

## **III. Project Description**

### **Component Name**

Component 1: Strengthen legislation, policy, and institutional capacity in decentralized forest management

### **Comments (optional)**

Operationalization of KPHs has been constrained by unclear and conflicting laws and regulations, lack of consistent information, and limited ownership of the approach. This component address these constraints by (i) building the ownership and commitment to the KPH program, (ii) assisting with drafting revisions and amendments of forest sector policy and legislation, clarifying KPH implementation requirements, and (iii) facilitating the institutional partnerships and capacity building of government entities. There are two subcomponents: Subcomponent 1.1: Forest policy and legislation development, revision and amendment and Subcomponent 1.2: Institutional development and capacity building. Description is in the word document of the PID

### **Component Name**

Component 2: Knowledge Platform Development

### **Comments (optional)**

Decentralized forest management will require a range of supporting information, institutional, policy, and investment activities. This component addresses the need to build capacity of a broad range of stakeholders and put in place an effective modern knowledge platform that facilitates information use and knowledge exchange and learning from practice. This has two subcomponents: Subcomponent 2.1: Knowledge Management and Information System (KMIS) and Subcomponent 2.2: Capacity-building and Knowledge Exchange. Additional information can be found in the word

document of the PID

### **Component Name**

Component 3: Improve forest management practices in 10 KPH areas

### **Comments (optional)**

This component supports 10 KPH facing challenges in becoming operational, specifically with respect to institutional capacity, supporting communities, and sustainable utilization of forest products (timber and non-timber). The selection of the 10 KPHs will be done through a systematic screening process that captures key criteria ranging from readiness to representativeness to carbon sequestration potential. The support provided by the project funds will complement the funding KPHs are expected to receive from the national and regional sources of financing. The activities in this component will, where appropriate, coordinate with efforts being carried out with the Dedicated Grant Mechanism (DGM) for Indonesia on mapping rights and supporting local communities. Details are in the PID

### **Component Name**

Component 4: Project Management, Monitoring and Reporting

### **Comments (optional)**

This component will support project management and oversight, and implementation of the project monitoring and reporting system. The activities to be financed include project coordination, financial management, procurement management, equipment and supplies, and monitoring and evaluation (M&E). The M&E system will measure progress on the indicators that are provided in the Results Framework and on the overall FIP program's carbon benefit target.

## **IV. Financing (in USD Million)**

Total Project Cost:	23.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
Strategic Climate Fund Grant			17.0
DANIDA			6.0
Total			23.00

## **V. Implementation**

The Directorate General on Planning and Environmental Management will be the Executing Agency associated with this project. The Executing Agency will house the Project Management Unit (PMU) and will be accountable for the overall performance of the project. The Executing Agency will also have to ensure that the components are implemented in a manner that is in compliance with the legal agreement, the project components and subcomponents are well coordinated, and that the appropriate sequencing is occurring. The PMU will be the implementing arm of the Executing Agency for purposes of the project.

Associated the project will be national level implementing agencies. The proposed implementing agencies are identified based on the alignment between the mandate of the implementing agencies and

the primary focus of the activities in each component of the project. The proposed implementing agencies include:

- o Dit. Rencana Penggunaan dan Pembentukan Wilayah Pengelolaan Hutan (WP3H a subdirectorate in the Directorate General of Planning and Environmental Management)
- o Direktorat Kesatuan Pengelolaan Hutan Produksi which is the Directorate of Production Forest Management Unit, Directorate General of Sustainable Production Forest Management.
- o Pusdiklat SDM Lingkundan Hidup dan Kehutanan, which is the Directorate of Center for Human Resources Education and Training, Directorate General of Extension Services and Human Resources Development Agency.
- o Direktorat Usaha Perhutanan Sosial dan Hutan Adat which is the Directorate of Social Forestry and Customary Forest Management, Directorate General of Social Forestry and Environmental Partnership.

The PMU will be responsible for the day-to-day management of the project, including implementing the procurement, financial management, and project administration associated with each component under the guidance of the Executing Agency and the National level Implementing Agencies. The PMU will be at the national level and report to the Executing Agency. The PMU will be composed of a senior project management officer and secondees from each of the implementing agencies. In addition, it will have senior technical staff, including staff responsible for safeguards, monitoring and evaluation, and the necessary procurement and financial management staff.

The PMU will also have presence at the field level through the establishment of technical subnational units that will operate in close proximity to the ten (10) KPHs to which the project will be providing direct support. It is anticipated that these subnational units will be tasked with overseeing and supporting the implementation of the project, safeguards, monitoring and evaluation, and so on. This need for a “decentralized scheme for FIP project management” was identified as important during the regional consultations as it was considered fundamental to optimize stakeholders’ participation. The subnational units will be provided necessary support from the national level PMU.

Given the multiple ministries that can influence the implementation of the KPH program and the multiple sectors and stakeholders that will be affected by the roll out of the KPH, the Project will have a Technical Steering Committee (TSC) that is composed of representatives of the different key stakeholders associated with the project. The TSC will be composed of representatives from the main directorates involved with the project and representatives from relevant departments in key ministries – Bappenas, MoHA, Spatial Planning and Agrarian Reform, Land Agency – and community and academia stakeholders. The TSC will be chaired by Bappenas as the Ministry with oversight of performance of other sector ministries. The TSC will play an important role in project coordination and providing technical guidance on project implementation when new issues emerge. The activities and decisions of the TSC will guide the decisions of the Executing Agency and the Implementing Agencies. These decisions, however, are not legally binding.

At the subnational level, there will be a Consultative Committee that will play a similar role linking all the subnational units of the relevant directorates and ministries and stakeholders together and working with the KPH in project implementation. The Consultative Committee will also create a platform for sharing information with local stakeholder representatives to discuss the progress of the project and provide inputs regarding aspects of project performance that are going well and those with shortcomings.

## **VI. Safeguard Policies (including public consultation)**

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>X</b>	
Natural Habitats OP/BP 4.04	<b>X</b>	
Forests OP/BP 4.36	<b>X</b>	
Pest Management OP 4.09	<b>X</b>	
Physical Cultural Resources OP/BP 4.11	<b>X</b>	
Indigenous Peoples OP/BP 4.10	<b>X</b>	
Involuntary Resettlement OP/BP 4.12	<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50		<b>X</b>
Projects in Disputed Areas OP/BP 7.60		<b>X</b>

**Comments (optional)**

## **VII. Contact point**

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