

CLIMATE INVESTMENT FUNDS

October 2, 2015

**[Approval by mail] Indonesia: Promoting Sustainable Community Based Natural Resource
Management and Institutional Development (World Bank) FIP**

World Bank Response to Comments Received from US

October 2, 2015

[Approval by mail] Indonesia: Promoting Sustainable Community Based Natural Resource Management and Institutional Development (World Bank) FIP– World Bank Response Comments from US

World Bank Response to Comments from US

1. Will the project in any way support or promote industrial scale logging in primary tropical forest areas in Indonesia?

Proposed response: This project will not support or promote through its activities in component 1, 2 or 3, industrial scale logging in primary tropical forest areas.

The project will support sustainable forest management in the following manner:

- (i) In component 1 the project intends to strengthen the rule of law in the forest sector by providing technical assistance for drafting needed regulations and standard operating procedures that would make the implementation of decentralized forest management (through KPHs) more effective and improve forest governance at the subnational level.
 - (ii) In component 3 the project could provide technical assistance (TA) to communities to harvest trees from community-managed plantations if this was requested by the community. In such cases, as per the safeguards framework, the project will need to comply with certification requirements where they are relevant.
2. With respect to some of the constraints to operationalization of the KPHs (which include, according to the project document, unclear and conflicting laws and regulations, lack of consistent information, and limited ownership of the approach), we think some additional granularity on what the conflicting laws/regulations are, what actions would be required by whom to change them, and what agencies/stakeholders, at what level, have not bought into the approach is necessary. If there is limited ownership of the approach, is FIP support likely to be successful? Also, it was not clear to us whether “ownership of approach” and clarity of laws and regulations was an important factor in the selection criteria, set out in Annex 2, of the 10 KPH areas. It seems that perhaps it should be more explicit.

Proposed response:

We have divided our response to this question in three parts:

- (i) Request for more specifics regarding the conflicting laws and regulations and what needs to be done about them:

Examples of unclear or conflicting laws and regulations will include:

- Regulations on roles and functions of KPH compared to roles and functions of subnational working and technical units of MOEF (specific articles with PP6/2007) – specifically clarifying the role of KPHs versus MOEF’s technical units on responsibility

such as monitoring and enforcing violations, issuance of community forestry licenses and village forest licenses, and so on. This action is within the purview of MOEF.

- Regulations on the formation of partnerships between private entities, communities and KPHs (P.39/Menhut-II/2013). The project will provide technical assistance to further clarify how partnerships can be formed, how benefits will be shared among the partners, and any conflicts will be handled. This action is within the purview of MOEF, with consultation with MoF on benefit sharing.
- Clarifying when, as per existing regulations for funding local budget holding government entities (referred to as on-granting), funds to KPHs can be transferred directly to KPHs versus transferred to them via the working and technical units of the MOEF, and reduce any contradiction among separate regulations. This action will require MOEF working with Ministry of Finance and Planning.

The project will be providing technical assistance to develop and consult on suitable revisions to unclear or contradictory regulations. Additional details on these laws and what the project will do will be included in annex 2 in the version of the PAD prepared after appraisal.

- (i) Will “ownership of approach” and “clarity of laws” be selection criteria for selecting KPHs?

The selection criteria will be applied to identify which KPHs will receive support in component 3 – the component focused on operationalizing KPHs. The current criteria require that the KPHs that are selected will be ones that are already formally established i.e., have their initial long-term forest management plans approved and are already a recognized legal entity (i.e., the necessary legal decree has been issued).

The selection of the KPHs, therefore, will not be restricted by clarity of laws and regulations. Similarly, “ownership” of the KPH approach will not affect the selection of KPHs because the selected ones will already be legal entities. A criteria that is being used to select the KPHs that will receive direct support is the willingness of the KPH head to comply with the specific requirements of the project in order to receive project support (i.e., comply with the timeframe, consultation requirements, safeguard requirements, etc.).

- (ii) If there is limited ownership of the approach, is FIP support likely to be successful?

The Ministry of Environment and Forests (MOEF) has, as part of its medium term plan, the establishment and operationalization of a target number of KPHs by 2019. Delivery of operational KPHs is a performance measure used to determine the amount of public budget received by the Ministry.

The ‘lack of ownership’ refers to the limited understanding of how KPHs work and how the function of KPHs complement the responsibilities of specific directorates in the MOEF and subnational government. The project will support outreach and communication efforts to improve the understanding of how KPHs work and what they can achieve. The recent reorganization (April – May 2015) of MOEF, which mainstreams the responsibility of operationalizing KPHs to several directorates, makes this task easier, as many directorates

have had to start understanding the roles and functions of KPHs as part of their new mandate.

At the subnational level, the recently approved regional autonomy law transfers the responsibility for issues pertaining to forests from district heads to provincial governors. There are different levels of understanding among governors about how KPHs work and the responsibility of provincial government towards KPHs. The project, through the outreach and communication activities, aims to augment Governors' understanding of the KPH initiative to ensure their willingness to recognize the boundaries of KPHs found in their provinces when making other land use decisions. This would minimize the chance of conflicts arising over land use in and around KPHs.

In summary, the current levels of understanding about KPHs is unlikely to affect the success of FIP support.

3. We notice that there does not appear to be non-grant co-financing from the World Bank/IBRD, or other explicit co-financing from the Government, for this project. Can you please provide more information on why that is? Does this raise questions about scaling up and replicating the FIP project in other KPHs without FIP financing? Can you provide more information on how KPH scale up and operationalization will be financed over time once FIP support is no longer available?

Proposed response:

As the operationalization of KPHs is part of the Government's medium term plan, there is national budget (APBN) allocated to establishing and operationalizing KPHs. For example, the MOEF FY15 budget for production forests included approximately USD 29 million to operationalize 80 KPHs that are in production forest areas. Similar budgets were available from other directorates involved with KPHs. Budget is allocated for establishing and operationalizing KPHs every fiscal year. The proposed FIP project activities augment APBN supported activities by providing resources for necessary processes and putting systems in place that would help operationalize KPHs. In addition, where KPHs are in the provincial or district medium term development plan, there can be subnational budget (APBD) provided to KPHs from provinces and district.

Going forward KPHs will continue to have access to the public sources of funds. The systems that this project puts in place (e.g., the KMIS – which creates a platform for bringing together already available data layers into user friendly formats to improve the information base for forest management planning) are expected to remove constraints to operationalizing KPHs and help make more effective use of the available public budget.

The World Bank (WB) is currently in discussion with the Government of Indonesia (GoI) on the WB's Country Partnership Framework (CPF) with GoI. One of the main engagement areas in the CPF is on Sustainable Landscape Management. Following the approval of the CPF, the Bank intends to work with MOEF and other relevant ministries on the investments and TA required to further promote the objectives of the Sustainable Landscape Management approach, including improving forest governance through decentralization of forest management. KPHs will be instrumental to the process of decentralizing forest management, because they offer the institutional structure to (i) engage effectively with

local and private stakeholders to sustainably manage and use forests for growth, (ii) work with local uses and claims to forest lands, and (ii) be innovative in using forest assets for improving rural well-being. In summary, while currently there is no WB co-financing for the FIP, the importance of future support to MOEF for scaling up KPHs is well recognized in the WB's CPF and is part of the Bank's objectives under the Sustainable Landscape Management engagement area.