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R2016-0086/1

May 10, 2016

Closing Date: Friday, May 27, 2016 at 6 p.m.

FROM: Vice President and Corporate Secretary

Indonesia

Promoting Sustainable Community Based Natural Resource Management and Institutional Development Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed trust fund grant to Indonesia for the Promoting Sustainable Community Based Natural Resource Management and Institutional Development Project (R2016-0086), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of
The World Bank

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Report No: PAD1235

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A PROPOSED GRANT

IN THE AMOUNT OF

US$22.42 MILLION TO THE

REPUBLIC OF INDONESIA

FOR A

PROMOTING SUSTAINABLE COMMUNITY BASED NATURAL RESOURCE

MANAGEMENT AND INSTITUTIONAL DEVELOPMENT

May 5, 2016

Environment and Natural Resources
East Asia and Pacific

CURRENCY EQUIVALENTS
(Exchange Rate Effective March 29, 2016)
Currency Unit = Indonesian Rupiah (IDR)
IDR 13,398 = US$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
APBN	*Anggaran Pendapatan Belanja Nasional* (State Budget)
BAPPENAS	*Badan Perencanaan dan Pembangunan Nasional* (National Development Planning Ministry)
BLU-BPPH	Badan Layanan Umum–Badan Pembiayaan Pembangunan Hutan (Forestry Development Funding Agency Public Service Unit)
BLUD	*Badan Layanan Umum Daerah* (Regional Public Service Agency)
BUK	*Bina Usaha Kehutanan* (Directorate General of Forest Utilization)
CBFM	Community-Based Forest Management
CPF	Community Participation Framework
CSO	Civil Society Organization
DA	Designated Account
DANIDA	Danish International Development Assistance
DG	Directorate General
DGM	Dedicated Grant Mechanism
DKN	*Dewan Kehutanan Nasional* (National Forestry Council)
ESMF	Environmental and Social Management Framework
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FM	Financial Management
GHG	Greenhouse gas
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit*
GoI	Government of Indonesia
HKm	Hutan Kemasyarakatan (Community Forestry Scheme)
HD	Hutan Desa (Village Forestry Scheme)
IA	Implementing Agency
IFC	International Finance Corporation
JUN	*Jati Unggul Nusantara* (Special Teak Species)
KMIS	Knowledge Management and Information System
KPH	*Kesatuan Pengelolaan Hutan* (Forest Management Unit)
KPK	*Komisi Pemberantasan Korupsi* (Corruption Eradication Commission)
LARPF	Land Acquisition and Resettlement Policy Framework

M&E	Monitoring and Evaluation
MASP	Ministry of Agrarian and Spatial Planning
MoEF	Ministry of Environment and Forestry
MoF	Ministry of Finance
MoFor	Ministry of Forestry
MoHA	Ministry of Home Affairs
MRV	Monitoring Reporting and Verification
NGO	Non-Governmental Organization
NKB12	*Nota Kesepahaman Bersama 12* (Memorandum of Understanding signed between 12 Ministries)
PCU	Program Coordination Unit
PDO	Project Development Objective
PMU	Project Management Unit
POM	Project Operational Manual
PUSDIKLAT	*Pusat Pendidikan dan Latihan* (Center for Education and Training)
REDD+	Reduced Emissions from Deforestation and Forest Degradation
RPJMN	National Medium-Term Development Plan
SEKNAS	*Sekretariat Nasional KPH* (KPH National Secretariat)
SFM	Sustainable Forest Management
SKPD	*Satuan Kerja Pemerintah Daerah* (Local Government Working Unit)
SIS	Safeguards Information System
SOP	Standard Operating Procedure
SU	Supporting Unit
TSC	Technical Steering Committee
TSP	Technical Service Providers
ULP	Procurement Services Unit

Regional Vice President:	Victoria Kwakwa
Country Director:	Rodrigo A. Chaves
Senior Global Practice Director:	Paula Caballero
Practice Manager:	Iain G. Shuker
Task Team Leader:	Diji Chandrasekharan Behr

INDONESIA
Promoting Sustainable Community Based Natural Resource Management and Institutional Development

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PAD DATA SHEET

INDONESIA

Promoting Sustainable Community Based Natural Resource Management and Institutional Development (P144269)

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

Environment and Natural Resources Global Practice

Report No.: PAD1235

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Basic Information			
Project ID	EA Category	Team Leader(s)	
P144269	B - Partial Assessment	Diji Chandrasekharan Behr	
Lending Instrument	Fragile and/or Capacity Constraints [ ]		
Investment Project Financing	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date	Project Implementation End Date		
26-May-2016	30-June-2021		
Expected Effectiveness Date	Expected Closing Date		
30-August-2016	31-December-2021		
Joint IFC			
No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Iain G. Shuker	Paula Caballero	Rodrigo A. Chaves	Victoria Kwakwa

.			
Approval Authority			
Approval Authority			
Board/AOB Decision			

.			
Recipient: Republic of Indonesia through Ministry of Finance			
Responsible Agency: Ministry of Environment and Forestry			
Contact:	San Afri Awang	Title:	Director General of Forestry Planning and Environmental Management
Telephone No.:	6221-570-4501	Email:	awangzaza02@gmail.com

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Project Financing Data(in US$, millions)

[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[X]	Grant	[ ]	Other

Total Project Cost:	22.42	Total Bank Financing:	0.00
Financing Gap:	0.00		

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Financing Source	Amount
Recipient	0.00
Strategic Climate Fund Grant	17.35
Denmark Danish Intl. Dev. Assistance (DANIDA)	5.07
Total	22.42

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Expected Disbursements (in US$, millions)

Fiscal Year	2016	2017	2018	2019	2020	2021	2022	0000	0000	0000
Annual	0.30	2.50	4.30	5.50	6.40	3.42	0.00	0.00	0.00	0.00
Cumulative	0.30	2.80	7.10	12.60	19.00	22.42	22.42	0.00	0.00	0.00

.

Institutional Data

Practice Area (Lead)

Environment & Natural Resources

Contributing Practice Areas

Cross Cutting Topics

[X] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[X] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	Forestry	100	10	10

Total	100

☐ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Human development	Other human development	20
Environment and natural resources management	Other environment and natural resources management	60
Social dev/gender/inclusion	Participation and civic engagement	20
Total		100

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Proposed Development Objective(s)

The project development objective is to strengthen institutional and local capacity for decentralized forest management and generate improved forest-based livelihoods in targeted areas.

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Components

Component Name	**Cost (US$, millions)**
Strengthening Legislation, Policy, and Institutional Capacity in Decentralized Forest Management	1.34
Developing the Knowledge Platform	3.04
Improving Forest Management Practices	13.97
Project Management, Monitoring and Reporting, and Program Coordination	4.07

.

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	**Rating**
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	High
8. Stakeholders	High

9. Other	–
OVERALL	Substantial

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Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]

.

Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Explanation:		
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

.

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

.

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Grant Agreement, Schedule 2, Section I.A.1 Technical Steering Committee		30-Sep-2016	

Description of Covenant

The Recipient shall establish by September 30, 2016 and maintain throughout the Project implementation period, a Technical Steering Committee, composed of representatives from BAPPENAS, Ministry of Home Affairs, Ministry of Agrarian Affairs and Spatial Planning/National Land Agency, academia and community stakeholders, including Indigenous People or Adat Communities, to be responsible for providing technical guidance and coordination on Project

implementation.

Name	Recurrent	Due Date	Frequency
Grant Agreement, Schedule 2, Section I.A.2 Consultative Committees	X	within four months of a respective KPH selection	

Description of Covenant

The Recipient shall establish, within four months of a KPH selection, and maintain, throughout the Project implementation period a Consultative Committee, composed of representatives from sub-national offices of Ministry of Environment and Forestry, BAPPEDA, subnational government, community stakeholders, including Indigenous People or Adat Communities and other relevant stakeholders, to be responsible for coordination with KPHs on Project implementation.

Name	Recurrent	Due Date	Frequency
Grant Agreement, Schedule 2, Section I.A.3 Project Management Unit		30-Sep-2016	

Description of Covenant

The Recipient shall ensure that the Project Management Unit is established by September 30, 2016 and thereafter maintained within the Ministry of Environment and Forestry, throughout Project implementation period, provided with sufficient resources and staffed with competent personnel in adequate numbers, with qualification, experience, and terms of reference satisfactory to the World Bank, to be responsible for day to day implementation of the Project, quality assurance, procurement, financial management, monitoring and reporting.

Name	Recurrent	Due Date	Frequency
Grant Agreement, Schedule 2, Section I.A.4 Supporting Units	X	within three months of a respective KPH selection	

Description of Covenant

The Recipient shall ensure that Supporting Units are established, within three months of a KPH selection, and thereafter maintained in close proximity of the relevant KPH, throughout the Project implementation period, provided with sufficient resources and staffed with competent personnel in adequate numbers, with qualification, experience and terms of reference satisfactory to the World Bank, to be responsible for assisting the KPH and, when relevant, the Provincial forestry office, in accordance with the Project Operations Manual, with day-to-day management of the Project.

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Conditions

Source Of Fund	Name	Type
FIP	Article IV, 4.01 (a) (b)	Effectiveness

Description of Condition

(a) The SDTF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Agreement) have been fulfilled; and
(b) The Recipient has adopted the Project Operations Manual, in form and substance satisfactory to the World Bank.

Team Composition				
Bank Staff				
Name	**Role**	**Title**	**Specialization**	**Unit**
Diji Chandrasekharan Behr	Team Leader (ADM Responsible)	Senior Natural Resources Economist	Task Team Leader	GEN02
Achmad Zacky Wasaraka	Procurement Specialist (ADM Responsible)	Procurement Analyst	Procurement	GGO08
I Gusti Ngurah Wijaya Kusuma	Financial Management Specialist	Financial Management Specialist	Financial Management	GGO20
Andrew Michael Mitchell	Team Member	Senior Forestry Specialist	Forestry and Institutions	GEN03
Nagaraja Rao Harshadeep	Team Member	Lead Environment Specialist	Knowledge Management Systems	GENGE
Tini Gumartini	Team Member	E T Consultant	Forest Policy and Climate Change	GEN02
Indira Dharmapatni	Senior Safeguards Specialist	Senior Operations Officer	Social Safeguards	GSUID
Rambat Sakwan	Safeguards Specialist	Social Development Specialist	Social Safeguards	GSUID
Fajar Argo Djati	Safeguards Specialist	Social Development Specialist	Social Safeguards	GSUID
Ria Nuri Dharmawan	Counsel	Counsel	Legal	LEGES
Agustina Eviani	Team Member	Team Assistant	Administration	EACIF
Fnu Hanny	Team Member	Program Assistant	Administration	GEN02

Extended Team			
Name	**Title**	**Office Phone**	**Location**
Flavio Chaves	Consultant – Environmental Safeguards		Jakarta and Brazil
Hrishi Patel	Consultant - KMIS		Washington DC
Azis Khan	Consultant – Economist		Jakarta

.

Locations					
Country	**First Administrative**	**Location**	**Planned**	**Actual**	**Comments**

	Division				
Indonesia	South Sumatra	Sumatera Selatan	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Sulawesi Tenggara	Sulawesi Tenggara	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Central Sulawesi	Sulawesi Tengah	**X**		The actual locations will be chosen during the first year of the project
Indonesia	West Nusa Tenggara	West Nusa Tenggara	**X**		The actual locations will be chosen during the first year of the project
Indonesia	East Kalimantan	Provinsi Kalimantan Timur	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Central Kalimantan	Provinsi Kalimantan Tengah	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Papua	Provinsi Papua	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Bengkulu	Provinsi Bengkulu	**X**		The actual locations will be chosen during the first year of the project
Indonesia	Gorontalo	Provinsi Gorontalo	**X**		The actual locations will be chosen during the first year of the project
.					

I. STRATEGIC CONTEXT

A. Country Context

1. **Indonesia had some landmark achievements in the past two decades.** In 1999, 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, and regional and global influence. Indonesia achieved notable economic growth and created 2.6 million new jobs yearly between 2006 and 2012. Job creation in the recent past, however, has been modest and Indonesia is starting to feel the consequence of a broader economic slowdown. The Central Bureau of statistics estimated 2015 gross domestic product growth at 4.79 percent, and the World Bank forecast for 2016 gross domestic product growth is 5.3 percent.

2. **Despite being an industrializing nation, inclusive socioeconomic development in Indonesia depends on natural resources.** Rural areas in Indonesia have a consistently higher rate of poverty than in urban areas (14.7 percent compared to 8.5 percent respectively). Six million of the 32 million people that live in and around forest areas are poor. The households in the forest areas have limited access to services and are heavily reliant on natural resources. In these regions and in Indonesia more broadly, forestry-based activities and industries (for example, timber harvesting, pulp and paper processing, furniture making) are an important source of growth and employment. In addition, several million people are employed in managing small-scale agro-forestry systems.

3. **Many of Indonesia's communities have longstanding, direct and multi-faceted relations with natural ecosystems,** relying on them for subsistence, livelihood and economic development. In 2013, nearly 55 percent of the population remained dependent on land for their subsistence. On average, 20 percent of household income is derived from agriculture and 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 it imperative to enable sustainable management of natural resources, such as forests, for the wellbeing of the poor.

4. **Weak governance over land and management of natural resources are undermining socioeconomic development in rural areas and environmental degradation**. Indonesia operates with a dual system of land control as a result of the continued administrative separation between the Ministry of Environment and Forestry (MoEF) and the National Land Agency with respect to land. This creates overlapping land-related regulations and guidelines, and ambiguous provisions regarding the management and administration of land and land-based natural resources. In addition, there are customary (*Adat*) claims to land which are adhered to by large numbers of the general population and landholders. The multiple claims to land makes it difficult to effectively develop and implement harmonized spatial plans across levels of government and sectors. The weak governance and lack of protection and recognition of customary rights makes land and natural resources, a source of conflict and results in unsustainable management, the impact of which is often wide-ranging, as evidenced by the 2015 forest fires.

5. **Indonesia's National Medium-Term Development Plan (RPJMN) emphasizes economic feasibility, social acceptability and environmental sustainability**. Indonesia has to

reverse the increasing inequality of its current growth pattern and improve natural resource management, taking measures to resolve conflicts over land and improving the governance of planning, management and use of natural resources. Such measures are important for the long-term development of small and marginal landholders and forest dependent communities and for broader national growth and sustainable natural resource management.

B. Sectoral and Institutional Context

6. **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 is classified as 'Forest Estate' by MoEF. The Forest Estate includes areas ranging from primary forest, agricultural land, and 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 settlements. Indonesia's forests are a critical part of the natural landscape of the country and important for national economic development, the livelihood of local people, and functioning of the global environmental system.

7. **Indonesia is committed to reducing its greenhouse gas (GHG) emissions by 41 percent by 2020 compared to business as usual** as noted in its Intended Nationally Determined Contribution to climate change. The Government of Indonesia (GoI) has codified this commitment in a Presidential Instruction and *Rencana Aksi Nasional Penuruan Emisi Gas Rumah Kaca* (National Action Plan for Greenhouse Gas Emission Reduction). To achieve the set targets, the *Badan Perencanaan dan Pembangunan Nasional* (National Planning Ministry [BAPPENAS]) has identified forests and peatland as one of six key sectors, and set emission reduction targets of 0.672 Gigatonnes (Gt) of CO2e and 1.039 GtCO2e respectively. Indonesia's annual GHG emissions caused by deforestation, forest degradation and peat decomposition was estimated to be between 320 and 430 million tons of CO2e between 2001 and 2012.

8. **Indonesia has embraced the concept of financial compensation for reduced emissions from deforestation and forest degradation (REDD+)** and is participating in a number of REDD+ readiness programs. Indonesia is aiming to receive performance-based payments for achieving REDD and has prepared a National REDD+ Strategy. Indonesia has made significant progress in developing Strategies and Action Plans for 11 priority provinces, the REDD+ safeguards approaches and Safeguards Information System (SIS), and a Monitoring Reporting and Verification (MRV) framework. The Forest Investment Program (FIP) complements these efforts by focusing on improving forest and land governance and supporting sustainable management use of forest assets within a landscape, all of which are preconditions to realizing the carbon and co-benefits from forests and land.

9. **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 percent of this area was primary tropical forests rich in biological diversity and carbon. In Indonesia, unplanned deforestation and degradation are triggered by: (a) illegal logging and unsustainable forest management; (b) forest fires; and (c) conversion of natural forest to industrial timber and oil

palm plantations and mining concessions. The underlying causes include: (a) inconsistent and inadequate spatial planning (due to limited accurate data to inform *Rencana Tata Ruang Wilayah* [Regional Spatial Planning]); (b) unclear land ownership and land conflicts; and (c) 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). In addition, the demand for timber exceeds sustainable supply, resulting in an average of 425,000ha of forests degraded per year. The challenges and consequences of deforestation and forest degradation point to the importance of a sustainable landscape approach that is multisectoral and promotes sustainable use of the natural assets for inclusive economic growth.

10. **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 has resulted in the overlaying of 600 nominal KPHs over the whole Forest Estate. The roll out of KPHs is a priority program for MoEF and is in the national RPJMN. For 2016, MoEF has committed approximately US$22 million to the program. MoEF is expected to investment approximately US$100 million in the KPH program over the next five years.

11. **The changing institutional and legal landscape makes implementing decentralized management of forests even more important.** The Constitutional and Supreme Court decisions - MK45/2011; MK35/2013; MA47P/Hum/2011 (23 December 2013) - changed the perception and legal basis for the authority of MoEF over the nominated Forest Estate. The decisions require that government formally gazette forest land prior to having it legally recognized as Forest Estate, recognize the legitimacy of *Adat* communities to land title, and clarify the retrospective nature of nominal forest land. It, therefore, is important to effectively implement institutional models, like KPHs, that can work in partnership with local stakeholders, including *Adat* communities, to sustainably manage the forests as the ownership issues are addressed.

12. **KPHs are to be the basis for governing and managing all forest areas and functions at the local level** based on forest management plans, and in close consultation and collaboration with local government, community groups, local industries, license holders, and other stakeholders. The KPHs are designed to be part of provincial government and to manage forests for their functional purpose (that is, 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, and being responsive to local needs, interests and claims. KPHs are to be repositories of information, work with local stakeholders, and reconcile various parties' interests to use forests with the available resource base in order to achieve sustainable management of forests within a broader landscape.

13. In accordance with GoI and MoEF regulations, a KPH's functions include:

- Undertaking forest use planning and boundary demarcation (within the forest

landscape of a KPH's boundaries (herewith referred to as KPH area))

- Preparing the forest management plan for the KPH area, including fire prevention
- Undertaking guidance, monitoring and evaluation (M&E) 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 areas where there is no management scheme (this applies for KPHs that are already implementing the financial management (FM) system of a Public Service Agency or Regional Public Service Agency (BLUD))
- Adopting innovative approaches to carry out forest management and forest operations
- Upholding the forest laws, including protecting and securing the KPH area
- Mobilizing investment to achieve the objectives of sustainable forest management (SFM)

14. **KPHs can help reduce deforestation and forest degradation** if they are effective at bringing key stakeholders into planning processes, mediating conflicts, and supporting GoI in a transformative process toward good forest governance and subnational REDD+ readiness (for example, increase local participation, integrate forest management with spatial planning, improve management on the ground and coordination among stakeholders, and provide livelihood alternatives). Improved forest governance is expected to facilitate community participation in forest management, use and development, and increase private investors' confidence to invest in the forest sector. Effective KPHs can contribute to sustainable landscape management and help harness natural assets (forests, rural lands, and water resources) for sustainable and inclusive development.

Institutional Context

15. **BAPPENAS and MoEF are committed to the roll out of KPHs.** BAPPENAS has indicated to MoEF that their budget is conditional on achieving KPH implementation targets – a requirement referred to as "no KPH no budget". The Minister of MoEF noted that the transition to a decentralized management regime for forests remains a priority in the sector. The RPJMN states that there will be 340 operational KPHs by the end of the current government term. There are two types of national funds supporting KPH establishment during the current RPJMN – the *Anggaran Pendapatan Belanja Nasional* (State Budget [APBN]) and deconcentration funds. The funds currently available are insufficient to make KPHs effective and can only be used for specific purposes. There are untapped resources for supporting KPHs, including the Reforestation Fund (DR).

16. **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 Directorate General (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 as production forests. Similarly, the DG of Social Forestry and Environmental Partnership has the authority over implementation of KPHs located in areas zoned predominantly as protection forests. A National KPH Secretariat (SEKNAS), established with donor-funding and housed in MoEF, coordinates the operationalization of the KPHs across DGs in MoEF and with other relevant sectors. It, however, 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.

17. **For establishment of KPHs, it is estimated that MoEF made available in 2014 an average of US$178,000 for each KPH.** These funds covered the costs of an inventory (social, cultural and biophysical), formulation of long-term forest management plans, support for human resources, forest use planning, and understanding how to achieve the legal status to manage their own budget (if they have BLUD status). The funds also covered expenses associated with the infrastructure, vehicles and office facilities of each KPH. Estimates of the funding MoEF made available for operationalization of KPHs is approximately US$220,000 per production KPH (KPHP) in 2015. These funds covered costs associated with planning, gazettement, forest utilization, rehabilitation, protection and more. The funds available for establishment and operationalization need to cover eligible expenses in KPHs that range in size from 4,600 hectares (ha) to 908,000 ha. These KPHs can be associated with six to more than 13 subdistricts, and serve a population that ranges from 150,000 to more than 500,000. The public funds available to KPHs also cover the cost of the three main staff in a KPH who meet MoEF certification standards. Additional staff can be recruited based on availability of funds and need.

18. **Despite GoI's commitment, the complete transition to effective decentralized forest management by 2019 remains challenging.** The current budget constraints combined with other administrative, political and human resourcing constraints to implementing KPHs are considered significant obstacles to achieving effective decentralization of forest management. While MoEF has been successful in facilitating KPH establishment activities in accordance with their current program commitment, its capacity to operationalize KPHs in the field has been constrained by the need for fundamental changes in regulations, need for information and capacity at both national and local levels of government, and sustainable financing. The implementation of the KPH program will require changing how sub-national government carry out planning, opening up the process to engage local stakeholders and using agreed information on land use and land rights. It will also require MoEF and other ministries to adapt their approaches based on experiences at the local level. Support is also needed to remove barriers to making public and private funding accessible to the KPH network, and to showcase and scale up successes in the implementation of the KPH program.

19. **Insights from other government and donor financed activities to operationalize KPHs and reviews of the government initiative to decentralize forest management, helped identify the main areas KPH implementation requires assistance.** These are:

- To increase understanding, ownership and buy-in of the KPH model across the Ministry, at the subnational level, and among many provincial authorities and stakeholders

- To secure appropriate long-term funding from public and private sources, including managing KPHs' generation of revenue from economic activities

- To clarify roles, responsibilities, reporting requirements between and among the national and subnational levels including within MoEF and between KPHs and local government

- To increase knowledge of acceptable models and best practices for KPHs

- To make information and knowledge on land uses, boundaries and forest extent and health widely accessible

- To address social and land tenure conflicts that exist in a large number of KPHs

- To finalize the gazettement of KPH boundaries

- To improve capacity among national and local government civil servants in technical and adaptive management and social and environmental aspects of KPH operationalization

C. Higher Level Objectives to which the Project Contributes

20. **The proposed operation is fully consistent with the World Bank Group's strategic goals** – to end extreme poverty and to promote shared prosperity with environmental, social, and fiscal sustainability and also part of the sustainable landscape management engagement area identified in the World Bank Group's Country Partnership Framework for the Republic of Indonesia for the period 2016–2020 (Report 99172). The Sustainable Landscape Management engagement area aims to improve management of, and benefits from, terrestrial natural assets. It includes support for policy reforms in land and forest governance and administration to reduce poverty, attract better investment, promote sustainable livelihoods and agriculture development and increase job creation, while maintaining the natural asset base. This project, by strengthening the institutional mechanism for transferring sustainable management of the Forest Estate to entities that, if effectively operationalized, are affiliated with subnational government, provide the avenue for working with the decision-makers and managers at the subnational level on issues pertaining to the Forest Estate in a manner that helps deliver on the Sustainable Landscapes program's proposed objective. The project, by enhancing harmonization of forest management planning with subnational spatial planning, augmenting coordination with local stakeholder groups', assisting with modernization of systems for information exchange, and increasing capacity, contributes to proposed areas of engagement in the Sustainable Landscapes program. More specifically, the project provides an institutional entity at the forest site level that can discuss and mediate overlapping claims to land, act as a vehicle for delivering local-level fire prevention in forests, and facilitate opportunities for investing in sustainable use of forest assets for lowland development. The project is fully consistent with the World Bank Group's strategic twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner as it targets poor communities

living in forest areas. It is also fully aligned with the Forest Action Plan and contributes primarily to the Action Plan's Focus Area 1 on Sustainable Forestry through activities on participatory management and sustainable management of production and protection forests.

21. **This project is part of the FIP in Indonesia which supports priority investments in addressing drivers of deforestation (see Annex 6).** The higher objective of the program and associated projects is to reduce GHG emissions and enhance carbon stocks while generating livelihood co-benefits. 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 management of forests. The proposed operation will deliver on the higher-level objectives of both the national and global FIP by establishing the necessary conditions for improved local forest governance through the KPH system. By putting in place the necessary conditions for improved forest management at the subnational level, the project is tackling some of the underlying drivers of deforestation and degradation. Success in reducing deforestation and forest degradation will, *ceteris paribus*, result in a reduction in GHG emissions from land use change.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

22. **The project development objective (PDO) is to strengthen institutional and local capacity for decentralized forest management and generate improved forest-based livelihoods in targeted areas**.

Project Beneficiaries

23. **During the life of the project, the beneficiaries will include communities living in and adjacent to KPH areas and government**. The government at the national, and provincial level will benefit from clearer regulations for decentralized forest management and linkages between spatial planning and forest land use planning. Additional beneficiaries include staff of MoEF at the national, provincial and district level and the heads of the KPHs and KPH staff. These government officials will receive training in matters such as participatory land use planning, conflict mediation, understanding existing and new legislation, and business development. Similar training and improved access to information will be available to other ministries, technical service providers (TSPs) (including Non-Governmental Organizations [NGOs], academics and private entities) and community representatives. Targeted villages will also benefit from capacity building, access to information and systems for knowledge management and exchange, and opportunities for improving their livelihoods and generating revenue. Explicit effort will be made to involve vulnerable communities, ethnic groups, and women in project activities through the project's community participation framework (CPF). The total number of persons directly benefiting from the Project is anticipated to be approximately 113,000.

PDO Level Results Indicators

24. Key PDO indicators include:

(a) KPHs governed by sustainable long-term and annual forest management plans

prepared or revised with community participation (number)

(b) Key regulations drafted through increased coordination and submitted for government review (number)

(c) Key standard operating procedures (SOPs) drafted and submitted for review among concerned ministries (MoEF, MOHA)

(d) Direct project beneficiaries (% of which female)

(e) Project affected people in forest and adjacent communities with increased monetary and non-monetary benefits, disaggregated by women and indigenous peoples

(f) Share of beneficiary/stakeholder satisfaction from administration of KPH (percentage)

25. It should be noted that the project will measure reduced emissions and carbon sequestration in order to inform the FIP program-level results framework. The details on the Results Framework are in Annex 1.

Location of Field Activities

26. Field-level activities will occur in up to 10 KPH areas. There will be three types of support provided to these KPHs: (a) technical assistance and capacity building for all stakeholders engaged in KPH activities (referred to as indirect support to KPHs); (b) direct support for operationalization of the KPHs, including support for obtaining the status of a BLUD; and (c) community empowerment activities for communities living in and around the KPHs. The KPHs receiving direct support will be selected in the first year of the project based on criteria described in Annex 2.

III. PROJECT DESCRIPTION

27. **The project supports and strengthens the national effort to decentralize forest management through the operationalization of KPHs.** The project focuses on three elements – addressing key national and subnational legal, policy and institutional constraints, building the capacity for all relevant stakeholders (including through access to better information), and operationalizing up to 10 KPHs in order to learn from the implementation activities and inform future efforts to enhance capacity building and regulations. The project will help create an enabling environment and generate insights and lessons for scaling up the operationalization of KPHs.

Component 1: Strengthening Legislation, Policy, and institutional capacity for decentralized forest management

28. Operationalization of KPHs is ongoing. The process, however, has been constrained by unclear regulations and incomplete standard operating procedures (SOPs), lack of consistent information, and limited subnational ownership of the roadmap for rolling out KPHs. This component addresses these constraints by (i) augmenting the subnational ownership and commitment to the KPH program, (ii) assisting with drafting revisions and amendments of forest sector regulations and SOPs that clarify roles and functions, implementation requirements, and means to achieve sustainable financing, (iii) building institutional partnerships and capacity among

key government entities. The implementation of this component will build on existing efforts to harmonize regulations and the work of SEKNAS to increase support for operationalizing KPHs.

Subcomponent 1.1: Forest policy and legislation development, revision and amendment

29. This subcomponent will support technical assistance to draft revisions to existing regulations and SOPs in an effort to make them more clear and consistent. This will include drafting amendments to regulations regarding roles, responsibilities and procedures. Technical assistance will also be provided to develop methodologies and SOPs for engaging with local communities, *Adat* community, and local governments (specifically regarding spatial planning and conflicts over land), and for forming partnerships. The subcomponent will also support a communication campaign to raise awareness and augment the existing commitment to KPHs, creating greater political will and support for KPHs. The activities will involve providing necessary technical assistance to relevant DGs in MoEF and other ministries (for example, MoHA), and subnational government entities to augment their regulatory and financial support for KPHs, and facilitate dialogue and coordination. The aim is to develop a broad consensus among government institutions, and subsequently non-government stakeholders, on effective ways to support operationalization of KPHs, the gazettement of KPH forest boundaries while recognizing different claims and rights to forest lands, and enforcement of KPHs' participatory forest land use plans.

Subcomponent 1.2: Institutional development and capacity building

30. This subcomponent will help build needed capacity in MoEF, other relevant ministries, and local government/Dinas. The activity will include a capacity needs assessment. The anticipated capacity needs are participatory mapping, gazettement and land use planning, stakeholder engagement, conflict mediation, forest management planning, facilitating inter-ministerial dialogues, and managing personnel. Capacity building on spatial planning will focus on mainstreaming KPH area planning in local government spatial planning processes (RTRWP/K) and the Regional Medium Term Development Plan process. Funds will also be used to develop methodologies and guidelines for subnational entities. MoEF's Center for Education and Training (PUSDIKLAT) will lead this subcomponent and use the funds primarily for consultancies.

Component 2: Developing the Knowledge Platform

31. Operationalizing 600 KPHs requires a means to make readily accessible a consistent set of supporting information (for example, on forest uses, concession allocation, claims and rights to land) that can be integrated into existing planning and implementation efforts. In addition, capacity building must be cost-effective and reach staff in the KPHs and practitioners who could assist in enabling decentralized forest management. This component addresses these needs by establishing an effective modern knowledge platform that facilitates information and data sharing, access and use of user friendly outputs, and knowledge exchange among practitioners.

Subcomponent 2.1: Knowledge Management and Information System

32. This subcomponent will involve establishing a KMIS that builds on existing systems in MoEF and is accessible to national and subnational (provincial and district) government and non-government stakeholders, KPH and local communities. The activities will include making available electronically existing information on socioeconomic, institutional, biophysical and

environmental parameters including information that is only available in hardcopies of relevant reports, and where necessary digitizing maps. The KMIS will also support the development of a range of products (for example, Atlases, status reports), online services and digital applications that will facilitate accessing and using data and information needed for forest management, marketing and investments. The online services will include services for using existing data to generate maps and other relevant visualizations to support spatial planning, service delivery, and benchmarking. This subcomponent will primarily cover the cost of the associated consultancies and goods.

Subcomponent 2.2: Capacity-building and knowledge exchange

33. This subcomponent will support the development of training modules for both face-to-face and e-learning and their dissemination through the aforementioned knowledge platform in an effort to facilitate affordable capacity building. In addition, this subcomponent will support online knowledge exchange services through clinics, forums, e-learning/ distance learning, specialized training, training of trainers, and competitions. The competitions will aim to facilitate face-to-face training for stakeholders in academia, Civil Society Organizations (CSOs) and KPHs. They will also foster innovative ideas on how to use digital technology to facilitate operationalization of KPHs and help promote these ideas. This component will also develop modules for face-to-face training that will be used in component 1 and 3. Funds will largely support consultancies and training (through development, implementation and awards from the competition).

Component 3: Improving Forest Management Practices

34. This component supports up to 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 KPHs will be done using a set of criteria ranging from readiness for receiving support to representativeness to carbon sequestration potential (see Annex 2 for more information on the set of criteria). The support provided through this subcomponent will be used for technical assistance and small scale investments that would enable local communities to benefit from their natural assets. This support will complement the funding KPHs are receiving for operationalization from the national and subnational budgets. The activities will involve working with *Adat* and local communities.

Subcomponent 3.1: Advance KPH operationalization

35. KPHs are responsible for carrying out functions spanning from supervising existing concessions and licensed areas for compliance with the forest management plans to directly managing certain forest areas through partnerships with private entities and communities and generating their own revenue. This subcomponent offers technical assistance for up to 10 KPHs on key issues that are essential for them to deliver their mandate effectively. The specific level of assistance for each KPH will be determined through a needs assessment coordinated through the subnational Supporting Units (SUs). The assessment will be on specific needs for legal support, forest management planning, harmonizing plans with spatial plans, conflict mediation, communication and outreach, engaging with local stakeholders, establishing partnerships, business planning, and securing financing. The support will be provided through consultancies.

Subcomponent 3.2: Community empowerment in up to 10 KPH areas

36. This subcomponent will support the same KPHs mentioned above to implement community-level activities that build community capacity. It will also enable communities to receive benefits (which may be monetary and non-monetary) by supporting activities identified during the forest management and business development planning process. The support will help convert to reality community empowerment aspirations specified in the plans, while working with the underlying conditions in the selected KPHs. The menu of activities associated with this subcomponent will range from support for processes (for example, identifying community forestry areas, assessing the quality of the natural resources, and building capacity of the community forestry groups) to support small scale investments that support sustainable management and utilization of forest resources or reduce pressure on forests (for example, value addition to non-timber forest products).

37. To deliver the support, a typology of communities will be used to ascertain the appropriate mechanism for determining the type of support the project would provide and the community's 'counterpart contribution' to the activity. All interested communities will be provided with assistance to define their priority needs and prepare and submit a request for support. The category in which a community falls will determine the approach for selecting which communities will receive support and how much financial support they will have access to. The approaches will range from a competitive process to a non-competitive grant for a fixed amount to the use of existing approaches implemented by MoEF for social forestry related activities. The criteria for selection and the approaches for implementing and overseeing this component are elaborated in the Project Operational Manual (POM).

Subcomponent 3.3: KPH-based knowledge exchange centers

38. A subset of the KPHs supported in this activity will be selected based on specific criteria (for example, the key implementation challenges they have overcome, location, and feasibility in business plan) to become knowledge resource centers, where other KPH staff can come for training and learning from practice. Currently, a couple of well performing KPHs, as part of their business model, provide training to other KPHs. This model will be adapted and replicated as part of this subcomponent, and support will be provided for building the capacity of the selected KPHs to provide training. The resources associated with this subcomponent will include some goods, works (refurbishing existing office spaces and small buildings) and consultancy services.

Component 4: Project Management, Monitoring and Reporting, and Program Coordination

39. 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, FM, procurement management, equipment and supplies, and M&E. The M&E system will measure progress on the indicators that are provided in the Results Framework (Annex 1) and on the overall FIP program's carbon benefit target. In addition, funds within this component will cover some of the costs associated with the FIP Program Coordination Unit (PCU).

A. Project Financing

40. **This project will support and is fully integrated into MoEF's KPH program which**

is a priority program in GoI's RPJMN. As part of the national KPH program, for 2016, MoEF has committed approximately US$22 million. This is an increase compared to the approximately US$17 million MoEF allocated to the program in 2015. Assuming a similar level of investment into the future, GoI is expected to invest approximately US$100 million into the KPH program over the next five years to establish and operationalize KPHs. The expenditures from this Project are considered to be on budget for the implementing agencies (IAs) involved. The table below summarizes the project cost and financing plan.

Table 1. Project Costs and Financing Plans

Project Components	Project Cost (US$)	Grant Financing (US$)	% Financing
1. Strengthening legislation, policy, and institutional capacity in decentralized forest management	1,342,000	1,342,000	100
2. Developing the Knowledge platform	3,043,000	3,043,000	100
3. Improving forest management practices	13,966,000	13,966,000	100
4. Project management, monitoring and reporting and program coordination	4,065,000	4,065,000	100
Total Costs	22,416,000	22,416,000	–

41. **The financing for this project is from (a) the FIP grant funding and (b) grant funds from Danish International Development Assistance (DANIDA) (committed in Danish Kroner).** The project cost noted in the table above is estimated based on the currency exchange rate available to the team at the time of appraisal and includes a contingency spread proportionally across all the components. If the currency exchange rate is more favorable at the time the DANIDA grant funds for implementation are transferred to the World Bank, the contingency for each component and the overall project cost will be adjusted accordingly.

B. Lessons Learned and Reflected in the Project Design

42. **The project design draws on lessons from a range of relevant projects from other countries** (for example, Brazil, India, and Mexico) and Indonesia. The lessons extracted from these experiences and how they are reflected in the project design are briefly described below.

43. **Reforming how a ministry works (for example, decentralization) requires an incremental approach** that includes initial efforts that identify short-term measures that can provide quick gains and open space for more ambitious reforms. Projects have to ensure or create enabling conditions such as the authorities' interest and commitment with the need of reform; political capital of the authorities; existence of a development strategy, development plan or government plan that identifies the main challenges affecting the sub-national government population; and availability of basic information and data. This project is working with some of the existing pre-conditions and putting in place others needed for reform. It is also designed to be flexible and focus on problem-solving in order to show success at the local level.

44. **Sustainable forestry provides a solid framework for generating benefits from biodiversity and ecosystem services.** It, however, requires investments in augmenting social

capital in communities and technical assistance in addition to investments in infrastructure. Achieving SFM with community involvement requires providing assistance to communities regarding organization, governance, training and capacity building to empower them to make informed decisions and to ensure they contribute to the vision of sustainable forest use. This project includes such investments at the community level.

45. **Having economically viable forestry activities can catalyze community development and strengthen social capital.** Helping beneficiaries capitalize on their natural resource assets can bring focus to their community development process. Offering communities that have been affected by long-standing conflict over land tenure the opportunity to generate income and employment can provide a positive focus on how to sustainably use the resource base. The project has community empowerment activities that include technical and financial support to generate economic well-being from natural assets.

46. **Ensure interventions are adaptable, replicable, and not resource intensive.** The design of component 2 and 3 allow for scaling up activities through the modular design of the project, and by keeping the activities simple and flexible (for example, legal support can be for achieving BLUD status or developing partnerships), and ensuring components generate benefits beyond the purpose of the project.

47. **Create a space for innovation and reward effective approaches.** Innovation is important in this project because the KPH model is fairly young and many elements of implementation need to be refined. Recognition for adopting innovative approaches is also needed to convert MoEF, which has a legacy and entrenched culture, into a more dynamic and learning- and evidence-based institution. Using benchmarking and communication platforms to recognize and reward innovation in both Component 2 and 3, this project aims to incentivize innovation.

48. **Ensure KPHs do not become inefficient bureaucratic units**. Experience with parastatals in Vietnam and other countries raise caution about establishing bureaucracies at the site level that do not effectively deliver on forest management. Activities in component 1 should ensure the regulatory framework in which KPHs operate fosters partnership, innovation and efficient implementation by maintaining a minimum standard rather than overregulating KPHs.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

Implementing Agency

49. **The DG on Planning and Environmental Management will be the lead** IA associated with this project because of their function in establishing KPHs and coordinating the overall effort of operationalizing KPHs. In addition, four other IAs - two MoEF Directorates and two Centers – will be involved in implementing the project because their mandate for operationalizing KPHs are aligned with the project activities.

50. The lead IA, with the support of the MoEF FIP Focal Point, will ensure that the project components and subcomponents are well coordinated and implemented in a timely manner to deliver the objective of the project. The FIP Focal Point is also an Advisor to the Minister of MoEF.

The lead IA will also house the Project Management Unit (PMU) and be accountable for the performance of the overall projects.

Project Management Unit

51. The PMU will assist the IAs with the day-to-day management of the project, including implementing procurement, FM, and project administration. The PMU will be composed of technical advisors, a manager, procurement, FM, safeguards, communication, and M&E specialists. The PMU will also include consultants who will be tasked with ensuring smooth project implementation and coordination and work to link the PMU and IAs. The PMU will also have subnational presence through technical subnational SUs that will operate in close proximity to the KPHs that are receiving direct support from component 3. The SUs will have management, safeguards, and facilitation specialists and will oversee and support day-to-day implementation of the project at the subnational level. The national PMU will backstop the SUs. The PMU will report to the lead IA and convene periodic planning, coordination, and reporting meetings involving all the IAs.

Technical Steering Committee

52. The Project will have a Technical Steering Committee (TSC) composed of representatives of the different key stakeholders associated with the project – BAPPENAS, MoHA, Ministry of Agrarian and Spatial Planning (MASP), community (including indigenous peoples) and academia stakeholders. The TSC will play an important role in project coordination and provide technical guidance on project implementation when difficult issues emerge. The recommendations of the TSC will inform decisions of the IAs. There will be a similar committee at the subnational level - a Consultative Committee – that will link together stakeholders with the SU and KPH in component 3.

53. Overseeing the coordination between this project and the other FIP financed projects in Indonesia will be a FIP PCU. This Unit will be responsible for convening the FIP Program Steering Committee at least once a year and will be housed with the PMU in the lead IA. The PCU will ensure coordination among the FIP financed projects (and, when needed, will ensure coordination within projects), and be responsible for reporting to the public, government and the FIP Steering Committee about progress in the overall FIP program.

B. Results Monitoring and Evaluation

54. **The project's M&E will measure progress on the indicators that are provided in the Results Framework (Annex 1) and on the overall FIP program's carbon benefit target.** The PMU will be responsible for operationalizing the M&E system in compliance with what is specified in the POM. Program performance and results will be reported, on a biannual basis, to the Bank and FIP Steering Committee as per the guidance in the POM. Besides providing feedback on the FIP program, the M&E system will be an important vehicle for adapting implementation to respond to issues of performance and helping scale out the program's impact, as it will inform national KPH regulations and SOPs. The principal data sources of the M&E system are: an annual household survey for measuring monetary and non-monetary impacts on beneficiaries; a perception survey targeted at stakeholders who received training from the project, remote sensing technology

to analyze land use change within the targeted KPHs, annual progress reports, structured stakeholder interviews, and a tool for measuring client satisfaction following interactions with KPH units. An experienced M&E specialist will be part of the PMU and additional technical services will be procured as needed. The PMU will receive M&E inputs from the SUs and from consultants as needed.

C. Sustainability

55. **The project activities focus on key areas of support for operationalizing KPHs, augmenting the available government support.** The project also puts emphasis on building champions and partnerships for implementing decentralized management of forests. The project is also designed in a manner where the interventions could be either integrated into the existing public budget system (for example, technical assistance for KPHs) or be self-financing after the life of the project (for example, sub-portals of KMIS). The aim is to help scale up the operationalization of well-functioning KPHs and help them deliver on their mandate.

V. KEY RISKS

A. Overall Risk Rating

Risk Categories	Rating (H, S, M or L)
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Substantial
Environment and social	High
Stakeholders	High
Overall	Substantial

B. Overall Risk Rating Explanation and Mitigation Measures

56. **The overall risk rating of the project is substantial** (the reasons for which are described below). Mitigation measures have been proposed for each of the areas of risks in the context of the project. It should, however, be noted that the success of the KPH program depends on more than KPHs, local governments and other local stakeholders working well together. It will require local and central governments' having access to the resources (financial and technical) to implement the actions that can address conflicts over land and can lift constraints to advancing sustainable management of forest assets. The financing and implementing of these actions may fall outside of a KPHs mandate – for example, investing in validating land claims. This project will help build capacity that can identify solutions to land conflicts and motivate making the investments. However, it will fall on emerging initiatives, whether under the Sustainable Landscapes program or other programs, to provide the additional financial and technical support that may be needed to do the implementation.

C. Political and Governance

57. **There have been several political and governance changes since August 2014 for which guidance with respect to implementation is still being developed.** These changes include: recentralization of forest responsibilities from the district to the center and provinces (there are, however, provision in the new legislation to enable the provincial government to delegate forest management to the districts); merging of MoEF, integration of REDD+ Agency into MoEF, and changes in the mandate of DGs; establishment of new Ministries, such as the MASP, with which MoEF needs to coordinate; and high-level political commitment to advancing efforts to recognize the customary claims of *Masyarakat Hukum Adat* to forest lands. These recent changes have implications on the importance of coordination and enforcement in operationalizing KPHs.

58. Mitigation: Most of the political and governance changes are significant risks if they are ignored and MoEF does not coordinate with other Ministries. Activities in component 1 are drafted with some flexibility in order to adapt them to the emerging institutional and political realities and seize the opportunities created by the changes. Component 1 includes working with existing platforms to coordinate across ministries (for example, Nota Kesepahaman Bersama 12 which is a Memorandum of Understanding signed between 12 Ministries [NKB12]). In addition, the proposed implementation arrangements include inter-ministerial and inter-departmental committees which can foster dialogue and coordination. The project also supports drafting SOPs, including procedures for working with customary claims of Indigenous People (whether fully mapped or in the process of being mapped). These SOPs will be, as with all regulations, drafted in a consultative manner, in compliance with the National Forest Council (DKN) rules to ensure broad stakeholder input. Activities under component 2 and 3 will create incentives to comply with forest regulations by raising the public profile of well-functioning KPHs.

D. Institutional Capacity for Implementation and Sustainability

59. **The IAs lack experience in managing Bank funded projects and foreign grant funds using an on-budget on-treasury system.** The limited ownership by sub-national entities could also pose challenges in ensuring that the project focuses on quality and not only achieving quantity targets.

60. Mitigation: The composition of staff in the PMU includes a senior procurement specialist and FM specialist and a junior procurement and FM specialist to bolster the capacity within the project to carry out timely procurement. In addition, there are resources to build the capacity of KPH and subnational government to generate greater interest and engagement in the project and roll out KPHs more broadly. Measures under the Fiduciary risk will also be applied.

E. Fiduciary

61. **There are varying levels of corruption across sectors that may impact FIP.** Any mismanagement of funds will impede the achievement of the overall PDO. The follow-up and final procurement capacity assessment of the project indicated that project procurement processes should introduce specific measures to enhance competitiveness, transparency and accountability, for procurement at the national and subnational level, including for procurement at the community level, anticipated under the Project and focus on strengthening the capacity and awareness of the KPH and the community groups implementing the Project. The FM risk is related to the MoEF's

lack of experience on managing foreign grant using the on-budget-on-treasury system. There is a risk also associated with project implementation that in various provinces, across multiple DGs within MoEF, and at different levels of government.

62. Mitigation: The potential mismanagement of funds will be mitigated through competitive and transparent Procurement and Financial Management practices within MoEF, participating subnational governments, and KPHs supported under the Project. Taking into consideration the risk of having the community be responsible for carrying out the procurement of small works and small value of goods/services itself, the necessary facilitation and technical assistance will be provided under the project, and such specific arrangements have been discussed, developed and agreed to with the Bank and documented in the POM. Furthermore, there will be adequate Financial Management support within the central PMU, including a specialist who will be able to assist each of the subnational SUs. The PMU will also have the role of coordinating the FM aspect of the project across the different IAs. The fiduciary safeguards is also integrated into the project design and POM. In general the fiduciary risk of the project is moderate after adoption of proposed FM and procurement risk mitigation measures.

F. Environment and Social

63. **Many KPHs face serious social and land conflicts on the ground.** These are on account of overlapping maps, contested claims on the land concerned, a lack of a shared understanding between different stakeholders as to who has right to the land, and an increased assertiveness on the part of local and traditional communities on customary rights. Forest boundaries are not always demarcated. Most of Indonesia's provinces lack legally binding spatial plans. And customary land rights have not been fully mapped.

64. Mitigation: The project, following requirements of Indonesian law and Bank operational policy, will have to comply with the integrated Environmental and Social Management Framework (ESMF). The latter includes a CPF and Land Acquisition and Resettlement Policy Framework (LARPF), and also guides the preparation of the Indigenous Peoples Plan (IPP) and the Resettlement Action Plan (RAP). These frameworks will also be promoted through component 2 to a broader set of KPHs and discussions will be held on how to integrate these frameworks in the roll out of KPHs and build the relevant capacities.

G. Stakeholders

65. **The preparation process of the project involved several consultations.** These consultations have revealed that some national and site-level project stakeholders have been critical of FIP and the MoEF reform agenda. A few CSOs have expressed their intent to closely monitor project implementation. Further, the level of ownership of local government and KPHs in the design process needs strengthening. The latter is a function of the communication strategy during project preparation not being prepared in a timely manner or manner that services the needs of the project. There is also a lack of a shared understanding amongst national and sub-national stakeholders on the exact nature of the KPH's role.

66. Mitigation: There is a dedicated effort in Component 1 to carry out the necessary communication, outreach and awareness raising among stakeholders regarding the project activities

and also to engage the relevant stakeholders in specific activities. A communication strategy, which is budgeted for in the project, will be developed and will build on the principle that relevant information must be presented at the appropriate time and in an appropriate manner to effectively reach all the stakeholders. This approach, will also be mainstreamed by providing guidance and training on communication and outreach through Component 2. In addition, Component 1 is designed to foster policy dialogue within the MoEF, other line ministries and civil society. Component 3 – which involves direct support to pilot KPHs - will work closely with local governments on KPH management. The Bank is concurrently supporting the Designated Grant Mechanism to help empower Indigenous Peoples and Local Communities living on forest land, an instrument that would be closely linked with the FIP project to help ensure significant stakeholder participation in relevant project activities.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

67. **Unsustainable management of forest lands has significant negative externalities**. The estimated impact on the economy of the 2015 fires in Indonesia underscores how weak institutions and unsustainable management of the natural assets and land can compound the impact of weather patterns such as *El Nino*. The FIP intervention supports activities aimed at improving the policy and regulatory context and building capacity of subnational units - KPHs - and local stakeholders to sustainably manage land within the KPH. The project focuses on the technical assistance needed to engender long-term improvements in how the forests and land in KPHs are managed. This makes it challenging to quantify the economic benefits derived from the project.

68. **The technical assistance provided for institutional change is focused on the key areas of need for generating the long-term benefits from decentralized management of forests** that will benefit more than the 10KPHs where the project has direct interventions. The technical assistance and capacity building provided through this project can be considered cost effective if, under a set of assumptions (elaborated in Annex 4), a five percent discount rate and over 20 years, 150 KPHs can generate a minimum net present value per hectare of slightly less than US$42. The project can also be considered cost effective if, at a 10 percent discount rate and over 20 years, 150 KPHs can generate a minimum net present value per hectare of slightly less than US$52. These values are considered to be viable based on the analysis of a sample KPH (described in the next paragraph).

69. **At the KPH level, project interventions will pilot different approaches for assisting them to optimize the use of the natural asset base for sustainable economic change and benefits to local stakeholders.** As the specific sites are yet to be determined, this analysis presents expected economic benefits that investments in a KPH could generate. As implementation gets underway and insights emerge on how the project is benefiting KPHs, the assumptions underpinning this analysis may change. The example uses data from a representative KPH that is a production KPH with areas that have the function of protecting ecosystem services. Using a 5 and 10 percent discount rate, the analysis finds that the expected net present value per hectare for KPHs that are well functioning (assumed to occur from year 4 onwards) are positive. They are US$743/ha and US$207/ha for 5 and 10 percent discount rate respectively (the details of the calculation are in Annex 4). Sensitivity analyses were conducted on the returns for this sample KPH. The analysis

shows that economic viability of a well-functioning KPH is fairly robust under various scenarios (including different carbon prices, and different costs). The results had benefit cost ratios that ranged from 1.06 to 1.55 (see Annex 4 for more details).

70. **In addition, the long-term non-monetary benefits from the Project are noteworthy**. They stem from addressing some of the underlying causes for degradation. The benefits are expected from clarity over land use and harmonization of spatial plans with forest management plans, management of forests for ecosystem services and forest goods, and improved institutional relationships among local communities, local government and KPH regarding land and forest related matters.

B. Technical

71. **The project design is technically robust for three reasons**. **First the policy and institutional elements are aligned with government activities and focus on unlocking the opportunities created by decentralization of forest management** by reversing key constraints that are within the control of the MoEF, building institutional capacity, and strengthening the mechanism for engaging communities and other local stakeholders in forest management and sustainable resource use. The project provides resources to facilitate needed dialogue, outreach and awareness raising, analysis, and capacity to address legal, policy and institutional capacity constraints. It works with existing mechanisms to promote coordination and to make policy and institutional breakthroughs (for example, the NKB12 – to accelerate the process of designating state forest zones, while at the same time resolving conflicts over its boundaries and claims over land. This is known as NKB12).

72. **Second, the project balances the activities focused on policy and institutional measures with activities that make operationalization of KPHs feasible** – including using available technology to make important information accessible and user-friendly, and to build capacity of all stakeholders associated with the KPH and associated area to enable due process, informed decision-making, and improve governance. The activities are designed recognizing the technological, infrastructure, and literacy constraints in and around forest areas.

73. **Third, the project invests in changing practices by rewarding innovative approaches** (in component 2) and 'learning by doing' (in component 3). While the focus is on operationalizing up to 10 KPHs, a key benefit of this component will be the sharing of the lessons learned and insights from 'action research' in the KPHs. The experiences from the KPHs targeted by this project will help guide the operationalization of other KPHs and assist with scaling up this process. Component 3 also supports the development of a network of private technical support for KPHs and associated communities at the local level, with the aim of improving how technical support is provided.

74. **The project is investing in a robust M&E system for both project- and program-level monitoring.** The M&E system will assess progress, capture lessons learned and, through the analysis done, identify and share information on constraints and measures for removing unanticipated obstacles using the KMIS developed in component 2).

C. Financial Management and Disbursement Arrangements

75. The Bank carried out a FM assessment in accordance with OP/BP**10.00.** The Assessment covered the FM system of the national IAs and selected sub-national IAs. Overall, the FM risk is assessed as substantial. With the implementation of the agreed action plan, the proposed financial arrangements will satisfy the Bank's minimum requirements and are adequate to provide, with reasonable assurance, accurate and timely information of the grant required by the Bank.

76. **The project FM arrangements follow the government system**, especially on budgeting, flow of funds, and the auditing mechanism. The FM risk is related to MoEF's lack of experience on managing foreign grants using their on-budget-on-treasury system. Risks are also noted in relation to project implementation in multiple provinces, across five DGs within MoEF, and at different levels of government. The following measures aim to mitigate the associated risk:

(a) Issuance of ministerial decree that will specify the lead IA, the other IAs, and SUs in KPH. The decree will also specify: (a) that PMU will be housed in the lead IA, (b) the Bank's counterparts in the lead IA and the other IAs, and (c) the role of lead IA, other IAs, and SUs including IA's role on overall project coordination

(b) Appointment of FM consultant and dedicated staff who have capacity and adequate experiences to assist the lead IA and other IAs to handle the FM aspect of the project

(c) Development of a POM agreed with the Bank that includes detailed FM arrangement of the project including activities implemented at the community level

(d) Training provided by Bank's Financial Management staff to FM staff in the lead IA and other IAs on FM upon effectiveness of the grant

77. **There are two grant agreements associated with this project**, one for the FIP financing and one for the financing from DANIDA through the Royal Embassy of Demark based in Jakarta. Each grant will finance all project components. Details on how the funds should be disbursed are noted in the disbursement letter and also specified in the POM.

D. Procurement

78. **A follow-up and final procurement capacity assessment was carried out at appraisal stage after the procurement packages are defined at different levels**. In general it is expected that there will be procurement of goods, small works, non-consulting services and consultants (including firms and individual consultants) with use of service delivery contractors under the Indefinite Delivery Contract scheme, NGOs and Universities. Procurement under this proposed Project will be carried out in accordance with the World Bank's Procurement and Consultant Guidelines of January 2011 (revised July 2014); and the procurement procedures specified in the Legal Agreement, which also includes by reference the POM that sets out the proposed procurement arrangement for the proposed Project, at the national level and sub-national level, which includes procurement by the Forest Management Units (KPH), and for implementation of procurement at the community level anticipated under the proposed Project.

79. **The contract packages for consulting services, goods, small works and non-consulting services expected to be procured under the project have been identified by MoEF**. The initial procurement plan agreed with the Bank identifies proposed activities, method, and

estimated cost and review requirements. For implementation of procurement at the subnational and community level anticipated under the proposed Grant, the Community Participation in Procurement method and the simplified procurement arrangements applicable for use under the Bank's financed CDD-typed projects have been further elaborated by MoEF and agreed with the Bank, and are reflected in the POM. Taking into consideration the risk of having the community be responsible for carrying out the procurement of goods/services itself, the necessary facilitation and technical assistance will be provided under the project, and the specific arrangements have been developed and agreed with the Bank and noted in the POM.

80. **The procurement capacity assessment indicated that the IAs have limited experience in the Bank's procurement procedures**, for which a range of procurement capacity strengthening measures will be adopted under the Grant, as detailed in Annex 3, and the resulting procurement risk is considered to be moderate.

E. Social (including Safeguards)

81. **Indonesia is an ethnically diverse country, with ethnic groups that have their own cultures and traditions**. While the government considers the majority of Indonesians to be indigenous, it is worth distinguishing communities with the same ancestral lineages who inhabit a certain geographical area and have a distinctive set of ideological, economic, political, cultural and social systems and values. In Bahasa they are referred to as *Masyarakat Adat* (communities governed by custom). These *Adat* communities live in forests, mountains and coasts. Some are nomadic and others sedentary. They carry out gatherings, rotational swidden agriculture, agroforestry, fishing, small-scale plantations and mining for their subsistence needs. They have limited access to publically financed services and infrastructure and are most skilled in traditional practices involving natural resources. *Adat* community networks estimate that there are between 50– 70 million *Adat* people in Indonesia. In and around state forest areas there are other local forest-dependent communities and communities that have been relocated as part of GoI's transmigration program.

82. **Rights to forest lands and overlapping claims have been a major source of conflict in Indonesia.** *Adat* communities access and control their ancestral lands or customary lands, using their own land tenure system, regulated by their *Adat* law, through their own *Adat* institutions. These indigenous tenure systems are recognized widely among the *Adat* but the customary lands are not registered in the state land registration system. The Constitutional Court ruling of 2013, declared customary forest to not be part of the Forest Estate. The ruling granted customary communities the right to manage their customary forests once these are recognized, overturning the conventional understanding of forest areas and the position of *Adat* communities. Many customary forests, however, are controlled by investors or the government for business and conservation. *Adat* communities are mapping their customary claims to forest lands. These claims need to be integrated in KPHs' area planning. In addition to *Adat* communities, local communities can access and use forests through MoEF's community forestry scheme and through village forests.

83. **The proposed Project will have interventions in areas where *Adat* communities reside or rely on natural resources and forests**. These interventions are anticipated to have positive social and environmental impacts as they focus on improving forest governance and mainstreaming social and environmental concerns into GoI forest policies. The activities under

Component 1 and 2 consist of technical assistance on policies, laws and regulations and for capacity and partnership building. Component 3 activities provide technical services for institutional strengthening and capacity building for community forestry to KPH staff, communities and other relevant stakeholders in up to 10 KPHs. There may also be modest investments in the KPHs targeted by this project, including investments in afforestation, nurseries, and establishment of small wood processing facilities.

84. **Extensive consultations were carried out with stakeholders,** including those affected directly or indirectly, local governments and CSOs, on both the project design and ESMF. Several rounds of focus group discussions and public consultations were conducted at the regional and national level. Key points raised were: the need to improve forest governance and harmonize contradictory policies; need to review mechanisms for community managed forests under KPH authority and the role and responsibilities of all stakeholders in KPHs; increasing understanding of the functions and authority of KPHs; enhance stakeholder engagement and participation; the need for benefits to and empowerment of local communities; importance of resolving conflicts over rights to forests and forest tenure; and ensuring that communities do not bear negative impacts. The project design and implementation arrangements internalized as much of the inputs as possible.

F. Environment (including Safeguards)

85. The **Environmental Assessment OP/BP 4.01 is triggered** as the project will support the provision of technical services for institutional strengthening and community forestry and some modest size investments under Component 3. Activities will include technical services (training, surveying, mapping, forest inventories) in the KPH. These activities are likely to have positive social and environmental impacts. They may have some minor negative social and environmental impacts that are for the most part site- specific; few if any of them will be irreversible; and in most cases mitigation measures can be designed and readily implemented.

86. **The selection of the KPHs where there will be project activities will be finalized in the first year of the project** (see section on Location of Field Activities). The activities supported in these KPHs will be selected from a menu of options which will be finalized after consultation with local stakeholders during participatory planning processes in KPHs. Because site selection and exact activities will only be known during the first year of project implementation, MoEF prepared an Integrated ESMF to set forth the procedures for identifying and managing foreseeable project environmental and social impacts. The integrated ESMF sets forth procedures for identifying and managing foreseeable social and environmental impacts and presents principles to guide the preparation, review and approval, implementation and monitoring of Environmental Management and Monitoring Plans for the activities that will be conducted by the selected KPHs where the project is directly engaged and to mitigate any unintended negative impacts associated with Component 1 and 2. The integrated ESMF also includes a CPF, guidance and principles of Indigenous Peoples Planning Framework for an Indigenous Peoples Plan (IPP), and a LARPF. A draft ESMF was shared with stakeholders for their feedback at two regional consultations and a national consultation.

87. **For the activities under components, 1 and 2, that may have down-stream impacts, the integrated ESMF has established procedures to promote transparency through**

stakeholder participation and public information disclosure. Such procedures will ensure that stakeholders' social and environmental concerns are adequately addressed, in particular in the preparation of studies, analyses and other documents and processes that could have downstream impacts.

G. Other Safeguards Policies Triggered

- **Natural Habitats OP/BP 4.04**: This OP is triggered as a precautionary measure. As an added precaution, this project will not fund activities associated with operationalizing KPHs that may impact critical natural habitats. The project will enhance KPH forest management planning and implementation, ensuring that critical ecosystems are safeguarded against conversion and fragmentation. The ESMF provides guidance on avoiding or mitigating impacts on natural habitats.

- **Forests OP/BP 4.36**: The project aims to bring about positive changes in the management, protection, or utilization of natural forests or plantations through the refinement of the legal and regulatory framework and preparation, revision, and implementation of long-term and annual forest management plans in collaboration with local stakeholders. These legal revisions and proposed actions may affect the rights and welfare of people and their dependence on forests.

- **Pest Management OP 4.09**: Pest management applications may occur in community agroforestry activities. Pest management and consequent pesticide use may also occur in establishing nurseries, planting, weeding, and so on. In such cases, proper pesticide acquisition, handling and disposal procedures will comply with the guidance in the ESMF.

- **Physical Cultural Resources OP/BP 4.11**: The project is not expected to have negative impacts on Physical Cultural Resources as the activities do not involve earthworks or activities near culturally important sites. Nevertheless, the ESMF provides guidance on how to manage chance finds or impacts on movable or immovable objects, sites, structures, groups of structures, and natural features and landscapes that have archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance in accordance with this OP and GoI regulations.

- **Indigenous Peoples OP/BP 4.10:** The project may finance activities in sites where *Adat* communities reside and is anticipated to have positive impacts for *Adat* communities. In these areas, particular attention will be paid at the community level to ensure priorities and preferences are identified and included in forest management and village development planning and implementation. A CPF is part of the integrated ESMF and sets out processes and procedures to ensure that free prior and informed consultations is conducted with project affected people. Guidance and principles of an Indigenous Peoples Planning Framework are also part of the integrated ESMF.

- **Involuntary Resettlement OP/BP 4.12**: The CPF and Process Framework will apply to all participating villages. Village development plans will be developed with

participating villages to ensure that revenue streams from any access restrictions are fully and sustainably mitigated in line with OP 4.12. These plans will be developed if the 85 percent of the land is affected and 85 percent of the affected people agree with the preparation of the village development plan. If communities choose to engage and endorse access restrictions, it is anticipated that losses will be compensated (including through non-monetary measures) by the KPHs. It is expected that no significant physical relocation will be necessary. A LARPF and a PF have been prepared as part of the integrated ESMF for use in the (unlikely) event that it is needed in specific project areas.

88. **The Recipient's Institutional Capacity** for safeguard implementation was assessed at both the central and subnational level and found to be adequate. There are already a number of norms and procedures in place to address social and environmental impacts. The norms and procedures were reviewed in terms of the equivalence with the requirements of World Bank operational procedures. Overall, these norms and procedures are acceptable to the Bank except for Indigenous Peoples, and Involuntary Resettlement. Measures to bridge the eventual gaps between the national norms and procedures were agreed with the Recipient. Staffing for safeguard implementation was also assessed at the Central Level and in selected local-level areas. Overall, there are staffing deficiencies at the local level. Project resources will be used to hire and train staff for handling safeguards implementation at the local level, with support from specialists in the PMU.

H. World Bank Grievance Redress

89. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Indonesia

Promoting Sustainable CBNRM and Institutional Development (P144269)

Results Framework

Project Development Objectives											
PDO Statement											
The PDO is to strengthen institutional and local capacity for decentralized forest management and generate improved forest-based livelihoods in targeted areas.											
These results are at	Project Level										
Project Development Objective Indicators											
		Cumulative Target Values									
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
KPHs governed by sustainable long-term and annual forest management plans prepared or revised with community participation (Number)	0.00	–	2.00	4.00	6.00	8.00	–	–	–	–	8.00

KPHs governed by sustainable long-term and annual forest management plans prepared or revised with community participation (Number)	0.00	0.00	2.00	4.00	6.00	8.00	–	–	–	–	8.00
Key regulations drafted through increased coordination and submitted for government review (for example through NKB12) (Number)	0.00	1.00	2.00	3.00	3.00	3.00	–	–	–	–	3.00
Key SOPs drafted and submitted for review among concerned ministries (MoEF, MOHA) (Number)	0.00	2.00	4.00	6.00	8.00	10.00	–	–	–	–	10.00
Direct project beneficiaries (Number) - (Core)	0.00	100.00	600.00	29,000.00	57,500.00	113,000.00	–	–	–	–	113,000.00
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0.00	0.00	15.00	20.00	30.00	45.00	–	–	–	–	45.00
Project affected people in forest and adjacent communities have	0.00	0.00	0.00	27,000.00	54,000.00	108,000.00	–	–	–	–	108,000.00

increased monetary and non-monetary benefits (Number)											
Project affected people in forest and adjacent communities with increased monetary and non monetary benefits - Ethnic minority / Masyarakat Adat. (Number - Sub-Type: Breakdown)	0.00	20.00	40.00	2,700.00	5,400.00	10,800.00	–	–	–	–	10,800.00
Project affected people in forest and adjacent communities with increased monetary or non-monetary benefits - number of females (Number - Sub-Type: Breakdown)	0.00	0.00	90.00	5,800.00	17,250.00	50,450.00	–	–	–	–	50,450.00
Share of beneficiary/stakeholder satisfaction from administration of KPH (Percentage)	0.00	0.00	0.00	40.00	60.00	70.00	–	–	–	–	70.00
Intermediate Results Indicators											
		Cumulative Target Values									
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Component 1: Strengthening Legislation, Policy, and Institutional Capacity in Decentralized Forest Management											
Government institutions provided with capacity building support to improve management of	0.00	0.00	0.00	3.00	4.00	6.00	–	–	–	–	6.00

forest resources - number of government institutions (Number)											
KPHs with forest boundaries that have been delineated in spatial plans and submitted to geospatial agency for being included in One Map (Number)	0.00	0.00	20.00	30.00	40.00	50.00	–	–	–	–	50.00
Component 2: Developing the Knowledge Platform											
Knowledge Resources Centers operational at National and targeted locations at Sub-National (Number)	0.00	0.00	0.00	1.00	3.00	4.00	–	–	–	–	4.00
Forest Information System Operational (Yes/No)	No	No	Yes	Yes	Yes	Yes	–	–	–	–	Yes
Users accessing online knowledge products via KMIS (Number - Sub-Type: Supplemental)	0.00	0.00	500.00	2,000.00	3,500.00	5,000.00	–	–	–	–	5,000.00
Users of knowledge sub-portals associated with the knowledge platform (Number - Sub-Type: Supplemental)	0.00	0.00	100.00	500.00	1,000.00	2,000.00	–	–	–	–	2,000.00

KPH staff using skills from project coordinated trainings to effectively perform KPH management activities (Percentage)	0.00	0.00	20.00	30.00	40.00	60.00	–	–	–	–	60.00
Component 3: Improving Forest Management Practices											
KPHs established as BLUD (Number)	0.00	0.00	0.00	1.00	2.00	4.00	–	–	–	–	4.00
Number of KPH with Masyarakat Adat representation (as community representative) in forest management planning process (Number)	0.00	0.00	2.00	3.00	4.00	5.00	–	–	–	–	5.00
KPHs with conflict resolution mechanism (Number)	0.00	0.00	0.00	2.00	4.00	6.00	–	–	–	–	6.00
KPHs with benefit sharing mechanism (Number)	0.00	0.00	0.00	2.00	4.00	6.00	–	–	–	–	6.00

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
KPHs governed by sustainable long-term and annual forest management plans prepared or revised with community participation (Number)	KPHs are required to prepare long-term management plans that span 10 years and annual plans. The management plans have been prepared without adequate consultation. Existing and new management plans will be revised and prepared, respectively, with community involvement in deciding what the management objectives and approach will be for the various areas of the KPH to ensure sustainable management of forests.	Annual	Survey of KPHs	PMU with supporting unit at the subnational level
Key regulations drafted through increased coordination and submitted for government review (Number)	Key regulations that will be the focus of this target are identified in the POM. The regulations noted in the POM were identified based on an assessment of the key laws. The drafting of the regulation will be done by engaging all the relevant government stakeholders. The draft regulation would be submitted for review using the NKB12 or a similar platform that brings together the relevant ministries to discuss issues	Annual	Annual Progress report	PMU
Key standard operating procedures drafted and submitted for review among concerned ministries (MoEF and MoHA)	Standard Operating Procedures are defined as procedures that detail how specific activities should be implemented. They can include technical guidelines for forest management plans, participatory land use planning, business planning, supervising existing permit holders, and communication and outreach	Annual	Annual progress report	PMU

Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention associated with the project (i.e., people who have access to new information and knowledge from the project, people who have been trained, people receiving non-monetary benefits (clarity over use rights, less conflicts over resources, and so on), and people receiving monetary benefits). Please note that this indicator requires supplemental information.	Annual	Survey	PMU with supporting unit at the subnational level.
Female beneficiaries	Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Annual	Survey	PMU with supporting unit at the subnational level.
Project affected people in forest and adjacent communities with increased monetary and non-monetary benefits	This measure covers the number of people in the forest and adjacent communities to the targeted KPH that have increased monetary or non-monetary benefits as a result of the project. These monetary and non-monetary benefits may relate to improvements concerning income, employment, entrepreneurship, access to land, access to finance, education, and so on.	Annual	Household Survey	PMU with supporting unit at the subnational level
Project affected people in forest and adjacent communities with increased monetary and non-monetary benefits - number of females	This measure covers the number of people in the forest and adjacent communities to the targeted KPH that have increased monetary or non-monetary benefits as a result of the project (disaggregated by gender). These monetary and non-monetary benefits may relate to improvements concerning income, employment, entrepreneurship, access to land, access to finance, education, and so on.	Annual	Household survey	PMU with supporting unit at the subnational level
Project affected people in forest and adjacent communities with increased monetary and	This measure covers the number of people in the forest and adjacent communities to the targeted KPH that have increased monetary or non-monetary benefits as a result of the project (disaggregated by ethnic minority/indigenous). In Indonesia, the disaggregation will refer to *Masyarakat Adat*. These monetary and non-monetary benefits may relate to improvements concerning income,	Annual	Household survey	PMU with supporting unit at the subnational level

non-monetary benefits - Ethnic minority indigenous	employment, entrepreneurship, access to land, access to finance, education, and so on.			
Share of beneficiary/stake holder satisfaction from administration of KPH	This captures the change in the score from a beneficiary/stakeholder satisfaction survey administered to all stakeholders on an annual basis. The satisfaction survey will be a basic or simpler citizens' report card and be administered in a manner that ensures anonymity and incentives to respond regarding the performance of the KPH. It will be administered in the KPHs with project interventions. The data will be disaggregated by stakeholder group	Annual	Electronically based or in person survey	PMU with supporting unit at the subnational level or via an e-based administration of citizen satisfaction

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Government institutions provided with capacity building support to improve management of forest resources - number of government institutions	This indicator covers capacity building aimed at strengthening forest administration institutions and other institutions to deliver services to the forest sector. The government institutions provided with capacity building may include public institutions or service delivery and law enforcement organizations in the rural landscape. definition from core sector indicators	Annual	Annual progress report	PMU
KPHs with forest boundaries that have been	Mapping of forest resources and boundaries associated with the KPH submitted to geospatial agency responsible for One Map	Annual	Annual progress report	PMU

delineated in spatial plans and submitted to geospatial agency for being included in One Map Policy				
Knowledge Resources Centers operational at National and targeted locations at Sub-National	The Knowledge Resource Centers are considered operational when they have hosted users and been used to conduct information exchange, information access or training	Annual	Annual progress report	PMU
Forest Information System Operational	No description provided.	Annual	Annual progress report	PMU
Users accessing online knowledge products via KMIS	Knowledge products include e-versions of publications, maps atlases, and other online products that share relevant knowledge to the users of the forest information system. User number will be determined using software for tracking website use and setting thresholds for duration of visits, unique internet protocol address	Annual	Annual progress report	PMU
Users of knowledge sub- portals associated with the knowledge platform	The knowledge sub-portals will be the portals with their own URL. User number will be determined using software for tracking website use and setting thresholds for duration of visits, unique internet protocol address	Annual	Annual progress report	PMU
KPH staff using skills from project coordinated trainings to effectively	This will be based on a follow-up survey to trainees of both the online and in person courses to see how they are using their skills and whether they perceive the training to have helped them in their performance of their duties associated with KPH management activities	annual	Training evaluation follow up survey	PMU administers the survey through on-line or with PUSDIKLAT

perform KPH management activities				for in person training.
KPHs established as BLUD	This will be the number of KPH which have formally be granted the BLU-D status which allows them to manage their own finances	Annual	Structured interview with participating KPH heads and legal document	PMU with supporting unit at the subnational level
Number of KPH with Masyarakat Adat representation (as community representative) in forest management planning process	Percentage of KPH where participatory planning is ongoing for forest management plan, and there is IP representation.	Annual	Structured interview with stakeholder in participating KPHs and documents	PMU with supporting unit at the subnational level
KPHs with conflict resolution mechanism	This will reflect the numbers of KPHs targeted in component 3 that have an agreed (among all key stakeholders) mechanism for mediating conflicts.	Annual	Structured interviews with stakeholders in participating KPHs	PMU with supporting unit at the subnational level
KPHs with benefit sharing mechanism	This will reflect the numbers of KPHs targeted in component 3 that have an agreed (among all key stakeholders) mechanism for sharing benefits from forest management.	Annual	Structured interviews with stakeholders in participating KPHs	PMU with supporting unit at the subnational level

Annex 2: Detailed Project Description

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

1. The FIP project Promoting Sustainable Community-Based Natural Resource Management and Institutional Development is designed to support and strengthen the national effort to decentralize management of forests through the operationalization of subnational *Kesatuan Pengelolaan Hutan* (KPHs) to manage forest landscapes. The PDO is to strengthen institutional and local capacity for decentralized forest management and generate improved forest-based livelihoods in targeted areas. Decentralization of forest management through KPHs is a significant shift in the governance of forest management. KPHs that are operationalized as per the original design, are to be affiliated with local government, and are to bridge and harmonize local priorities with sectoral priorities. To achieve this objective, the project is designed to strengthen the current approach for establishing and operationalizing KPHs in two ways: (a) by making the paths for operationalizing KPHs more clear and making available much needed technical assistance and support for engaging with communities, and (b) by fostering needed institutional and behavioral change in government (central and subnational) and among other stakeholders. The latter will help achieve the change in approach to sustainable management of forests in Indonesia.

2. The project focuses on helping create the enabling policy and institutional environment for KPH operationalization, making key knowledge and information accessible to all relevant stakeholders, augmenting their capacity to support KPHs, and assisting up to 10 KPHs to become operational with the interest of building a body of insights and lessons that can be shared and inform efforts to accelerate the operationalization of KPHs. The project design internalizes the diverse and dynamic conditions at the subnational level and facilitates adaptive management and learning by doing. The overall long-term goal is to reduce GHG emissions through sustainable management of forests and improvement of forest dependent communities' livelihoods.

Project Components

Component 1: Strengthening Legislation, Policy, and Institutional Capacity in Decentralized Forest Management

3. Decentralized management of forests requires recognition of the boundaries of the forests and the forest uses within these boundaries. In Indonesia, the authority over land use, spatial planning, and issuance of licenses for extractive or concession activities is dispersed among several government ministries and levels of government. Accordingly, for decentralized forest management to be effective, policy and legislative coordination both within MoEF and among ministries is necessary, and stakeholders must have the requisite capacity to work together.

4. Although KPHs are specified in the 1999 Forest Law (4/1999) as the main method of implementing decentralized management of forests, they have yet to become fully operational for a number of critical reasons. Component 1 addresses the main constraints to rapidly operationalizing KPHs, including unclear/conflicting laws and regulations regarding spatial planning, licensing, and enforcement of management plans; ill-defined implementation policy

requiring further clarification on the roles and responsibilities of different national and subnational entities; and lack of capacity among national and sub-national implementing institutions and KPHs. Component 1 is designed to address these requirements in order to accelerate the pace at which KPHs are operationalized. There are two main subcomponents: (a) forest policy and legislation development, revision and amendment; and (b) institutional development and capacity building.

Subcomponent 1.1: Forest policy and legislation development, revision and amendment

5. To develop the necessary policy and legislation, the first requirement is to build political will and buy-in and to develop a broad consensus amongst the government institutions and then also amongst relevant non-government stakeholders. The political commitment will help reach consensus and draft a roadmap for how to support KPHs from an institutional, policy and legislative standpoint, and facilitate implementation of the associated processes and steps that would accelerate operationalization of KPHs.

6. This subcomponent will finance work commissioned by multi-ministry working groups, workshops and meetings, outreach and communication efforts, consultations, policy dialogues, analytical work, development of systems for collaboration, legal assistance and technical support to government to amend relevant regulations. The budget will finance consultancies and development of methodologies and SOPs for MoEF staff on, among other things, how to engage with local and *Adat* communities, and sub-district and village governments in the context of KPHs.

7. The activities in this subcomponent will involve MoEF working with all its associated technical units, MoHA, National Spatial Planning Coordination Board, BAPPENAS, MoF, MASP, and Provincial and District governments, Corruption Eradication Commission (KPK) and others. The activities will promote coordination among these ministries on issues regarding harmonization of different spatial planning processes, the land use plans that form the basis of spatial plans, and roles and responsibilities in enforcing the plans. The activities will also focus on generating inter-ministerial political will and coordination, consensus regarding the elements of a road map to expedite the operationalization of the KPHs, the gazettement of KPH forest boundaries that takes into account the various claims and rights to forests, and better enforcement by KPHs of participatory forest land use plans.

8. More specifically, the following technical areas will be addressed in this subcomponent:

Across Ministries:

- Developing inter-ministerial ownership by providing support to MoEF to drive this process forward by linking it with the national agenda and fostering institutional will at the highest levels nationally and sub-nationally using the NKB12 platform. The support would help involve provincial government representatives. A key activity will involve facilitating inter-ministerial dialogues to define and develop the overall vision and road map to operationalize the KPHs. The support will also enable MoEF to provide strategic guidance on the operationalization of KPH.

- Communication outreach and networking with respect to establishment of the KPHs and climate change issues will be instrumental to build consensus among the different stakeholder groups at the national and subnational level of government and sector

ministries.

- Following the agreement on the overall vision, process and roadmap, support the development of the requisite regulations to:

    - Harmonize gazettment and land use planning both around and within KPHs, including defining the role of KPH

    - Develop the mechanism to provide APBN and/or Local Budget funds directly to KPHs rather than through MoEF, in an effort to develop their autonomy from MoEF. This will involve working in collaboration with the Secretary General to amend the MoEF Regulations (SK MenHut) to provide resources from the APBN. It will also involve working with the DGs of the MoEF and their technical units to be available to provide services for Heads of KPH. Having direct access to public funds would lift the restrictions associated with the funds received from MoEF. The lack of this regulation does not also preclude KPHs from accessing private funds; it limits how effective they may be in obtaining public resources to address their priorities rather than those identified by the central departments of MoEF. It should be noted that this regulation does not need to be in place for the project to be operational

    - Remove the disincentive to use APBN for establishing forest plantations, by reviewing and amending, in collaboration with the Ministry of Finance, MoHA and KPK, the government regulation on the use of state funds for plantations, which includes restrictions on how benefits from these plantations can be distributed. Amending this regulation would make available public funds that can incentivize reforestation or rehabilitation of forests. Having access to such public monies would help KPHs' ability to conduct such activities and show their viability to the private sector. Lack of change in this regulation would not hamper KPHs, but make it more challenging for them to obtain private financial support

    - Establish a methodology for accessing and using the reforestation funds for investments in KPH with reforestation opportunities. This will include developing amendment to existing regulation and conducting working group discussions (involving Ministry of Finance, MoEF, MoHA, KPK and BAPPENAS). The importance of this activity is to unlock the opportunity to access funding that is available for reforestation, but currently is difficult to access

    - Raise awareness at the subnational level of the value of establishing KPH as a government enterprise (PPK-BLUD) to enhance public services delivery and client business service delivery. This would be done in partnership with MoHA.

Within MoEF:

- Developing methodology and SOPs on how to engage with local communities, *Adat* communities, and sub-district and village governments, taking into account gender perspectives (this will involve consultations with the above groups and MoEF, KPH,

Dinas, village head and government). The activity will also involve developing draft regulations governing benefit sharing through partnership mechanisms and developing conflict resolution methodology

- Reviewing and proposing amendments, in collaboration with BUK, to GR 6/2007 (which specifies roles and responsibilities on licensing) and other related regulations in the forestry sector on the KPH system and forest utilization

- Modifying the system for license applications (to reduce transaction costs), monitoring and reporting on all license holders and their activities

- Assisting with development of local government regulations concerned with business service levies as they relate to the sale of forest products, as mandated under Law 28/2009 on Local Taxes.

- Assisting in establishing KPH under law as PPK-BLUD to enhance public services delivery and client business service delivery and accept selected activities of forest management and business such as monitoring performance of license holders by developing relevant regulations with the relevant units in MoEF.

9. Addressing these regulatory reforms (across multiple ministries and within MoEF) will help put in place the necessary conditions to accelerate the operationalization of KPHs. In the absence of these regulations the operationalization of KPHs remains feasible, however, KPHs' would not operate to their full potential as they would likely lack autonomy and the ability to tap into a diverse set of financing sources.

Subcomponent 1.2: Institutional development and capacity building

10. For KPHs to be able to function effectively, it will be essential that they establish legitimacy in the eyes of the forest dependent local communities, *Adat* communities, private sector (existing and new lease holders, processing sector, tourism and so on) and other non-government stakeholders. There needs to be agreement on the definition of forest boundaries. There also needs to be community outreach (socialization) and sufficient human and financial resources. This subcomponent will contribute to building, within the government institutions, the necessary human resources to work well with communities in operationalizing KPHs.

11. Operationalization of KPH will require government staff at national and subnational level to acquire new skills such as conflict resolution, participatory land use planning, facilitating engagement of communities. There are resource persons in government positions who have the requisite skills. The number of staff with the necessary skills, however, fall significantly short, of what is necessary to effectively operationalize all the newly established KPHs. This subcomponent will involve assembling the information and tools to build the capacity of government staff to assist with the implementation of KPH. The activities will also include training to national and subnational-level officials in specific topics and skills.

12. This subcomponent will include the following activities:

- Assessing capacity needs

- Conducting trainings to develop the capacity for spatial planning (in cooperation with PUSDIKLAT in MoEF) and the knowledge on how to mainstream KPH area spatial planning in subnational government spatial planning process including the Regional Medium Term Development Plan. The approaches used and the training provided will be integrated into the activities of PUSDIKLAT in MoEF

- Developing the guidelines for stakeholder involvement in forest gazettement, tenurial conflict resolution and community empowerment

  (a) Developing standardized method for participatory land use mapping and planning for project implementation and replication

  (b) Developing conflict resolution mechanisms

- Preparing methodology and technical guidelines for the preparation of KPH Management Plans which will be disseminated through subcomponent 2.2

- Conducting training in coordination with MoHA to augment the capacity of KPH human resources including in management planning. The associated activities will be done in coordination with activities in component 2 and interventions in selected KPHs in component 3. This actual work will include a needs assessment, SOP development, training of government and TSPs and training of trainers

- Delivering MoEF technical services to District governments in accordance with the Forest Area Establishment Macro-Planning Regulation, MoEF Regulation 32/213, to support local government spatial planning capacity. This will involve supporting sub-national technical transfer units of the various directorates with the necessary training to work with the District and Provincial government to undertake consultations with local stakeholders through the district-level spatial planning unit involving subnational Ministry of Planning unit, Dinas, and KPH

13. The activities will support working group discussions, development and testing of methodologies, training materials (including modules), and SOPs. The activities will also include analytical studies, trainings, and consultations. The activities will be done in collaboration with the relevant directorates in MoEF, their subnational technical units, and in collaboration with MoHA.

Component 2: Developing the Knowledge Platform

14. MoEF has to operationalize 600 KPHs. For each of these KPHs to function effectively, they need to have access to harmonized information on forest extent, health and uses as the basis for decision-making and monitoring of forest areas that can be used to generate visuals (for example, maps). Making such information accessible to each KPH and the associated stakeholders will require MoEF to transform their current information platforms to ones that are readily publically accessible. They will also need to make accessible, through this platform, information that helps build capacity among a wide range of stakeholders to support operationalization of KPHs. The activities in this component involve augmenting existing systems to facilitate information use and exchange, and transfer of knowledge among KPHs and stakeholders in order

to effectively implement decentralized management of forests.

Subcomponent 2.1: Knowledge Management and Information System

15. This subcomponent will involve establishing a KMIS that integrates data capture, analysis, visualization, storage, and dissemination and creating useful knowledge products. It will involve collating information and data to develop a publically accessible database of knowledge. The activities will include making available electronically and in user friendly formats existing information on socioeconomic, institutional, biophysical and environmental parameters including legacy data and information that is only available in hardcopies of relevant reports (including digitizing maps). The information that is collated and collected will also include variables that are noted in the Ministry of Forestry Regulation No. 2/2010 on forestry information systems, such as area and forest potential; forest industry; forest product trading; degraded/critical forest rehabilitation; community forestry; forest governance. This subcomponent will also support the creation of publically accessible databases. One database will contain electronic documents and relevant videos. Another will serve as an archive for GIS, remote sensing data, and maps.

16. The design and structure of the KMIS system will cater to the various national and subnational data, information use and knowledge needs that will be identified through targeted surveys. The design will be compatible with existing systems and will draw on what is being done by other stakeholders at different levels. Consideration will be given to information that can be gleaned at the different levels and the type of contribution that the activity can make to harmonize information. The hardware and software used will be compatible and complementary to existing systems in MoEF, and will also be established in a manner that is usable at the national, subnational (province), and KPH level. Where feasible, the KMIS will have elements that extend, with support from the KPH, to the district and sub-district or directly, to the village level. At the village level, access to the KMIS would provide the users with access to information that could be useful for spatial, management and business planning and for sharing information from their site.

17. This subcomponent will involve developing online services, portals and digital applications that will make it easier for the end users (for example, government officials, heads of KPHs or head of community groups and villages) to access data, information and other relevant knowledge products. The online services would include services for generating maps and other relevant visualizations. The portals and sub-portals will facilitate knowledge and information exchange on forestry, marketing, and investment. If determined as useful, this component will also support (through competitions) the development of digital applications that enable the end users to identify potential service providers, and better understand the implication of various regulations. The digital applications would be designed to match the ability of various end-users, including to meet the information access and knowledge needs among individuals and communities that are do not normally have access to data. The aim is to facilitate the use of information on environmental parameters, socioeconomic data, and institutional information that would be important for spatial, forest management and business planning processes.

18. The forestry portal will create a data, information, and knowledge platform to enable modern, easy access at any level (government, KPH and local stakeholders). The portal will offer support for: online data/mapping services; forest planning at all levels; access to monitoring and historical data (incl. from satellites); multi-media documents; and training material. Associated

with this portal will be specialized sub-portals for piloting innovative IT-enabled services (for example, a marketing sub-portal and an investment sub-portal). The aim is to help new and existing users of this electronic data generate products and access information that can inform how they use and manage the resource base.

19. The funds for this subcomponent will cover the cost of the associated consultancies for implementation and computerization of data needed to set up the system and the purchase of information and communication equipment and incremental operating costs. The work will build on global good practice from other Bank client countries that have demonstrated similar IT-enabled services to improve rural livelihoods, promote open data, and support institutional reform in sustainable forestry planning and management.

Subcomponent 2.2: Capacity-building and knowledge exchange

20. This subcomponent seeks to complement the information system developed in subcomponent 2.1 and activities in component 1 and 3 with support for institutional capacity development at various levels. The activities will make available several effective and affordable online capacity building and knowledge exchange services such as helpdesk services, clinics, forums, training activities including e-learning/ distance learning, and competitions. The types of capacity building services will include curriculum development, development of training modules, change management activities, and support for specialized training. Knowledge exchange will also be facilitated through memberships to professional organizations and competitions including benchmarking-based competitions (discussed in more detail below), and competitions that promote digital innovations. These would be supported with strategic communication efforts that leverage the knowledge products and the various knowledge platforms (face-to-face and virtual) available.

21. To foster the needed behavioral change, it is important to develop systems that recognize the innovation and commitment of talented individuals and groups. Through this subcomponent the project will develop benchmarking system for various institutional levels (for example, Province, District, KPH, sub-district, and village) to rate performance on sustainable forestry activities based on simple indicators. The objective of the benchmarking effort is to:

- Recognize good performance (for example, awards for best performance)
- Use the information for communication and outreach efforts (for example, with media, NGOs)
- Use information as a tool for regulation (for example, public/civil society pressure for improvement)
- Develop a competitive basis for resource allocation (for example, for KPH funding, local government fund, central transfer, and so on)

22. The model used will build on similar benchmarking successes in Indonesia (for example, *Program Penilaian Peringkat Kinerja Perusahaan* [Performance Rating Program] in the former Ministry of Environment).

23. This subcomponent will also support competitions for selecting individuals and groups (from academic, CSOs, KPHs) for face-to-face training (in some cases following the use of the e-modules, and online courses available via the KMIS). This competition will also be accessible to KPH heads who want to obtain face-to-face training in the KPH learning centers. The subcomponent will also employ a competition to motivate academic institutions, NGOs, and other technical support entities to identify innovative ways to support KPHs on specific identified topics while sharing the learning from these experiences more widely. The winning proposals from the latter will be promoted through the KMIS portal to assist them in obtaining support (possible financial) from external sources.

24. The topics for which capacity building will be available will be determined based on a needs assessment. It is anticipated that the areas for capacity building will include topics that are important to facilitate participatory processes in the KPH, to enterprise development and other technical issues. There will also be training courses on the KMIS and face-to-face training directed at key decision makers in the application of the "learning organization" institutional model. The trainings will demonstrate how knowledge-based decision-making that uses information available through the KMIS can provide for better, responsible governance and improve organizational efficiency and effectiveness.

25. The work on curriculum development will be done in collaboration with KPH SEKNAS, *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), PUSDIKLAT, and RAKI to review and revise forestry curricula and develop curricula that are relevant for KPH operations, assisting with alternative livelihood generation, and reducing carbon emissions. In addition it will involve collaboration among KPH SEKNAS and government and industry stakeholders on the requirements for in-service training courses that could help more effectively operationalize KPHs.

26. This subcomponent will largely support consultancies and training.

Component 3: Improving Forest Management Practices

27. One hundred and twenty KPHs have been established with government and donor support as part of MoEF's KPH Model program. This program fast tracked funds to the 120 KPHs for infrastructure and vehicles, and ensured they were staffed. These KPHs, once established, have to fulfill several additional steps to become fully operational. Implementation of the KPH program to date reveals that KPHs will require technical assistance to fulfill these additional requirements.

28. This component supports up to 10 KPH facing operational challenges related to utilization of forest products – timber and non-timber; community access; and weak institutional capacity. The activities will focus on providing necessary technical assistance to these KPHs in order to address the aforementioned challenges and assist them to become effective in managing the forest resources in close collaboration with local stakeholders. In addition, this component supports community engagement activities for communities living within or adjacent to KPHs. The community engagement activities will be aligned with those identified in a participatory manner during the land use, forest management, and business development planning processes.

29. Given the scope of the government's KPH initiative – to operationalize 600 KPHs – the direct support provided to KPHs in this subcomponent should enable them to try innovative

approaches for being effective and operational. The KPHs supported by the project will be part of the subset of 120 KPHs that are being fully operationalized. These KPHs will set precedents, and provide insights on what can be achieved through the KPH model, and evidence on how to overcome obstacles to operationalization. They will serve as 'live learning centers' for KPH managers, staff and other stakeholders. In aggregate the efforts in this subcomponent should offer insights for how to expeditiously and effectively overcome the main constraints to full operationalization for the other KPHs. The activities associated with this component will enhance the quality of KPH implementation rather than complete all the steps associated with operationalization of KPHs. The KPHs supported by this component will be equipped with the capacity to provide support to other KPH within their region, thus implementing a sustainable network system that can assist that national roll out of the KPH program.

30. The selection of the KPHs for this component will be done through a systematic screening process. The screening criteria will include:

- The key constraints to the KPH is one or more of the following issues: sustainable utilization of forest products – timber and ecosystem services, community access, and weak institutional capacity;
- Type of institution (whether they are registered as a Local Government Unit of Work (SKPD) or a Regional Technical Implementation Unit);
- Degree of operationalization (for example, whether KPH has a 10 year forest management plan);
- Opportunities for synergies with other technical assistance support and government priorities;
- Potential for GHG emission reduction or carbon stock enhancement potential;
- Willingness, on behalf of KPH leader to adhere to ESMF, FM and procurement policy requirements in order to receive support from project;
- Primarily provincial KPHs in response to the recent law the transfers subnational authority over forests to the provincial level;
- Dominant forest functional class in the KPH; and
- Ecosystem typology (highland forest, lowland forest, and peatland forest).

31. The application of the criteria to identify up to 10 sites will be done during the first year of the project using information available from the KPH database, application of ExACT to assess potential for GHG emission reduction, expert opinion, and existing forest management plans. Implementation of field-level activities in KPHs targeted for this component will be done in a phased manner. During the first year, activities will be launched in a few KPHs and activities will be launched in year two and possibly year three in the remaining KPHs targeted by this component. This will enable the project to assess the level of support required to operationalization of KPHs, and to keep improving delivery of support to the remaining KPHs.

32. This component will provide a menu of support for each of the KPHs which will include, among others, conducting a needs assessment, providing support for the agreed priority areas of need (that is, the actual technical assistance activities), and implementing environmental and social management instruments. The provision of technical support will be through TSPs who will serve as private extension service providers. Where possible, the technical service provision will be developed in coordination with arrangements such as RAKI (government's arrangement for providing technical support from universities).

33. The support provided in this component will complement the funding KPHs are expected to receive from national and provincial budgets and focus on ensuring the capacity and conditions for quality implementation are in place. The information from the budget made available for 2014 by the Directorate for Planning, which supported establishment of KPHs, indicates that public funds can be used for inventory (including social and cultural), development of forest management plans, support for human resources and forest use planning, and facilitation of KPH means and infrastructure.

Subcomponent 3.1: Advance KPH operationalization

34. KPHs are responsible for carrying out functions spanning from forest management planning, to supervising compliance with existing management plans, directly manage certain forest areas where there are no existing utilization arrangements or claims, developing partnerships with private entities and communities to manage such areas, and generating their own revenue. There are numerous challenges that newly established and existing KPHs face in implementation. These range from having limited guidelines on how to engage communities in forest management planning or how to establish partnerships, to obtaining the subnational government approval to be considered a unit within local government administration (SKPD), to clarifying roles of KPHs vis-à-vis local government institutions, private licensees, and communities.

35. This subcomponent supports up to 10 selected KPHs to address the key challenges to enable them to fulfill their mandate. The areas of technical support will cover challenges such as:

- Legal support – to clarify and communicate the legal requirements associated with the operationalization of KPHs and provide technical assistance to KPHs on legal matters
- Participatory boundary demarcation
- Formulation/improvement of 10 year and annual forest management plans in a more participatory manner. The assistance will include guidance and assistance with strategies for increasing stakeholder engagement in the development of the plan and subsequently management. It will also provide guidance on how, in the management plan, to provide clarity on KPH roles and authorities, identifying optimal ways for reducing emissions through forests, reducing forest conversion and enhancing restoration, fire prevention and development of business and community livelihood activities.
- Conflict resolution and mediation
- Development of a business plan in an inclusive manner with local communities. The

business plans would incorporate investment proposals, operations and staffing, product processing and marketing and the identification of markets

- Development of partnerships between KPHs, communities and private sector
- Operationalization of community-based fire prevention approaches
- Communication and outreach with the various stakeholders and clarification of roles and functions
- Access to financing, whether from Public Service Agency or rural credit services

36. A needs assessment will be conducted for each of the selected KPHs to determine the type of technical assistance needed in the different areas of support. The technical assistance will be provided through consultancies (or TSPs) that are procured at the KPH level when possible.

37. In addition, this subcomponent will include funding for putting in place technical and managerial support for operationalizing the component – specifically the SUs that will work closely with the KPHs.

38. This subcomponent will support largely consultancies to provide the needed technical assistance to the selected KPHs and to operationalize the activities.

Subcomponent 3.2: Community empowerment in up to 10 KPHs

39. This subcomponent will provide support to implement community-level activities to generate monetary and non-monetary benefits for local communities. The activities for which community groups can receive support will be identified during the forest management planning and business planning processes that are conducted in a participatory manner. This will be done for communities living in or adjacent to the same KPHs selected for subcomponent 3.1.

40. The menu of support associated with this subcomponent will range from activities that focus on processes and capacity building to activities that focus on utilization of forest resources. The activities in the menu will include: assistance with participatory boundary demarcation (external and internal areas); stakeholder engagement and mediation of land conflicts; institutional capacity building (for example, through mentoring and assistance to the community groups); establishment of partnership schemes; technical support for business planning and implementation of community-based forest management (CBFM) (through social forestry schemes such as community forestry (HKM) and village forests (HD), Hutan Rakyat and Adat) in the KPH area; and support with marketing and improving market and credit access.

41. The subcomponent will also include support for investments such as community nurseries, rehabilitation and reforestation activities (using agroforestry or community forestry approaches), development of small enterprises, provision of ecosystem services, and production of renewable energy. While the investments in each community is modest compared to the size of the overall project, the aim is to focus on investments that can be self-sustaining after the life of the project. In addition, the investments will aim to leverage other public sources of financing that the communities may be eligible for, such as the village fund and other financing sources from within

MoEF and the district and sub-district government.

42. As the sites where the project will intervene are yet to be selected, the support associated with this subcomponent will be delivered by:

- Adopting a typology of community groups (with four categories) that reflects their capacity (for example, level or organization, leadership, engagement in revenue generating activities, ability to receive funds) and KPH context
- Tailoring, for each of the four categories of community groups, the mechanism for determining (a) the type support and (b) 'counterpart contribution' to the activity
- Using mechanisms such as competitive processes for selecting from among requests for support to the provision of non-competitive grants of fixed amounts to using existing approaches implemented by MoEF for social forestry related activities for determining the appropriate type of support for a community
- Providing services of facilitators to help communities identify their priority needs and to prepare and submit a request for support (including, if needed, a business plan)
- Adopting clear criteria for selecting proposals (for example, alignment with the management plan, level of inclusion in the preparation of the proposal, and so on), making disbursements, supervising implementation and monitoring and reporting on progress and impact. These are elaborated in the POM
- Using a multi-stakeholder project selection committee to oversee the process and make selections whenever the approach is competitive. The committee could be composed of representatives from the Consultative Committee, the KPH, and the SU
- Elaborating in the POM the procedures for procurement of community engagement activities when communities will be involved in the procurement process.

43. Currently the majority of KPHs have 10 year forest management plans with aspirational objectives in terms of revenue generation, formation of partnerships and community involvement. The support from this subcomponent will help convert some of the community aspirations to reality while working with the initial conditions in the KPHs.

Subcomponent 3.3: KPH-based knowledge exchange centers

44. A subset of the KPHs supported in this component will be selected to become living knowledge resource centers for other KPHs in the region. Currently few well performing KPHs, as part of their business model, provide training to other KPHs. This model will be adapted and replicated through the activities in this subcomponent. The selection of the KPH will be based on the key issues that are identified as important for training to the broader network of KPHs and the performance of specific KPHs in addressing these issues. The selection will be based on criteria elaborated in the POM that include a range of parameters that assess the feasibility, capacity, and accessibility of the training services.

45. The subcomponent activities will include: assisting the subnational government to formulate the necessary decrees to enable the selected KPH to provide regional training and support functions for other KPHs and coordinate this function with PUSDIKLAT; providing the staff with the necessary capacity building to carry out additional training and mentoring functions; development of training material that is not already available through the knowledge portal (in component 2); providing the financial support for the KPH to establish a knowledge resource center and house the needed technology to host the KPH level KMIS and offer trainings. KPHs wishing to receive support to visit these resource centers will be eligible to do so by competing in the training competitions described in component 2.

46. The financial resources associated with this subcomponent will cover the costs of goods, works (refurbishing existing office spaces and small buildings) and consultancy services.

Component 4: Project Management, Monitoring and Reporting, and Program Coordination

47. This component will support project management and oversight, and implementation of the project monitoring and reporting system and program coordination. The activities to be financed include, among other things, project coordination, FM, procurement management, equipment and supplies, and M&E. In addition, funds from this component will cover some of the costs of the PCU for the FIP Program. It will specifically cover the cost of a senior professional who will be responsible for overseeing and implementing the activities of the unit and junior professionals who will administer the day-to-day activities associated with the PCU.

48. **Project coordination activities will include** monthly PMU Meetings including the subnational management units, Project steering committee meetings, TSC meetings, GoI and World Bank coordination and supervision meetings, as well as preparation of regular reports on progress, a more detailed midterm review, and a project completion report. This will also include some logistical support for Indonesian officials to participate in meetings and conferences related specifically to reporting on the project as part of the joint reporting required for the FIP Sub Committee.

49. **Financial/procurement/contract management** will include cost of preparing of regular financial reports and audits; additional costs will be determined after the assessment. The procurement costs will include some costs associated with publication of procurement notices, preparation and evaluation of TORs and tenders, associated approval processes, and so on. Additional costs will be determined after the assessment.

Project Monitoring and Evaluation System

50. The PMU will manage the project's M&E system including supporting the lead IA in operationalizing the M&E system, establishing indicator baselines during the first year of project implementation; and carrying out and supervising regular M&E activities throughout the life of the project. These activities will also include compiling relevant data for the FIP PCU to submit to the FIP Steering Committee; preparing and submitting semi-annual progress reports on the key indicators. The PMU will also prepare a Mid-Term Review during the third year of program implementation, and an Implementation Completion and Results (ICR) report following project completion.

51. The PMU will also examine how the M&E framework for the project could be useful for broader usage in the national KPH program (for example, by linking the M&E system developed for this project with activities in Component 2). Much of the data that will be collected on the indicators have broad relevance for KPH development, in particular for the development of Forest Management Plans. Thus, the M&E system will provide models for program M&E and lessons, which will help move practitioners towards evidence-based forest management planning at the KPH level. The PMU and SU will manage outreach and capacity building related to M&E for KPHs, local government institutions and other relevant beneficiaries.

52. The principal data sources of the M&E system are:

- An annual household survey for measuring monetary and non-monetary impacts on beneficiaries
- A perception survey targeted at stakeholders who received training from the project
- Remote sensing technology to analyze land use change within the KPHs in component 3
- Annual progress reports
- Structured stakeholder interviews
- A tool for measuring client satisfaction following interactions with KPH units

53. An important tool of the M&E system will be an annual multi-topic household survey of project beneficiaries. The surveys will provide socio-economic and cultural data that will allow the measurement of monetary and non-monetary benefits to project beneficiaries. In addition, the survey targeted at stakeholders who received training from the project will be implemented with a lag in time after training has been provided. The household survey tool that is being considered is the Forestry Living Standards and Measurement Survey Module that has been developed by PROFOR-FAO-Center of International Forestry Research. This module can be used as a stand-alone survey and covers the information required to measure progress on the relevant indicators. Questions in the Module cover monetary and non-monetary benefits from forests, forest resources, and forest institutions. The survey package, including guidance and software, will be accessed from the PROFOR website.

54. The household surveys would be implemented by one or several consultancies with significant experience in carrying out multi-topic rural household surveys across Indonesia. Potential institutions include CPPS at Gadjah Mada University, Survey Meter, the Bogor Agricultural University (IPB), and Center of International Forestry Research. Surveys will be carried out annually, beginning with a baseline survey during the first year of the program. Each survey should cover approximately 50 households per KPH.

55. The M&E System will include a tool to measure direct client satisfaction on an ongoing basis. The tool will allow stakeholders that have had an interaction with the KPH unit to provide instant feedback to a third party. Relevant clients include all direct beneficiaries of KPH training programs and communications, as well as potential investors and applicants, and other affected

people. This tool will be designed during the first year of project implementation, and will draw on similar tools in Indonesia and other regions.

56. The M&E system will also help measure the project's contribution to achieving the overall FIP Program's targets on land use change and carbon, although this is not a project-level indicator in the results framework. For this purpose the M&E System will rely largely on MoEF's existing framework for data collection. The current system is designed to analyze LANDSAT images on an annual basis, and these data will be used to provide land-use change information at the level of individual KPHs. This information would then be analyzed using the FAO ExACT tool to measure the project's potential carbon impacts. The proposed methodology is aligned with MRV requirements, giving the KPHs the option of participating in performance-based carbon programs.

57. The main M&E costs are expected to be: the household survey, M&E specialist and field checking of satellite imagery. A preliminary estimate has been made and included in the budget for component 4.

Annex 3: Implementation Arrangements

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

Program Institutional Arrangements

1. The Project is one of four activities that are financed by the FIP in Indonesia. The three other projects include a grant financed project supported by the Asian Development Bank (ADB), a concessional loan for private sector supported by the International Finance Corporation (IFC), and a grant financed project for Indigenous Peoples and Local Communities (IPLC) that is focused on building the capacity of IPLC to engage in FIP financed and REDD+ activities. Coordination among these multiple projects will be the responsibility of the FIP Focal Point. This coordination will be facilitated by a PCU which will be composed of a Program Coordinator, a communication-monitoring and reporting specialist, and a team assistant. The Unit will have the mandate to coordinate meetings of the Program Steering Committee. The latter will include representatives of the key DGs within MoEF and from other relevant ministries, and civil society. The Program Steering Committee will require each FIP financed project to present progress of activities and discuss opportunities to enhance coordination and learning among projects through activities that the PCU can support. The PCU will also be responsible for monitoring and reporting on the progress of the program. The PCU will draw on M&E data from each of the projects and consolidate it to respond to the requirements of the global FIP results framework.

Project Institutional and Implementation Arrangements Implementing Agency

2. The implementation arrangements proposed include the DG on Planning and Environmental Management, which has the function in establishing KPHs and coordinating the overall effort to roll out of KPHs, appointing the Directorate of Planning, Land Use and Establishment of Forest Management Area as the lead IA. In addition there will be four other IAs made up of two MoEF Directorates and two Centers. The IAs were selected because their mandates are aligned with the project activities. The four supporting IAs include:

- Directorate of Production Forest Management Unit (in the DG of Sustainable Production Forest Management)
- Center for Human Resources Education and Training (in the DG of Extension Services and Human Resources Development Agency)
- Directorate of Business Development for Social Forestry and Customary Forest (in the DG of Social Forestry and Environmental Partnership)
- Center for Data and Information (under the Secretariat General)

3. The implementation arrangement brings together all the key Directorates for rolling out KPHs in MoEF. The lead IA will, with the support of the MoEF FIP Focal Point, ensure that the project components and subcomponents are well coordinated, sequenced as needed, and implemented in a timely manner to deliver the objective of the project. The FIP Focal Point is also

an Advisor to the Minister of MoEF. This arrangement will help build the linkages among these DGs and identify ways to improve coordination among the IAs. The latter will be important for scaling up the support for operationalizing KPHs.

4. The lead IA will house the PMU and be accountable for overall coordination of the project and the performance of the overall projects.

Technical Steering Committee

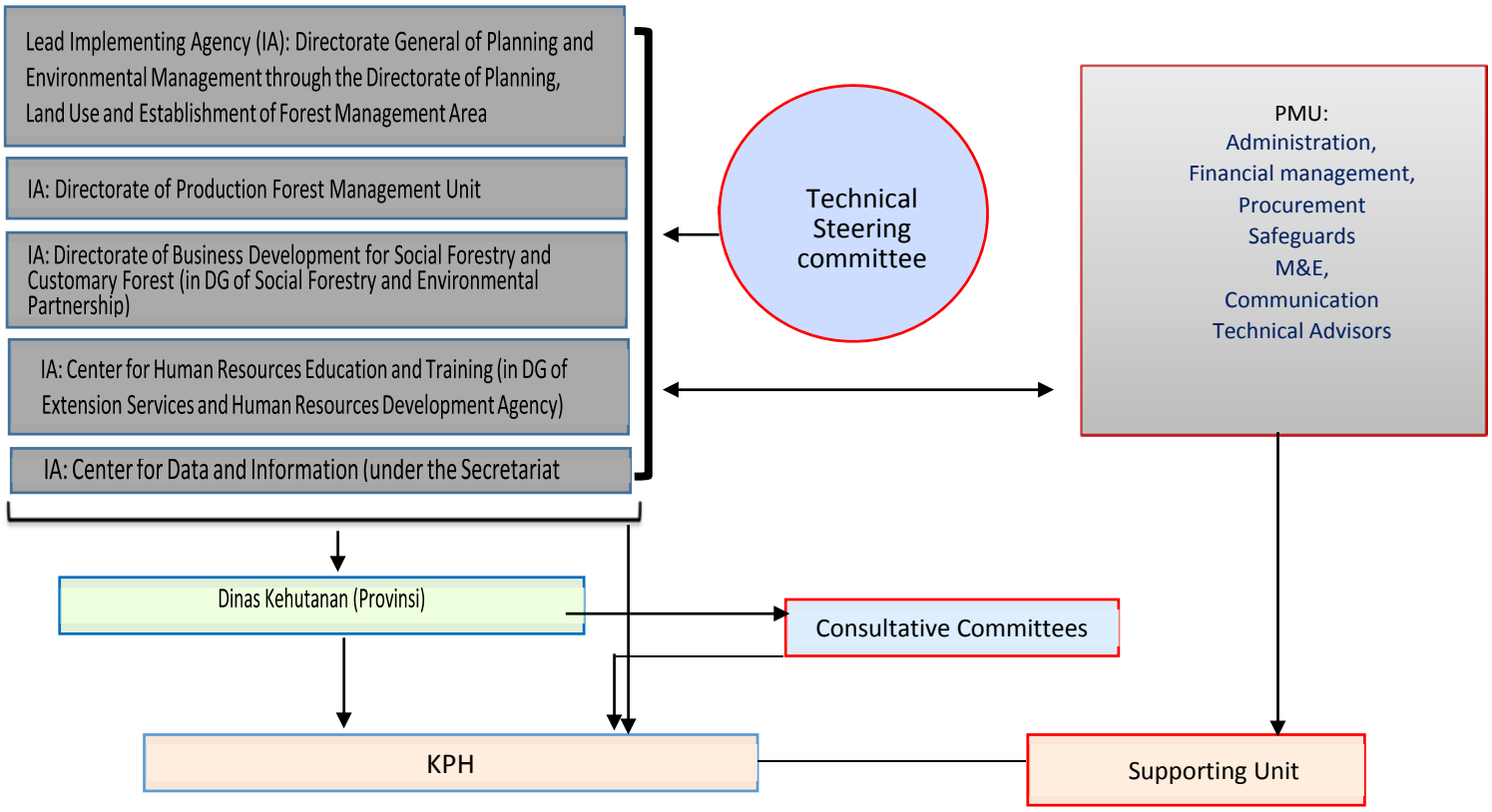
5. Given the multiple DGs in MoEF and the different ministries that are key players in the implementation of the KPH program and the multiple sectors and stakeholders that will be affected by the roll out of the KPH, the Project will have a TSC that is representative of the key stakeholders. The TSC 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.

6. The TSC will play an important role in ensuring project coordination and providing technical guidance on project implementation when issues emerge. The activities and decisions of the TSC will guide the decisions of the IAs.

7. At the subnational level, there will be a Consultative Committee associated with each of the KPH sites where the project is involved. The Consultative Committee will play a similar role to the TSC by linking all the subnational government and non-government stakeholders with the KPH to provide feedback and guidance on project implementation. Members of the Consultative Committee will also be involved in the various consultation workshops that are conducted at the subnational level.

8. The proposed implementation arrangements is illustrated below:

Figure 3.1. Proposed Implementation Arrangements



Project Management Unit

9. The PMU will be responsible for the day-to-day management of the project. The PMU will be at the national level and reporting to the lead IA. The PMU will include technical and advisory support for the IAs. The PMU will be composed of a project manager, national and international policy advisors, senior procurement specialist, senior FM specialist, senior safeguards specialists, M&E specialists, communication specialists, and junior staff. The PMU will also include consultants who will be tasked with ensuring smooth project implementation and coordination and maintaining a strong link between the PMU and each IA.

10. SUs will provide project implementation support at the subnational level. These subnational units will operate in close proximity to the KPHs to which the project will be providing direct support in terms of both management and environmental and social management. It is anticipated that these subnational units will be tasked with overseeing and supporting the implementation of the project, and safeguards. 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 SUs will have management, safeguards, and facilitation specialists. These SU staff will be provided with mentoring and necessary support from the national PMU staff. The SUs will also receive support from the FM, procurement, M&E and communication specialists in the central PMU.

Financial Management, Disbursement and Procurement

11. Institutional and staffing arrangement. The project will be implemented across four (4) DGs and Data Agency within MoEF. The PMU will be established in the lead IA. The PMU will coordinate project implementations in all the IAs at the national and subnational level and in the KPHs where the project is intervening. Ministerial decree of the implementing arrangements (including the lead IAs and additional IAs at the central level), PMU, and SUs at the subnational level will be issued upon project implementation.

Financial Management

12. The PMU will responsible for overall project coordination including coordinating the FM aspect of the project. Financial Management consultants will be hired to support the PMU. Work unit (Satker) that includes government officers with FM functions as verification officer, commitment maker, and treasurer for petty cash and accounting will be appointed following existing arrangements in the respective units. Following government system, UPTs and provincial Satker will also be appointed following existing arrangement in respective local governments.

13. There will be two grant agreements associated with this project, one for the FIP financing and one for the DANIDA financing. Each grant will finance all project components. Details on how the funds will be disbursed are specified in the disbursement letter and the POM.

14. **Budgeting.** The project will follow the existing government budgeting system. The budget will be included in the MoEF budget documents (DIPA). The budget for some activities in local governments will be channeled through Tugas Perbantuan budgeting scheme. Budget preparation is well defined, but there are frequent delays in execution. Delay in the issuance and effectiveness of DIPA may be minimized through prior circulars on the work unit (Satker) and tender committee decree, and early revision of documents when it required.

15. **Accounting and reporting.** The lead IA and additional IAs' offices will maintain separate accounting records for all payment order (SPM) and remittance orders (SP2D) on a cash basis in accordance with government accounting standards (Government Regulation No. 24, 2005) . All financial transactions are recorded in the government accounting system and included in government accountability reports. The original records are maintained in the file for audit purposes. The PMU will prepare a set of consolidated financial reports (Interim Financial Reports) for project monitoring purpose and for requesting advances from the Bank. The PMU is responsible to submit the report to the Bank no later than 45 days after the end of each quarter.

16. **Internal Control.** The payment verification process will rely on the government's system. Direct and independent documentary evidence will need to be furnished to the IAs for them to verify completion before payments are released to third parties. For civil works and workshop/training activities, payment validation procedures will require attachment of direct original supporting evidence of completion of all these activities. Activities at the community level that are implemented through self-managed scheme by the local governments will also be based on Ministry of Finance regulation number 168/ 2015. The transfer will require a work agreement and certificate of physical and financial progress prior to subsequent fund release to community groups. All aspects of internal control are specified in the POM subject to agreement with the Bank.

17. **Fund Flow.** Separate designated account (DA) for each grant will be opened by MoF specifically for the project. Access to fund in the DA follows government's treasury system. The fund flow mechanism for activities implemented by local governments will follow central budget implemented by local government arrangements (Tugas Perbantuan). With this arrangement the funds will be budgeted at the central government level and effected directly to the respective work unit (Satker) within the local government whereby the work unit will process payments through the closest central government's treasury offices. Some other activities in local government level will be implemented through TSPs. Payment to TSPs will follow central government's treasury system for consultant firm payment.

18. **Audit Arrangement.** The project will be subject to external audit by the BPK. Each audit will cover a period of one fiscal year of the recipient. The audits will be conducted based on TOR approved by the Bank. Audit reports and audited financial statements will be furnished to the Bank by not later than six months after the end of the fiscal year concerned and shall be made available to the public. The audit will go beyond merely providing an opinion on the financial statements, but would also include opinions on internal control frameworks and compliance with the POM.

19. **Supervision Plan.** Risk-based supervision of project FM will be conducted. This will involve desk supervision, including review of IFRs and audit reports or one supervision mission in one year. Financial management supervision will be conducted by Bank consultants under Financial Management Specialist direction.

20. **Financial Management Action Plan:** The agreed actions consist of the following: (a) Establish PMU and SU for the project with Ministerial Decree with adequate staffing and mandate the PMU with a project coordination role that includes the IAs (by September 30, 2016), (b) appoint FM consultant and dedicated staff who has capacity and adequate experiences to assist PMU and SUs on handling the FM aspect of the project (by September 30, 2016) (c) finalize the POM that is agreed with the Bank (by August 30, 2016) that includes detailed FM arrangement of the project including activities implemented at the community level, and (d) provide training by Bank's FM staff to PMU, SUs and IAs on FM upon effectiveness of the grant (by October 30, 2016).

Disbursements

21. **Disbursement Arrangements.** The applicable disbursement methods are Advance and Reimbursement. A DA denominated in US dollars will be opened in Bank Indonesia (Central Bank) under the name of Ministry of Finance for each of the grant. The DA will be a segregated account solely used to finance eligible project expenditures. Payments from the DA will follow the government mechanism and authorized by MOF's treasury office. The ceiling of the advance to DA will be variable based on six month projected expenditures. Report of the use of the DA fund and request for additional advance will be based on the quarterly IFR which should be submitted to the Bank no later than 45 days after the end of each quarter and consist of: (a) list of payments for contracts under Bank's prior review and records evidencing such expenditures, or (b) statement of expenditures for all other expenses; (c) DA reconciliation statement; (d) IFR; and (v) projected expenditures for the next six months.

22. PMU will be responsible for reconciling the DA and preparing applications for withdrawal of advances and preparing reports on the use of the DA, duly approved by DG Treasury before

submission to the Bank. All documentation for the expenditures as reported for disbursements would be retained at the implementing units and shall be made available to the auditors for the annual audit and to the Bank and its representative if requested.

23. **Allocation of the grant proceeds.** The project will have one disbursement category. The single category will finance 100 percent of eligible expenditures consisting of goods, works, consulting services, non-consulting services, training and workshops, incremental operating costs of the project and Community Engagement activities under component 3 of the project, inclusive of Taxes.

Procurement

24. **Procurement Institutional and Staffing Arrangement:** In general it is expected that there will be procurement of goods, small works, non-consulting services and consultants (including firms and individual consultants) with use of service delivery contractors under the Indefinite Delivery Contract scheme, NGOs and Universities to be carried out by the IAs. Financing of contracts will follow the fund flow and budget allocation based on the agreed project institutional and implementation arrangements. Procurement under the Grant will be carried out in accordance with the World Bank's Procurement and Consultant Guidelines (January 2011, revised July 2014). Consolidation of common agro-forestry commodities and technical advisory/supervision services to be procured centrally have been proposed in order to benefit from economy of scale and also to minimize the administrative burden of having to separately procure and manage a large number of contracts of the same or similar items. At the same time, effort will be made for the procurement to be done at the KPH or community level for these items and for small small-scale agro-forestry commodities, small-value goods and small-construction materials. Procurement of other plantation crops commodities that is, provisions of seeds may continue to be procured centrally and/or by the KPH. As far as the capacity concern at the community level, these are specified in the POM.

25. The follow up and final procurement capacity assessment of the Project indicated that project procurement processes should introduce specific measures to enhance competitiveness, transparency and accountability for procurement at the national and subnational level, including procurement at the community level, anticipated under the Project and focus on strengthening the capacity and awareness of the KPH and the communities group implementing the Project.

26. Based on the proposed project institutional and implementation arrangements and reference to the Minister's Regulation No. 35/2015 regarding the Procurement Services Unit (ULP) arrangement within MoEF, procurement at the national will be executed by the Working Group of the Central *Pokja* ULP under each of the four (4) DGs and Secretariat General (Echelon 1 unit) within MoEF. For procurement at the subnational level, this will be executed by the *Pokja* ULP under the MoEF's provincial UPT and/or each of the SKPD, which may consists of the Local MoEF office (Dinas) and KPH. For procurement at the community level, anticipated under the proposed Project, the arrangement will be proposed by MoEF, to be discussed and agreed with the Bank, and to be subsequently included in the draft POM. To strengthen the procurement capacity of the IA, the following mitigation measures will be adopted:

(a) All procurement above IDR 200 million will be executed by the Working Group of the respective *Pokja* ULP;

(b) A contract implementing officer (PPK) will be appointed for each of the institutions to administer implementation of the contracts. Each PPK will have the authority to appoint the Procurement Officer (*Pejabat Pengadaan*) to execute procurement of a contracts value less than IDR 200 million (for goods, works and non-consulting services) and IDR 50 million (for consulting services), including for direct procurement method;

(c) Procurement training for *Pokja* ULP and Procurement Officers (*Pejabat Pengadaan*) on the Bank's procurement procedures;

(d) Provision of enhanced hands-on procurement implementation support by the Bank; and

(e) Setting of appropriate prior review requirements based on project procurement capacity and risk level to be specified in the Procurement Plan.

27. **Supervision and Ex-post Review Plan:** The Bank will conduct supervision mission for the Project every six months, and this will be followed up by the ex-post review of samples of contracts subject to post-review (as indicated in the agreed Procurement Plan), which will be reported in June of every calendar year.

28. **Procurement Plan:** The procurement plan (dated February, 02, 2016) will form the basis for all procurement methods and activities relating to the project. Thresholds mandating prior review of specific contract packages will also be determined through the procurement plan. All contract packages expected to be procured under the project will be listed in the procurement plan, along with their applicable methods of procurement and the Bank's review requirements, with the exception of the community-based contracts which due to their nature and also the programmatic design of the project cannot be predicted in advance and will be part of the project implementation plan identifying the schemes. The procurement plan was agreed with the Bank and will be made available on the project's website and on the Bank's external website. The procurement plan would be updated at least once a year or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Annex 4: Implementation Support Plan

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

Strategy and Approach for Implementation Support

1. The strategy for Implementation Support has been developed based on the nature of the project and its risk profile. The aim is to provide timely and efficient implementation support to the client to ensure smooth implementation and achievement of the PDO.

2. Coordination with other Development Partners, including other FIP IAs in Indonesia and especially Forest Carbon Partnership Facility (FCPF) and REDD+ related initiatives. Implementation support will include: (a) strong coordination with other two FIP implementing partners in Indonesia, ADB and IFC; and (b) coordination of activities with other elements of Indonesia's REDD+ program, including those under the FCPF and Dedicated Grant Mechanism (DGM), and with preparation and potential future implementation of the Emission Reduction Program.

3. **Safeguards.** Safeguards implementation support will be part of the regular implementation support. Specifically, implementation support will include: (a) advisory support on application of safeguards instruments developed during Project preparation, including ESMF and (b) review of detailed implementation of various Project activities to ensure their compliance with the Bank safeguards policies.

4. **Monitoring and Evaluation.** M&E implementation support will be part of regular implementation support. The support will include: (a) advisory support on the implementation of the M&E approach in the project, and (b) mainstreaming the M&E approach into the broader KPH initiative.

5. **Financial Management.** Risk-based FM implementation support will be performed. This will involve desk supervision including review of IFRs and audit reports, and two implementation support mission in one year. Training on FM aspect of the project will also be given to FM staffs within PMU and PIUs during the first year and when it is deemed necessary. The Financial Management implementation support mission's objectives will include ensuring that strong FM systems are maintained throughout project tenure and are adequate to provide, with reasonable assurance, accurate and timely information of the grant required by the Bank

6. **Procurement.** Procurement implementation support will be part of the Bank's regular implementation support mission. The Bank will conduct supervision missions for the Project at least every six months, and this will be followed up by the expost review of samples of contracts subject to post-review (as indicated in the agreed Procurement Plan), which will be reported in June of every calendar year. The procurement implementation support will include advisory support to the *Pokja* ULPs and PPKs and hands-on training on procurement arrangement and contract administration for the Project.

7. **Legal Support.** Implementation support will include verification that legal conditions

have been met, to the extent that these are included.

Implementation Support Plan

8. **Technical inputs.** Technical inputs will be provided by Technical Specialists (including safeguards and M&E) and the task team leader. Technical specialists on the following aspects will be part of the team: forest policy, community-based natural resource management, carbon, and knowledge and information. The team will also use the services of an Operations Officer as needed. Technical specialists will be part of formal supervision and field visits, to be carried out at least twice annually. The table below provides an indication of the level of support that will be available during the first twelve months and an indication of the level of support available after twelve months.

9. **Fiduciary requirements and inputs.** Due to the capacity of the executing agency, the fiduciary aspects will require close supervision. As such, the Project will receive supervision support from a FM analyst and procurement analyst with experience in the implementation of similar projects.

10. **Safeguards.** Due to the nature of the investments, the Project will require close safeguards supervision due to the high visibility of environmental and social aspects of REDD+. As such, the Project will receive supervision support from two safeguards specialists with experience in the implementation of similar projects.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Guidance on institutional arrangements and project supervision	Task Team Leader	12 staff weeks	n.a.
	FM Training and Supervision	FM Specialist	2 staff weeks	n.a.
	Procurement Training and Supervision	Procurement Specialist	2 staff weeks	n.a.
	Disbursement arrangements	Finance Officer	1 staff week	n.a.
	M&E arrangements	M&E Specialist	2 staff weeks	Technical input
	Safeguards supervision / environmental safeguards	Environmental Safeguards Specialist	4 staff weeks	Technical input
	Safeguards supervision / social safeguards	Social Safeguards Specialist	4 staff weeks	Technical input
	Technical supervision: technical aspects / carbon	Carbon Finance / Forestry Specialist	2 staff weeks	Technical input
	Technical supervision: technical aspects / forestry and policy	Sr. Forestry Specialist	4 staff weeks	Technical input
	Technical supervision: technical aspects / Knowledge Information system	Sr. Knowledge systems Specialist	4 staff weeks	Technical input
	Technical supervision: institutional and implementation	Operations Officer	4 staff weeks	Technical input

Time	Focus	Skills Needed	Resource Estimate	Partner Role
12–48 months	Project implementation supervision	Task Team Leader	12 staff weeks	n.a.
	Financial Management	FM Specialist	6 staff weeks	n.a.
	Procurement supervision	Procurement Specialist	6 staff weeks	n.a.
	Disbursement monitoring	Finance Analyst	3 staff weeks	n.a.
	M&E implementation support	M&E Specialist	3 staff weeks	Technical input
	Safeguards monitoring / environmental safeguards	Environmental Safeguards Specialist	4 staff weeks	n.a.
	Safeguards monitoring / social safeguards	Social Safeguards Specialist	8 staff weeks	n.a.
	Technical supervision: technical aspects / carbon	Carbon Specialist	6 staff weeks	Technical input
	Technical supervision: technical aspects / forestry and policy	Sr. Forestry Specialist	6 staff weeks	Technical input
	Technical supervision: technical aspects / knowledge information systems	Sr. Watershed Specialist	4 staff weeks	Technical input
	Technical supervision: institutional and implementation	Operations Officer	6 staff weeks	Technical input

Skills Mix Required - Bank Team

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	8 staff weeks annually	Two missions per year	HQ-based
FM Specialist	2–4 staff weeks annually	Site visits as needed	CO-based
Finance Analyst (Disbursements)	2–4 staff weeks annually	n/a	Based in the region
Procurement Specialist	2–4 staff weeks annually	Site visits as needed	CO-based
Environmental Safeguards Specialist	2–4 staff weeks annually	At least one mission per year	HQ-based
Social Safeguards Specialist	6–8 staff weeks annually	Site visits as needed	CO-based
Technical aspects / forestry	2–4 staff weeks annually	At least one mission per year	HQ-based
Technical aspects / carbon	2–4 staff weeks annually	Site visits as needed	CO-based
Technical aspects / knowledge information system	2–4 staff weeks annually	Site visits as needed	HQ-based
Technical aspects / operations	2–4 staff weeks annually	At least one mission per year	HQ-based

Partners

Name	Institution/Country	Role
A. Srinivasan	ADB	MDB partner of FIP Program
Michael Brady	IFC	MDB partner of FIP Program

Annex 5: Economic Analysis

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

1. In Indonesia, sustainable management of landscapes is central to reducing the negative environmental cost associated with unsustainable management of the natural asset base. The economic impact of the 2015 forest fires in Indonesia are partly a result of poor landscape management. The World Bank's preliminary estimates put the cost on the economy at US$16 billion. Well-functioning KPHs, are necessary, while not sufficient, to remedy the underlying causes of unsustainable natural asset use, because they improve governance over forest resources. This project contributes to the necessary upfront investments in institutional change and capacity building for effective operationalization of KPHs. The institutional changes include improving government capacity to engage with local stakeholders, harmonize planning and establish financially viable partnerships; augmenting access to information; and supporting capacity building of local communities to enable them to benefit from sustainable management of the forest asset. In addition, the project tests different approaches for operationalizing KPHs in up to 10 sites, with the objective of identifying effective approaches that can be scaled out to the remaining 600 KPHs. This largely public good investment, will help incentivize the necessary institutional and behavioral changes that will have significant benefits in the long-run.

2. This annex describes some of the challenges of conducting economic and financial analyses of projects that are largely technical assistance and generate benefits after the life of the project. It also describes how the technical assistance for institutional change and capacity building areas can be considered cost effective, confirming that the current project design ensures funds will be used efficiently to deliver long-term benefits. Lastly, using data from existing KPHs, the economic and financial viability of an illustrative KPH is assessed. The economic analysis of the KPH is done based on assumptions regarding the characteristics and the economic activities of the KPH. The KPH level analysis, is carried out to demonstrate the potential positive impact the project could have at site level. As lessons emerge during project implementation, the assumptions that underlie the analysis at KPH level may change, which in turn would modify the conclusion of the economic and financial analysis.

Generic Challenges in Doing Economic and Financial Analysis

3. Forest resources generate numerous benefits and services to the local people who are immediate resource users and to other citizens in the country, and indirectly to the global community. Not all of these goods and services can be quantified and valued through market mechanisms. Theoretically, all direct and indirect use values of natural resources should be measureable in monetary terms. There, however, is limited data for determining these values in a practical manner because it is often difficult to quantify the off-site or indirect benefits. It is also difficult to quantify the indirect benefits coming from supportive policy reform, legal and institutional adjustment and governance reform as well as incentives and REDD+ framework for participatory SFM or greater engagement of local communities and improved livelihoods in project areas.

Cost Effectiveness of the Project

4. The project focuses primarily on technical assistance and capacity building for institutional change and is focused on the key areas of need for generating long-term benefits from decentralized management of forests. To determine whether the project is cost effective, the following assumptions were made:

- The cost effectiveness of the project is estimated over a 20 year period because of the long-term nature of benefits associated with this project
- The project will result in technical assistance and systems that will benefit more than the 10KPHs that the project is directly involved with. These systems will benefit at least 150 KPHs over the course of 20 years (this is approximately 25 percent of the target of KPHs)
- The total project cost is spread across the first five years of the project as per the proposed disbursement schedule
- After the projects life, a recurrent cost of 40 percent of the project value is assumed to be necessary to conduct the necessary technical assistance and capacity building in seven additional KPHs per year (this is the number of KPHs that need to come 'online' every year to fully operationalize at least 150 in 20 years)
- There is a lag of 3 years before KPHs become fully operational
- The discount rate used is 5 percent over 20 years (as per the recent guidance provided by the World Bank) and a sensitivity analysis is done using a 10 percent discount rate.

5. Using the above assumptions, the technical assistance and capacity building provided through this project can be considered cost effective if, at a five percent discount rate (over 20 years), each KPH can generate a minimum net present value per hectare of slightly less than US$42. The project can also be considered cost effective if, at a 10 percent discount rate (over 20 years), each KPH can generate a minimum net present value per hectare of slightly less than US$52.

6. As the project is testing different pilot approaches for operationalizing KPHs and the sites in which the project will be implemented are yet to be determined, the feasibility of achieving the two net present value per hectare is difficult to determine. In this context, an economic and financial analysis at the KPH level is purely illustrative of the benefit the project could have. As project implementation provides more evidence of how the project is benefiting KPHs, the assumptions that underlie the analysis at KPH level are likely to change. Therefore the economic and financial analysis conducted at the KPH level (detailed below) should be seen as illustrative and providing indicative findings regarding the feasibility of KPHs generating the minimum net present value per hectare required for the project to be cost-effective.

Illustrative Economic and Financial Analysis of a Well-functioning KPH

7. The technical assistance provided through this project should result in well-functioning

KPHs. One element of KPH effectiveness is that they are economically and financially viable. As the purpose of the project is to pilot different approaches for operationalizing KPHs and the sites where the project will intervene are not known, the economic analysis is limited to the expected returns to investments in KPHs. The analysis is done using a discount rate of 5 percent (the discount rate recommended in recent guidance in the World Bank) over 20 years (the latter aims to capture the long-term nature of the benefits). The data for the analysis are from one KPH which is functionally classified as a production KPH with almost 72 percent of total area of KPH designated and allocated specifically for production purposes. The KPH, however, has areas that are designated for protection functions as well. The main characteristics of the sample KPH are the following:

- The KPH uses only 20,000 ha (approximately 20 percent) of its total area for plantation of a special teak species (Jati Unggul Nusantara (JUN)). Of the 20,000 ha of planted teak, about 4,600 ha (almost 25 percent) will be under the direct control and management by a community cooperation
- 10,000 ha of its total area for bamboo plantation, and
- 10 ha of its total area for ecotourism.

8. The analysis examines the investments in the teak plantation, bamboo plantation and ecotourism. JUN (*Tectona sp.*) will be the main species in both the main plantation and the community-based forest plantation. The assumptions underlying the analysis below are the following:

- All forest and bamboo plantation and tourism management will involve village communities living in and around the forest/KPH area. For practical reason, this analysis covers these various activities as part of one business unit
- Life time of one cycle of this community-based business activities are spread over the 20 years under following scheme:

Table 5.1. Area Harvested Per Year during 20 Year Cycle

Year	1	2	3	4	5	6	7	8	9	10
Teak (ha)	500	1,000	2,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Bamboo (ha)	–	–	–	–	500	500	1,000	1,000	1,000	1,000
Ecotourism (ha)	–	3.33	3.33	3.33	–	–	–	–	–	–
Year	11	12	13	14	15	16	17	18	19	20
Teak (ha)	500	1,000	2,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Bamboo (ha)	1,000	1,000	1,000	1,000	1,000	–	–	–	–	–
Ecotourism (ha)	–	–	–	–	–	–	–	–	–	–

- Costs associated with the intervention includes (a) direct investment costs – which related to all technical and management activities of making plantation and ecotourism, (b) fixed cost – the cost for providing buildings, tools and machineries, and (c) operational costs – consist of general cost/overhead and the use or articles of consumption and (d) research and development. Operational cost and R&D costs will be covered by government money (APBN/D) in order to support KPH development and acceleration. The opportunity cost for the central government is not included as the focus was on the benefit to the KPH unit and local community

- The estimated discounted total cost per ha (US$) are as follows for both the 5 and 10 percent discount rates are presented in the table below:

Table 5.2. Estimated Discounted Total Cost per ha for 5 and 10 Percent Discount Rates

	Teak (US$/ha)	Bamboo (US$/ha)	Ecotourism (US$/ha)
5 percent	967	3,611	64,367
10 percent	591	2,530	40,963

- Financial benefits from the community-based business activities are captured from the sale of teak timber, bamboo, and ecotourism services, as well as income generation opportunities from the business related activities and the village-level livelihood activities. There are a range of intangible co-benefits resulting from improved capacity of the communities, and subnational and national government. Improved partnerships and engagement with government, greater tenure security and greater certainty on spatial planning and gazettement are examples of additional co-benefits that are not accounted for in this analysis

- JUN resulted from vegetative cultivation engineering. Under intensive silvicuture treatment this species is considered to be able to be harvested productively starting 5 years with good quality timber that can be used for construction purposes. By such an intensive treatment and maintenance in this scheme, the sustainable harvesting under 8-year rotation could result in 120 cum teak timber per ha. However, considering that such a practice is unlikely to be viable across the country due to capacity, and biophysical, geographic and soil conditions (acidity, moisture, etc), this analysis assumed a less intensive treatment so that the yield is slightly less than half of the expected year – or approximately 50 m3/ha, instead of the expected 120 m3/ha

- The price of the teak timber is based on domestic and inter-island market across the country averages IDR 1.2 mill per cubic meter. The market price is assumed to be good estimate of its economic price

- Bamboo production is assumed to on average be 1,738 stalk or stem per ha, with harvesting starting in year 5 and continuing till year 10. Revenue from the bamboo plantation come from its sale using average bamboo price at the local market which is estimated to be approximately IDR 14,500/stalk. As with teak wood the price is already its economic price.

- The 10 ha ecotourism unit will provide various services including (a) scenic areas, (b)

hot springs and pool, (c) bee healing treatment, (d) home stay packages, (e) ant hill/nest, (f) forest honey, and (g) wax. Revenue is generated by selling all these services and goods. Assumptions regarding quantity of sale and market is presented in the table below.

Table 5.3. Assumptions Regarding Unit Cost and Quantity of Sale

Ecotourism Services	Unit Cost (US$)	Avg. Sale (Units per Year)
Entry ticket (visit)	1.81	2,400
Hot spring swimming pool (user)	3.62	15,000
Bee healing treatment (user)	10.87	3,600
Home stay package (package)	18.12	635
Ant hill/nest (box)	4.35	270
Forest honey (kg)	3.26	360
Wax (kg)	18.12	27

9. Based on all the assumption, the present value benefits per hectare over 20 years for the KPH at 5 and 10 percent discount rate is estimated as specified in the table below:

Table 5.4. Present Value Benefits per Hectare over 20 Years at 5 and 10 Percent Discount Rate

	Teak (US$/ha)	Bamboo (US$/ha)	Ecotourism (US$/ha)
5 percent	3,073	1,563	123,795
10 percent	1,670	954	40,962

10. The results include a positive NPV (US$), and a rational IRR (%) and BCR using a 5 and 10 percent discount rate (summarized in the table below)

Table 5.5. NPR, IRR and BCR Results at 5 and 10 Percent Discount Rate

	NPV/ha (US$)	IRR (%)	BCR
5 percent	741	14	1.40
10 percent	206	14	1.16

11. The economic benefits are estimated by including the carbon balance associated with all the activities in the KPH to estimate a net carbon balance. It is also assumed that the activities in the KPH will help mitigate GHG emission. The amount of GHG mitigation is predicted by applying the EX-ACT tool to data for 28 KPHs across the country (these KPHs administer activities similar to the activities in the business portfolio outlined above). The analysis assesses the carbon balance against a baseline scenario that extrapolates historical trends in the KPHs over the next 10 years. It is assumed that during a 10 year implementation phase, the KPH would reduce 15 percent of baseline deforestation and degradation. The analysis also assumes a 10-year capitalization phase following the end of the implementation phase. The results from the analysis indicate that, on average, the carbon balance for a KPH is −0.34 ton CO2e per ha per year. The monetary value of the carbon balance is estimated by multiplying the amount of the net carbon balance by price of carbon per tCO2e. The analysis uses a social cost of carbon of US$30 per tonCO2e, which is the amount suggested as a baseline value in the World Bank's Guidance Note on Social Value of Carbon in project appraisal. With the above background information and assumptions, the analysis generates the results specified in the table below at a 5 and 10 percent discount rate:

Table 5.6. NPV, EIRR and BCR Results at 5 and 10 Percent Discount Rate

	NPV/ha (US$)	EIRR (%)	BCR
5 percent	744	14	1.40
10 percent	207	14	1.17

12. The results show that the inclusion of GHG mitigation and social and environmental co-benefit improves the economic performance of the KPH, but that the change is fairly nominal.

13. The basic assumptions on KPH business scheme, derives benefit based on the utilization of the forest area within the KPH and suggests that the activities will have direct and significant financial benefits for the community, especially those living in and around the forests. At least about 25 percent out of the estimated NPV for teak will be going to communities who are involved in directly manage the teak forest area under private-partnership approach. This community NPV portion is considered to be adequate – in term of both percentage and nominal value – as it is similar to current benefit sharing experiences which are between 10–50 percent as calculated by IFC in their report on Developing a Sustainable Plantation Wood Supply Through Successful Community-Company Partnerships in Indonesia (published in 2010 by the IFC Advisory Services in Word Bank Group office of Jakarta, Indonesia).

14. The economic viability of the sample KPH is fairly robust both a 5 and 10 percent discount rate. A sensitivity analysis was done using different unit prices for carbon, and cost scenarios for the two discount rates. The results from these sensitivity analyses are listed in the table below and indicate that the project remains economically and socially sound.

Table 5.7. Results from Sensitivity Analyses

Sensitivity	EIRR (%)	NPV (US$/ha)	BCR
Baseline (5% discount rate)	14	744	1.40
Scenario 1:			
Carbon price US$15/ton CO2e	14.00	742.42	1.40
Carbon price US$50/ton CO2e	14.00	745.08	1.40
Scenario 2:			
Total cost decrease by 10%	17	930.36	1.55
Total cost increase by 10%	12	556.48	1.27
Baseline (10% discount rate)	14	207	1.17
Scenario 1:			
Carbon price US$15/ton CO2e	14	205.26	1.17
Carbon price US$50/ton CO2e	14	208.26	1.17
Scenario 2:			
Total cost decrease by 10%	17	332.89	1.30
Total cost increase by 10%	12	81.97	1.06

15. The results above indicate that the economic viability at the KPH level is most sensitive to changes in total cost more so than the change in carbon price, as is illustrated by the change in NPV and EIRR values. The sensitivity check, overall, indicates the economic viability of the project is fairly robust with all scenarios resulting in positive NPV with IRR and BCR.

Public Benefits through Carbon Sequestration and Reduced Emissions

16. In addition, and as comparison to the discussion of site-level estimations on carbon balance presented above, Puspijak of MoEF estimated benefits at the national level by examining the potential contribution of actions are similar to most of the components of this FIP projects to emission reductions. The actions involve putting in place enabling conditions to lift barriers to achieving REDD+. By assuming that all actions are concretely achieved in a timely manner, the potential contribution to emissions reductions was estimated to be 1,560.08 mil ton CO2-eq. The reliability of this estimate is based on the various assumptions underlying the analysis.

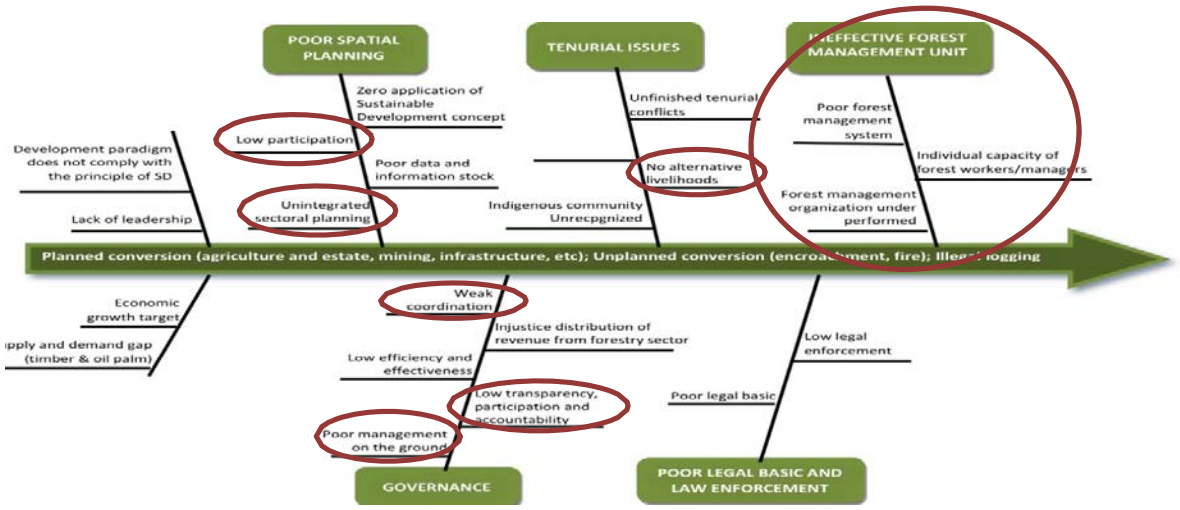
17. Similarly, under the 2nd National Communication (SNC) it was also predicted that the net GHG Indonesia emission at national level will be increased from 1.38 Gt CO2e (in 2000) to be 2.95 GtCO2e in 2020. More than 88 percent out of this number originated from land-based and forestry sector, primarily from deforestation and forest-land degradation. The FIP interventions in component 1 and 2 will likely contribute to addressing the drivers of deforestation and improving sustainable management of forests.

Annex 6: Consistency with FIP Investment Criteria

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

1. This project is part of the Indonesia's FIP Investment Plan which aims to support priority investments in addressing drivers of deforestation and forest degradation. The higher objective of the program and associated projects is to reduce GHG emissions and enhance carbon stocks while generating livelihood co-benefits. The Investment Plan sets out the overall strategic options to achieve REDD+ objectives in Indonesia. 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 SFM.

Figure 6.1. Entry Points for FIP Project to Address Drivers of Deforestation

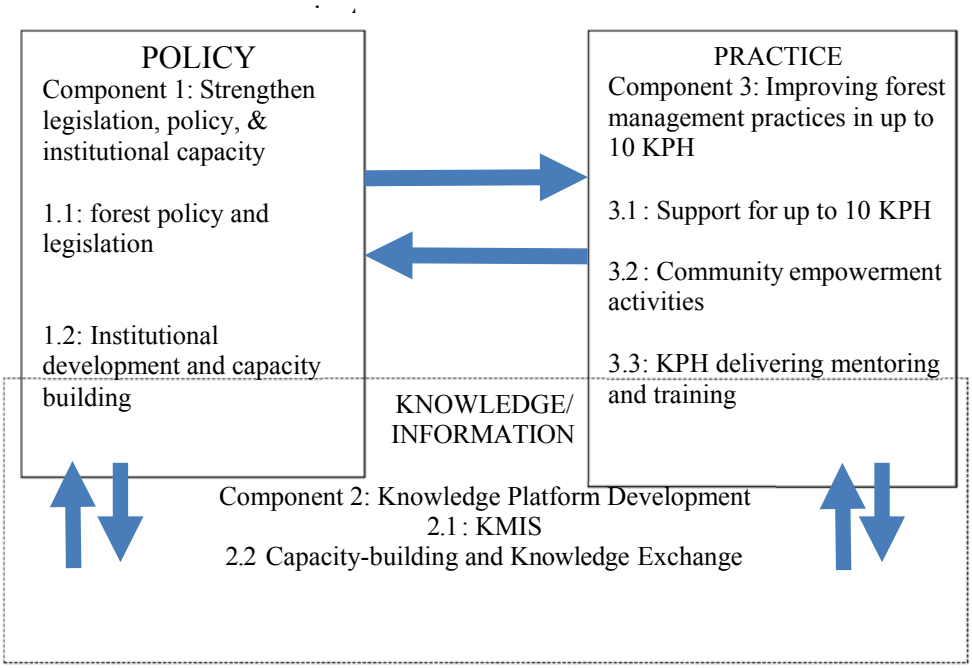


2. The key entry point for the project implemented by IBRD are some of the identified sub-national barriers to achieving REDD+ through improved forest management at the subnational level (that is, decentralized forest management) (see Figure 1) – constraints in terms of spatial planning (specifically low levels of participation and lack of integration with sectoral planning processes), governance constraints (specifically weak coordination among key players within the ministry and across ministries, poor management on the ground, low transparency and accountability); and ineffective forest management units.

3. The PDO to strengthen institutional and local capacity for decentralized forest management and generate improved forest-based livelihoods in targeted areas. The Project will tackle the main practical constraints to achieving REDD+ objectives. It will create an enabling environment for operationalizing better management of forests by scaling up the establishment of well-functioning decentralized forest management units (KPHs) based on sound planning. By doing so it will also address some of the underlying causes of the drivers of deforestation (specifically those circled in red in Figure 1). Improving local participation and spatial planning, integrating spatial plans, harmonizing data and information, and strengthening the implementation of the KPH system intends to reduce unplanned deforestation and forest degradation.

4. As described earlier in this document, the project involves three elements – improving the national and subnational legal, regulatory, and institutional context; capacity building for all relevant stakeholders; and learning-by-doing in the KPHs where the project intervening for component 3 and disseminating the lessons and insights.

Figure 6.2. Linkage among Three Main Components of the Project



5. This annex briefly describes how the project design responds to specific FIP Investment Criteria.

Climate Change Mitigation Potential

6. The support for KPHs tackles several key elements that are considered to be drivers of deforestation – the low participation in poor spatial planning, and unintegrated sectoral plans, weak governance at the forest site level, ineffective forest management units and some tenure issues. Strengthening the KPH system enables the GoI, along with partners, to improve forest resource management, use and access at the site level. This will contribute to reducing unplanned deforestation and forest degradation in the long term. Through this investment, the FIP project supports Indonesia in a transformative process toward good forest governance and subnational REDD+ readiness. The project will help demonstrate the climate change and development benefits of effective decentralized forest management in KPHs and generate insights and lessons for scaling up the operationalization of KPHs. The activities intend to result in improved opportunities for investments in SFM, CBFM and REDD+ within KPHs. This also could augment environmentally conscientious private sector confidence to invest in SFM and leverage funding managed by the MoEF.

7. An analysis was done to understand the potential of GHG mitigation associated with the project using the Ex-Ante Carbon balance Tool (EX-ACT). Available data from 28 KPHs was

used to estimate the carbon balance against a baseline scenario that extrapolates historical trends in KPHs over the next 10 years. The assumptions were that during the implementation phase the KPH would reduce 15 percent of baseline deforestation and degradation and 10 year capitalization phase following the end of implementation phase.The result of the analysis indicate that on average the carbon balance for a KPH is −0.34 ton CO2e per ha per year. KPHs range in size from 4.6 thousand hectares to 908 thousand hectares, with a median size of 94,784 hectares. As the sites will only be selected during project implementation, using the median size of the KPHs, the estimated mitigation potential was calculated that the project intervenes in up to 10 KPHs with direct interventions. The mitigation potential in this scenario is approximately 32,000 ton CO2e per year. This is a conservative estimate as there will be other KPHs, established and operationalized in the next 10 years as an indirect result of the project. Furthermore, this project intends to assist scaling up operationalization for the remaining KPHs.

Demonstration Potential at Scale

8. The KPH system is a priority in the national agenda. The government has committed to establishing and operationalize 600 KPHs, of which 340 should be in place by 2019. The project is designed to demonstrate what can be done with effective KPHs in a manner that can be readily scaled up. The activities are designed to complement planned government investments in the roll out of KPHs and augment these investments by putting in place necessary systems and capacities to accelerate the roll out of well-functioning KPHs.

9. The activities associated with component 1 are focused on the enabling regulatory and institutional conditions which, once in place, should lower the misinterpretations of existing rules and reduce confusion over roles and responsibilities when rolling out new KPHs. Activities associated with component 2 builds a knowledge platform on an existing system. It is designed in a modular manner that can be augmented based on need and changes in availability of technology. The activities in component 2 also create a competitive space for innovation and uses benchmarking and communication platforms to recognize and reward effective innovative approaches.

10. As the KPH model is fairly young and many elements of implementation need to be refined, it is essential to enable learning-by-doing. Component 3 and the M&E system, which creates linkages among the components, allow for such learning regarding effective decentralized forest management. Through component 2 and 3, the lessons learned will be readily transferred to other efforts to operationalize KPHs. Component 2 and 3 also put in place low cost systems for scaling up support for KPHs – including a network of private TSPs and networks of KPHs as learning centers that can, as part of their business model, provide supporting functions to larger number of KPHs in the country.

11. Through coordination with the IFC engagement and ADB supported engagement in KPHs, there will be opportunities to extend the lessons learned to other KPHs and provide technical assistance on business development to KPHs.

Cost-effectiveness

12. The project can be considered cost effective for several reasons – first it is leveraging

significant government resources that are being used for the roll out of the KPH. Second the EIRR is similar to what is seen in other forestry operations. The EIRR was estimated for both a social discount rate (five percent) and a private discount rate using the standard discount rate used to in Bank operations – 12 percent.

13. Using a 12 percent discount rate, the net present value (NPV) and EIRR for the project are 122M and 7.3 percent respectively. Using a 10 percent discount rate results in a NPV and EIRR of US$209 million and 9.3 percent respectively. Using a social discount rate of 5 percent, the financial analysis results in a NPV for the income generating activities of a generic KPH is approximately US$49.99 million with an IRR of 11.17 percent and BCR 1.59. The economic analysis, which includes the expected GHG mitigation estimated using ExACT, results in an NPV of US$50.05 million, EIRR of 11.19 percent with a BCR of 1.59 within next 20 years. It should be noted that for these estimations, the analysis was run using information for a representative KPH that involves both production and protection activities. The analysis was done at the community level.

14. To establish many of the necessary institutional arrangements, systems and capacities the project will build on existing platforms and arrangements and will focus on expanding the stakeholders involved, and modernizing systems. This makes the project design cost-effective.

Implementation Potential

15. The Ministry of Planning (BAPPENAS) and MoEF are committed to the role out of KPHs. BAPPENAS, currently elevated to directly report to the President, has indicated to MoEF that their budget is conditional on achieving KPH implementation targets – a requirement referred to as “no KPH no budget”. The transition to a decentralized management regime for forests remains central to the mission of the new MoEF, as noted by the current Minister when presenting the priorities for the sector. In addition, a priority of the RPJMN is to have operational 340 KPH by the end of 2019 and all 600 KPHs operational in the next development plan cycle. Various sources of public funds are available for KPH implementation – State budget for KPH establishment during the current RPJMN and deconcentration funds. The amounts available, however, are inadequate and are available only for specific uses. There are also untapped resources for supporting KPH, including the Reforestation Fund (DR).

16. The support provided by this project intends complement existing government activities by putting in place the necessary underlying institutions, systems and capacities that enable MoEF to scale up decentralized forest management by operationalizing the remaining KPHs. The activities will enable MoEF to learn-by-doing, specifically on effectively partnering with local stakeholders while recognizing their rights, working with local government, collaborating across programs, harmonizing plans, and ensuring forest management results in both direct and indirect benefits to the stakeholders in the proximity of the resource base, all key elements of REDD+ strategy objectives at the subnational level.

17. The implementation of the project will be as described in Annex 3. In terms of coordination with other development partners, including other FIP IAs in Indonesia and especially FCPF and REDD+ related initiatives, there will be the FIP PCU. This unit will facilitate coordination with other two FIP implementing partners in Indonesia, ADB and IFC. With its

composition, it will also be able to address coordination of activities with other elements of Indonesia's REDD+ program, including those under the FCPF and DGM, and with preparation and potential future implementation of the Emission Reduction Program.

Integrating Sustainable Development (Co-benefits)

18. To effectively address the underlying causes of the drivers of deforestation it is important for this project to contribute to a broader sustainable development agenda. The project design, with its consideration over rights to forests and coordination regarding spatial planning covers aspects of development that will have benefits beyond reducing emissions from deforestation and forest degradation.

19. The direct co-benefits associated with this project are tied to the opportunities provided for training local communities as well as the community empowerment activities in subcomponent 3.2. The latter includes activities that range from support for processes to support for utilization of forest resources. The eligible activities will include assistance with participatory boundary demarcation (external and internal areas); mediation of land conflicts and stakeholder engagement; clarification over use rights; establishment of benefit sharing; facilitation of institutional capacity strengthening; mentoring, assistance with establishment of partnership schemes including obtaining license for community forestry (HKM) and village forests(HD)), technical support for business planning and implementation of CBFM (for example, through HKM and HD) in the KPH area; technical assistance for plantation and reforestation activities, agroforestry and seedling farms and semi-permanent nurseries, establishment of REDD demonstration plots and carbon monitoring, utilization of forest-based ecosystem services, improvement of on-farm productivity, value addition with NTFPs, establishment of various forestry business (for example, industrial wood processing facility (for example, for wood pellets)); support with marketing and improving market and credit access; establishment of and support for community knowledge resource centers at sub-district or village level; and communication and outreach.

20. In addition to the support listed above, there will be benefits created from the portals associated with the KMIS that are tailored for community use – including marketing portals and portals on forest information. Usage of these portals do not require the local communities to have access to the internet or WiFi, and can be operated as a small business by local youth, as has been done in other countries. Lastly, community empowerment in decision-making (specifically on obtaining technical service) will be supported through the use of the TSP model.

Safeguards

21. The proposed project is anticipated to have indirect and long-term positive impacts by creating the enabling conditions, institutional arrangements and capacities for effective implementation of decentralized management of forests. However, the project could also impose potential negative environment and social impact that will need to be safeguarded following the Indonesian's laws and regulations and in accordance with the World Bank Operations Policies (OP). According to the nature, scope and scale of the project, the WB has classified it under Category B, triggering six safeguards, which are: OP 4.01 on Environmental Assessment, OP 4.04 on Natural Habitats, OP 4.36 on Forests, OP 4.11 on Physical Cultural Resources, OP 4.10 on Indigenous Peoples, OP 4.12 on Involuntary Resettlement, and OP 4.09 on Pest Management

(some KPHs that are planning to establish industrial timber plantations and develop agroforests).

22. In order to fulfil the aforementioned safeguard requirement, the MoEF has prepared an integrated ESMF, to guide the project in identifying, screening and assessing location-specific, environmental and social safeguards related issues emerging from any of the components in the project (components 1, 2, and 3). ESMF also provides explanation about management and mitigation actions required to be taken by a project implementer, and a management plan that the project implementer must prepare before sub-project implementation. ESMF will guide the project implementer regarding the Environmental and Social Management Plan (ESMP). It also guides the preparation of the Indigenous Peoples Plan (IPP) and the Resettlement Action Plan (RAP) by incorporating CPF and LARPF.

23. Given the objective of the project and its focus on reducing challenges to REDD+ implementation at the sub-national level and building capacity in REDD+ and SFM, it is expected that most activities will not create a large scale, significant and/or irreversible negative environment and social impacts. Where unintended negative consequences may arise, the client will implement safeguards instruments in accordance with the WB Operations Policies and pursuant to Indonesia's laws and regulations.

24. There are two sets of interventions associated with the Project which have environmental and social impacts that need to be identified and analyzed during the implementation to inform actions in compliance with the safeguard policies, which are those that support for the formulation of policies and legislations (Component 1, primarily subcomponent 1.1) and that support for the planning, implementation and management of activities in 10 selected KPHs (Component 3, primarily Subcomponent 3.2).

25. Potential, negative, social impacts that can arise from changes in forestry policy and legislation can be categorized into: (1) direct impacts; and (2) indirect impacts. Criteria that can be used in assessing social impacts are (1) the local or customary community's improved or poorer access to forests (in area unit or number of households); (2) an increase or a decrease in the unemployment rate; (3) an increase or a decrease in community members' incomes; (4) more-severe or reduced poverty among the community; (5) increased or reduced food insecurity and health; (6) the community's strengthened or weakened cultural ties to the forest; and (7) an increase or a decrease in the number of forest tenure conflicts.

26. The Project activities which may have unintended negative, environmental and social impacts are activities associated with Component 3. Community empowerment activities supported by the project will be identified during the process of KPH Business Plan formulation in up to 10 KPHs where the project will directly intervene, and include those involving the members of the communities within/adjacent to the KPH as well as external investors. Potential negative social and environmental impacts in relation to the implementation of community empowerment activities in the selected KPHs include but are not restricted to the following:

Environmental Degradation and Unsustainable Use of Forestry Resources

- Loss of high conservation value area (HCVA)
- Increased and uncontrolled use of pesticide in association with agriculture-related

activities Social exclusion and elite capture

- Exclusion of vulnerable members of the community within the KPHs in the process of identification of project supported activities, resulting in their lack of access to project opportunities.

- Unfair sharing of benefits of forestry resources use

- Delivery of capacity building does not take into consideration constraints by some community members to participating and benefiting

Communal Tenure Rights

- Boundary demarcation in conflict with the currently practiced communal arrangements;

- Approach to and measures for land conflict resolution do not take into consideration the communal arrangements;

Land and Asset Acquisition

- Land-based forest management activities (plantation and reforestation, agroforestry, establishment of nurseries, farms, demo plots, and so on) take place on the land currently being used

- Construction of structures such as processing units (by the community or investors) and knowledge resource centers require acquisition of land.

27. Multiple stakeholders were involved in the preparation and finalization of the Integrated ESMF document through series of focus group discussion and public consultations that were conducted at national and sub national level in a manner that was in compliance with the national requirement, following the procedure established by the DKN. Prior to the consultation, the draft ESMF document (translated into Bahasa Indonesia) was distributed and disclosed in a government website in order to give stakeholder involved enough time to read and provide feedback. The minutes of these public consultation, including comments and feedback received from participants are accessible at the government's website (www.kph.dephut.go.id).

28. Based on the capacity assessment that was done at both national and sub-national level, it was noted that at the national level there are existing units at the MoEF who are capable of assessing environmental and social risks in relation to the proposed project intervention (including those under Component 1 and 2), mitigating negative impacts and monitoring the implementation of safeguards actions. While at the sub-national level, the relevant agencies has never had experiences handling safeguards related documents in relation to KPH supported activities. However, the assessment was unable to make a conclusion whether the situation in the sample regions is representative, it is of the view that investing in strengthening the capacities of the relevant entities on environmental and social safeguards and related actions is a priority. Adequate provisions for capacity strengthening for safeguards implementation are included in the ESMF.

Annex 7: FIP Linkages among Projects in the FIP Program and Connections with Development Partners' Engagement in REDD+ and SFM

INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development

1. This Annex provides additional background on Indonesia's agenda for promoting REDD+ and the several programs that support it. The FIP investments build on prior readiness activities financed by the FCPF and other efforts financed by development partners. These include Korea Forest Service, Germany supported initiatives funded by GIZ and KfW, MFP3 project funded by UKCCU, and projects supported by AFD, Conservation International, and The Nature Conservancy. The FIP assists Indonesia to replicate and scale up successful efforts and prepare to access future climate finance, which may take the form of payments for performance. In addition, the program will feed into the Indonesia Sustainable Landscapes Program that the Bank is leading

Indonesia REDD+ / Forest Initiatives: Context and Financing Landscape

2. In 2007, the President of Indonesia made a high-level international statement that committed Indonesia to a path of reducing emissions of GHGs. Following this, Indonesia joined the FCPF Readiness Fund, the UN-REDD Program, the FIP, and in 2010 entered into a bilateral agreement with the Government of Norway on "Cooperation on Reducing GHG Emissions from Deforestation and Forest Degradation". The Government of Norway pledged US$1 billion to support Indonesia's REDD+ efforts. The agreement culminates in performance-based payments for verified emission reduction at the national level.

3. REDD+ Readiness efforts are being led by the MoEF and is supported by a number of other ministries. MoEF is leading Indonesia's FCPF Readiness Program as well as the FIP, and is implementing key forest governance reforms linked to REDD+ readiness. MoEF has developed a National Forest Monitoring System and launched it in October 2012. MoEF also hosts the National Inventory System. BAPPENAS plays a coordinating role and has sponsored the development of National and Regional Action Plans to reduce GHG emissions, and is leading efforts to integrate green development concepts into national development planning.

4. The development of REDD+ safeguards started in 2011, and has involved two main initiatives –

5. the first is the development of Principles, Criteria and Indicators for REDD+ Safeguards in Indonesia (PRISAI), consisting of 10 governance, social, and environmental safeguard principles. PRISAI's principles are based on United Nations Framework Convention on Climate Change guidance, translating the safeguards approach from the Cancun Agreement into the Indonesian context. The second initiative involves MoEF, working with support from FCPF and GIZ, to develop SIS for REDD+ (SIS REDD+), which includes the SESA and ESMF as well as PRISAI. A web-based information system is under development for the integration of the SIS.

6. Draft reference emission levels (RELs) for 11 provinces have been developed. A MRV design document has been prepared, and is under consultation with stakeholders. The system will rely on the existing forest inventory and carbon accounting system. The Ministry of Forestry

has led a series of capacity building activities on MRV at the national and sub-national levels, in addition to leading the establishment of almost 200 permanent sample plots throughout the country.

7. **The REDD+ Support Facility (RSF)**, supported by the Government of Norway and the Government of Denmark (DANIDA), was created in October 2013, in response to GoI's request for advisory work and services. The RSF is the formal support structure that provides technical assistance and support on a wide range of activities – with an emphasis on institutional and capacity building, technical assistance for Fund for REDD+ Indonesia (FREDDI) structure and framework. Key Support of the RSF focuses on supporting the development of REDD+ programmatic approach for REDD+ Strategy implementation at national and subnational level, and carrying out analytical work on relevant issues necessary for the program implementation.

8. MoEF is also carrying out reforms in the areas of forest governance and land rights, both of which are critical for improving forest management, for improving social benefits, and for the successful implementation of performance-based REDD+ programs. Support for implementation of the necessary reforms is being provided by FIP, and other bilateral donors.

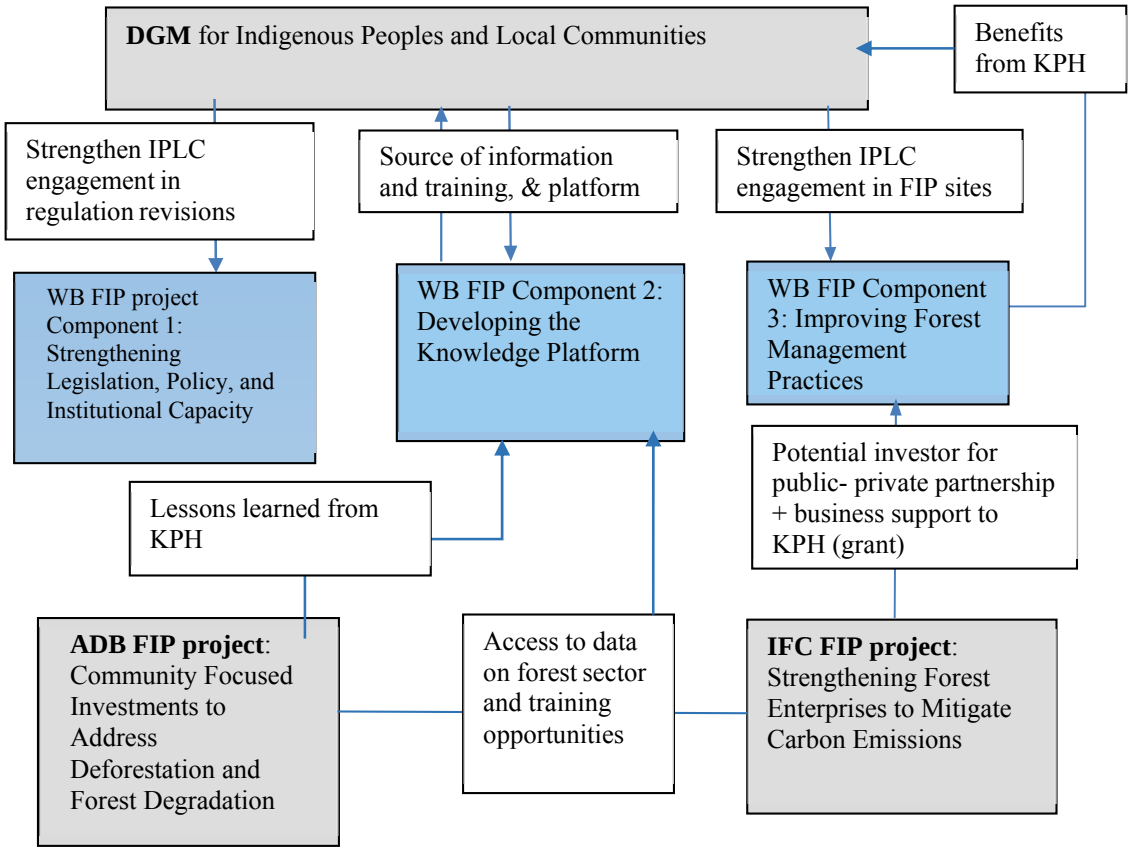
9. **The Forest Investment Program.** The FIP provides funding of US$70 million for investment activities, of which US$37.5 million are grants and US$32.5 million soft loans. The FIP interventions aim to implement Indonesia's REDD+ strategy and improve forest governance mechanisms. The FIP intervention also contribute to Indonesia's aspirations for socially acceptable, environmentally sustainable, and economically viable development – the underlying approach of the RPJMN 2015, the third stage in the 20 year National Long-Term Development, RPJP, 2005–2025. The FIP will help address issues such as forest governance, spatial planning and tenure reforms, environmental and social tradeoffs to economic development, and the incentives framework for SFM.

10. The three FIP projects - World Bank FIP project (described in this appraisal document), ADB FIP project and the IFC - are all interconnected (see Figure below on the main linkages between World Bank FIP project and other FIP financed interventions, including DGM). The ADB is supporting Community Focused Investments to Address Deforestation and Forest Degradation. The intervention aims to contribute to the objective of RAD GRK of West Kalimantan. The project will pilot community-focused REDD+ investments in KPHs of Sintang and Melawi districts, while drawing upon experience from elsewhere in the province. The project will aim at improving governance, incentives and oversight, in line with West Kalimantan's three strategies for REDD+ development and implementation, by: (a) reducing deforestation through improvement in government policies and institutions (b) creating incentives for improved forest management; and (c) overseeing REDD+ payments through strengthening multi-stakeholder consultative mechanisms which are transparent and accountable and free from political influence. These activities will offer insights to the implementation of component 3 in the World Bank FIP project. Lessons learned will also be more widely disseminated to the network of KPHs through component 2 of the World Bank FIP project.

11. The IFC engagement is focused on Strengthening Forest Enterprises to Mitigate Carbon Emissions. The IFC intervention will be focusing more on private sector involvement through direct intervention to strengthen the productive capacities and business skills of small, medium

and large forestry enterprises, with attention to engaging smallholders and communities, by leveraging private sector investments. This initiative will complement those in the public sectors, led by WB and ADB, by bringing private sources of financing to forest partnerships (ideally in KPHs) that can lead to emission reduction and protection of forest carbon stocks. The project will prioritize forestry enterprises from both forested and reforested regions where the forest products and service demand is high. Intervention 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.

Figure 7.1. Main Linkages between World Bank FIP Project and Other FIP Financed Interventions, including DGM



12. The FIP preparation process is building on national dialogue processes, technical assessments and stakeholder engagements initiated and supported under this project but also dialogues supported by GIZ as part of their engagement with KPHs. All FIP activities will be coordinated among the partners and through a national program-level Steering Committee to ensure synergy, coordination, and alignment. A program-level national steering committee has been in place during project preparation and a new Committee will be composed to continue through implementation.

13. **FIP DGM for Indigenous People and Local Communities (DGM) (**US$6.5 million**)** is a special initiative under FIP that was established to provide the indigenous people and local

communities in the eight FIP pilot countries a financing and learning mechanism to support their participation in and complement the FIP investment programs and projects. The DGM project in Indonesia aims to support capacity and institutional building initiatives for the IPLCs in order that they can participate in REDD+ policy dialogue and pursue fair and SFM practices based on their customary practices which lead to improvements in their livelihoods and their social and economic prosperity. The project component consists primarily of strengthening primary organizations of IPs and poorer communities living in forest areas

14. The DKN facilitated the IPLCs in the design of a mechanism and the organization of works for the formation of the Indonesia National Steering Committee (NSC). This project will focus on socio-cultural regions strategically selected by the NSC with clear criteria where IPLCs are concentrated (these regions may include Sumatra, Java, Bali-Nusa Tenggara, Kalimantan, Sulawesi, Maluku and Papua). It aims to create a channel for input from local communities on some of the key regulatory changes being considered nationally, including as part of this FIP financed project. The regulatory changes include those associated with participation of key stakeholders and recognition of traditional claims, and the process for harmonizing approaches, rules and responsibilities.

15. **Indonesia has already submitted its interest to be eligible for performance-based payments through the** Carbon **Fund.** The Carbon Fund is designed to pilot performance-based payments for verified emission reduction from REDD+ program for select number of participating countries. The countries are chosen based on readiness criteria and in compliance with the requirement of carbon fund methodological framework.

16. Indonesia formally presented its Emission Reduction Program Idea Note (ER-PIN) in the 10th Carbon Fund Meeting that was held in October 2014, in Washington DC. The Carbon Fund Participants (CFPs) provisionally included Indonesia's Emissions Reduction Programme in the pipeline. The proposed ER Program will operate at the jurisdictional level, in which the GoI has selected East Kalimantan Province as their geographical area for this program, in response to the CFPs feedback to select a more compact and contiguous accounting area. Since the CF grant will not provide financing for investment, complementary financing from other sources will be important, for example government budget, bilateral donors, global funds (for example, FIP, Global Environment Facility, and so on). KPH in this selected province would be an important entity for intervention for improving local conditions for REDD+ implementation and receive benefits as part of the program implementation

17. KPHs associated with the FIP program could potentially benefit from the BioCarbon Fund Initiative for Sustainable Forest Landscape. Indonesia has also been selected to receive a grant in the amount of US$60 million from the BioCF ISFL. BioCF ISFL is also a global multi-donor trust fund managed by the World Bank, aiming to promote reduced emissions from land-use sector, including REDD+ and sustainable agriculture, as well as smarter land use planning and policy. This program requires involvement of the private sector which would be advantageous for advancing the REDD+ strategy implementation in Indonesia. This program aims to operate at a significant scale in contiguous areas at the jurisdictional level (provinces/districts). If this program is implemented, KPHs in the selected jurisdiction could potentially benefit from this initiative, including from the technical assistant and grant funding to create enabling environment during the program implementation.

18. The World Bank, through the RSF, has commenced a quick feasibility assessment of a number of potential areas that could qualify for a landscape approach under this program. This assessment was done to a number of preselected potential areas to examine viability of these areas in piloting result-based financing based on verified emission reduction through the adoption and implementation of sustainable landscape. The preselected areas are as follows: (a) North Sumatra (3 districts, mountainous area); (b) Jambi (3 districts, forest and peat areas); (c) Heart of Borneo (HCVF areas); and (d) Central Kalimantan (2/3 districts, peat areas). Finalization of the report is still on going.

19. **The project will also contribute to delivering on sustainable landscape management.** The World Bank, in its current Country Partnership Framework for Indonesia, has identified sustainable landscape management as a critical pillar of its engagement in Indonesia. This pillar aims to improve management of, and benefits from, terrestrial natural assets. The engagement area includes support for policy reforms in land and forest governance and administration to reduce poverty, attract better investment, promote sustainable livelihoods and agriculture development and increase job creation, while maintaining the natural asset base. The Forest Estate occupies a significant portion of the landscape. Within the forest estate are diverse land uses. KPHs that are effectively operationalized and linked with local government will be a key player to engage with when address issues of spatial and land use planning and also economic activities within the Forest Estate. Improving land use planning within KPHs, and integrating this planning with spatial planning done by subnational governments will help deliver improved governance over forests and will contribute to one of the important elements of the sustainable landscape management program – sustainable use of natural assets for the wellbeing of the rural poor. Well-functioning KPHs will also offer a vehicle for implementing activities that support the proposed areas of engagement in the Bank's sustainable landscape management program (for example, activities on local-level fire prevention, sustainable use of natural assets for economic well-being and growth in lowlands).

Coordination with Related Programs and Development Partners

20. Donor support for KPHs is widespread. The Ministry of Forestry has received and continues to receive support from ADB and IFC Components of the FIP (mentioned above), and on-going donor projects. The latter include the GIZ Forest and Climate Change Programme, the UKCCU supported program (Multi-Stakeholder Forestry Programme/MFP3 and Papuan Spatial Planning program), the Korea Forest Service project, DANIDA-ESP3 program, the USAID IFACS Project, Global Environment Facility-financed initiatives in Sumatra, and support from donors like Norway and Foundations through their funding to international NGOs such as The Nature Conservancy and Conservation International. There also is support from national NGOs such as Kemitraan, Working Group Tenure, and so on. The activities primarily focus on implementation of KPH in specific geographies throughout Indonesia. In addition, Forest and Climate Change Programme has invested resources in the institutional dimensions of KPH and capacity building.

21. Indonesia's development partners periodically convene a Development Partners' Group. The group serves as a useful venue for exchanging information, discussing issues and gaps in current programs and harmonizing dialogue with the government. Bank staff and missions participate in these discussions and provide information on activities and investments, including those supported by global trust funds, such as FCPF and the FIP.

22. In addition to forestry and REDD+ related efforts, development partners are also supporting other relevant environment and natural resource related projects, including: Denmark's development cooperation, DANIDA, supports Indonesia with a third phase of the Environment Support Program (ESP3). The implementation period of ESP3 is January 2013 to December 2017 and the total budget is US$55 million. With central government agencies, ESP3 seeks to facilitate gradual transformation to a green economy and climate change mitigation working within the pillars of water, waste, energy and environment and natural resources management. ESP3 support includes funds channeled through the WB to Indonesia's FIP and the REDD+ Support Facility for which a total of US$10 million has been set aside. Other forest related ESP3 support goes to conservation of the 100.000 ha Harapan Rainforest and development of Locally Appropriate Mitigation Actions (LAMAs).

23. The Harapan Rainforest (HRF) is a joint initiative of a consortium of Burung Indonesia, BirdLife International and the Royal Society of Protection of Birds. It is the first project in Indonesia to be implemented under an Ecosystem Restoration License, allowing management of production forest for restoration, - rather than logging. HRF aims to restore 100.000 ha lowland forest in Sumatra, one of the most bio diverse and threatened forest habitats in the world. In addition, it has important ecosystem services such as protection and sequestration of carbon and prevention of erosion and flooding. The main activities include forest protection and restoration, biodiversity research and monitoring, partnerships with indigenous communities and others to support sustainable livelihoods, and promotion of HRF as a model for SFM and REDD.

24. The LAMA project develops a tools in cooperation with local governments, that can quantify land-use/cover changes and their consequences to biodiversity and environmental services and their benefits to livelihoods and economic. It is developed to allow scenario simulation in analyzing trade-offs. The project also works on strengthening technical and institutional capacities which are keys to the integrated, inclusive and informed planning. LAMA supports the National Action Plan to Reduce GHG Emissions (Rencana Aksi Nasional Penurunan Emisi Gas Rumah Kaca/*Rencana Aksi Nasional Penuruan Emisi Gas Rumah Kaca* [National Action Plan for Greenhouse Gas Emission Reduction]), according to which all provinces must develop plans for serious reduction of CO_2 emissions while aiming at 7 percent economic growth per year. The World Agroforestry Centre (ICRAF) in partnership with GIZ and the Centre for Climate Risk and Opportunity Management in Southeast Asia and the Pacific implement the project.

Related Projects in the World Bank Portfolio

25. The FIP project will also be able to use findings from other Bank engagements and dialogues in the agriculture, environmental and natural resources sectors, including:

- **PROFOR financed study on Benefit Sharing and Customary Land Rights in Forest Areas Schemes for Indonesia Indigenous People (**P143304). This study includes the following: (a) Synthesis of knowledge, political/mapping and effective negotiations on community rights in forestry lands; (b) consolidation of experiences and lessons regarding rights recognition, mediation, and benefit sharing schemes; and (c) Land Governance Assessment Framework.

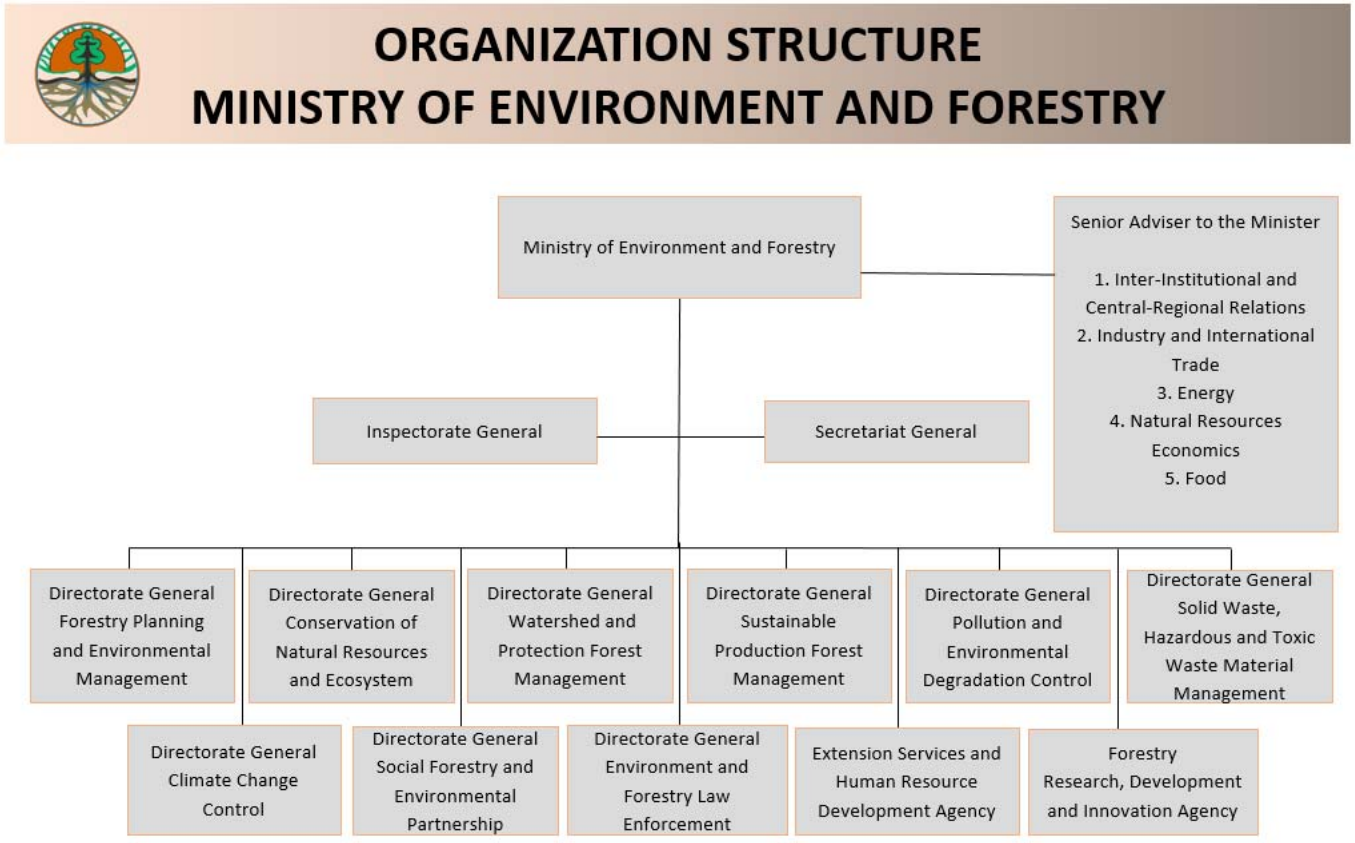
- **Central Kalimantan Land Governance Assessment Framework (LGAF)**. This

study identified and generated consensus on priority issues and related actions to boost the contribution of the land sector to the socio-economic development of the province, through REDD+ work, and reduce land related disputes. The study reviewed land use and land governance in Central Kalimantan.

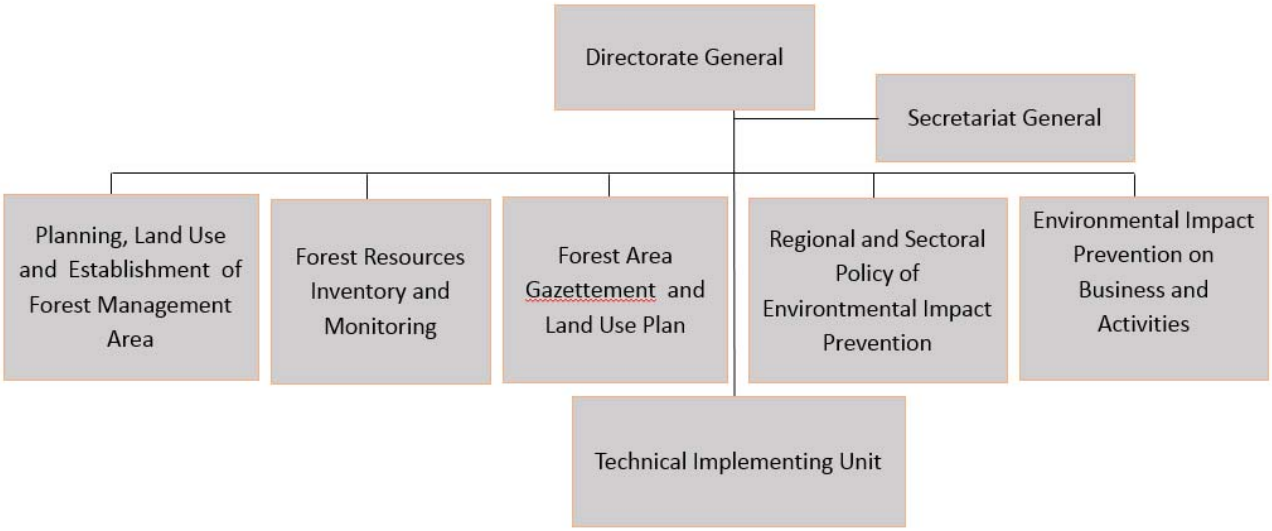
- **JSDF - Improving Governance for Sustainable Indigenous Communities in Forested Lands**. This grant is being implemented by AMAN (*Aliansi Masyarakat Adat Nusantara*/The National Indigenous Peoples' Alliance of the Archipelago) and focuses on improving the livelihoods of 250 indigenous communities located in the ten main forest provinces, and to improve the capacity of indigenous communities to participate in, and benefit from, national and international forest policy developments. The activities provide insights on how to strengthen the organizational, technical, and entrepreneurship skills of local community-based organizations with the following four approaches: 1) promotion of participatory land use planning; 2) capacity building of indigenous organizations; 3) development of forest resource and cultural-based income generation; and 4) M&E, and knowledge dissemination.

Annex 8: Organizational Structure of MoEF and Relevant DGs

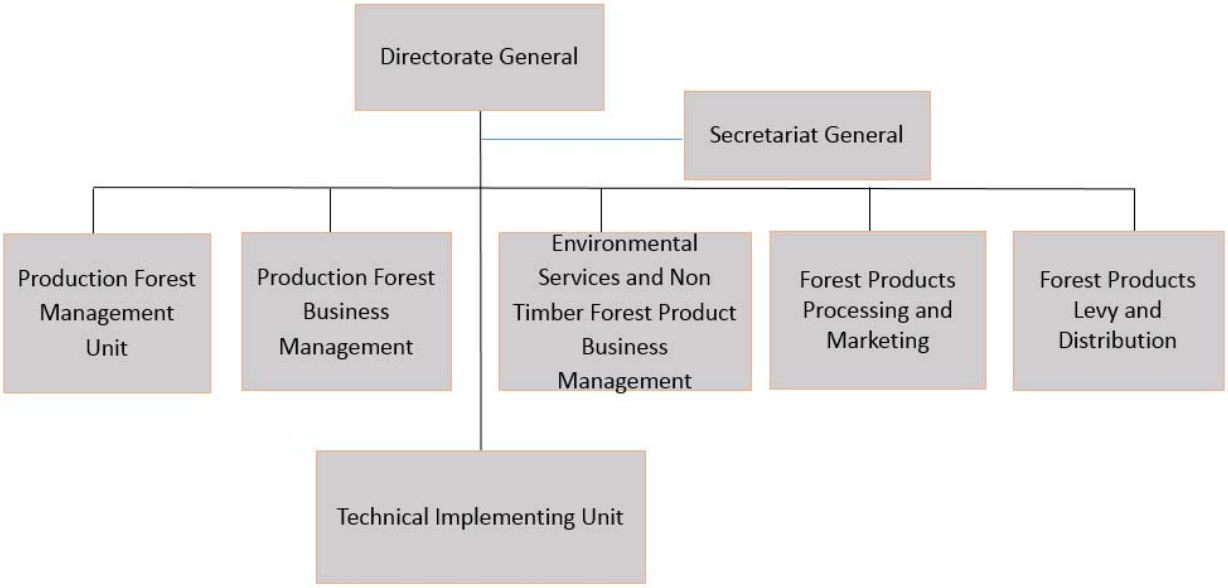
INDONESIA: Promoting Sustainable Community Based Natural Resource Management and Institutional Development (P144269)



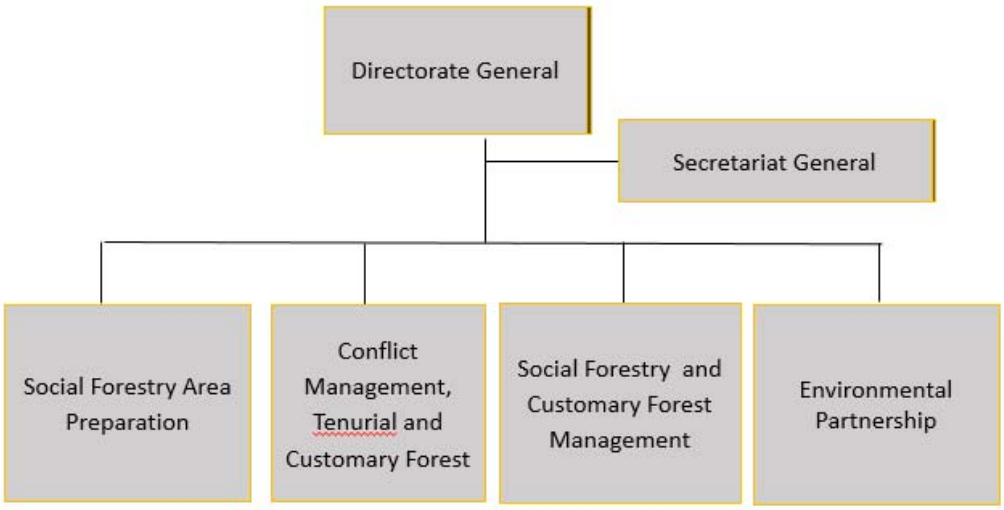
Directorate General
Forestry Planning and Environmental Management



Directorate General
Sustainable Production Forest Management



Directorate General
Social Forestry and Environmental Partnership



Extension Services and Human Resource Development Agency