Indonesia

CLIMATE INVESTMENT FUNDS

THE SITUATION

Indonesia's forest lands account for 60% of its land mass, and is notably the third largest area of tropical rainforest in the world. Understandably, the forest sector is also the most significant source of greenhouse gas emissions, with expectations for emissions levels to more than double over the next twenty years. An extensive public consultation process carried out in seven regions across Indonesia has identified a number of perceived underlying drivers of deforestation and degradation including: ineffective spatial planning and weak tenure; ineffective forest management; and inadequate governance and law enforcement. REDD+ Agency , under direct order of the President of Indonesia, is now developing a national policy for reducing emissions from deforestation and forest degradation. Indonesia is committed to climate change adaptation and mitigation measures to lessen potentially adverse impacts on

Source: CIFOR

the country's most vulnerable groups vis-à-vis investments in the forest sector.

THE TRANSFORMATION

Indonesia will tap US$ 70 million (US$37.50 grants; US$ 32.50 credits) from the Forest Investment Program (FIP) and is expected to leverage at least an additional US$105 million in resources from MDB and private sector sources to enhance institutional capacity for forest management; to engage forestry enterprises and firms in related sectors outside forests to integrate sustainable land use practices in their business operations; and to support community based forest management, capacity building and livelihoods development. Indonesia's Forest Investment Plan was developed under the leadership of the government in collaboration with the Asian Development Bank (ADB), the World Bank Group (IBRD and IFC), other development partners and key Indonesian stakeholders, including indigenous peoples and local communities. The investment plan lays out a comprehensive strategy to strengthen institutional capacity associated with decentralized forest administration units and poor forest governance issues underlying the drivers of deforestation and forest degradation.

INDONESIA QUICK FACTS

Territory covered by forests

52%

Contribution of LULUCF Sector to total national emissions

60%

Extent of voluntary commitment to reduce emissions from business as usual

26%

Total forest area that has been fully gazetted

14.24 million hectares

Total number of islands that make up the archipelago

13,000

Estimate of Indonesians classifiable as indigenous 50-70 million

50-70 million (AMAN)

2000-2010 average annual deforestation rate

0.5%

INDONESIA FIP QUICK FACTS

FIP Financing:

US$70 million
(54% grants, 46% near-zero interest credits)

Expected to leverage:

US$105 million

EXPECTED FIP IMPACT: Complementary public and private sector investments will help stimulate transformation in forestry sector and land use industry towards maintaining carbon stocks and greater sustainability

Two separate government led projects will invest heavily with grant resources in building local capacity with forest management units and local communities to ensure balanced and sustainable use of forestry and land resources across major provinces in Indonesia. IFC leads on a third project taking up the concessional resources from the Indonesia allocation to work with agroforestry companies that have market influence: the interventions would seek to have a large impact by capturing a large share of the industry's emissions reduction potential, and by fostering competition and a need for other market players to follow suit.

INDONESIA INVESTMENT FOCUS AREAS

IMPROVING THE QUALITY OF FOREST GOVERNANCE

RATIONALE: FIP financing will support site level management approaches which so focus on maintaining and enhancing ecosystem productivity. Activities will be aimed at building the institutional, financial, and technical capacities of Forest Management Units (known as KPH); these decentralized agents serve as an entry point for increased community involvement in forest governance and land use planning at the local and better engage with national level policy.

FINANCING: US$ 17.50 million in FIP grant resources will support this ADB-implemented project.

EXPECTED RESULTS:

- Reduced deforestation and forest degradation as evidenced by: changes in hectares of natural forest cover, forests by forest type, and tons of CO2 sequestered in the project area; changes in hectares deforested, forests degraded, reduction in loss of intact of forest area and reduced GHG emissions in project area.
- Enhanced livelihood opportunities and reduced poverty levels as evidenced by: change in indicators for the UN Millennium Development Goals and Human Development Index for supported villages, districts and province; and the number of people with increased monetary or non-monetary benefit; the percentage of local communities with secured access to economic benefits in the project area.
- Enhanced forest governance as evidenced by reports that laws and regulations in project area are being implemented, monitored, enforced and harmonized with other laws.

LEVERAGING PRIVATE SECTOR INVESTMENTS IN SUSTAINABLE LAND MANAGEMENT

RATIONALE: The IFC is tapping US$32.50 in concessional resources from Indonesia's FIP allocation to leverage further private sector investments in sustainable land management, community forestry, and natural resources development and management. The forestry enterprise initiatives will complement those in the public sector in a combined effort to transform Indonesia's forest management in a sustainable manner. IFC will work with its partners to promote sustainable forest management leading to emission reduction and protection of forest carbon stocks.

FINANCING: US$ 32.50 million in FIP near-zero interest credit financing will support this IFC-implemented project.

EXPECTED RESULTS:

- Strengthened capacity of both small and large forestry enterprises to manage costs, practice solid accounting principles, prepare valid financial statements, make legitimate financial projections and successfully catalyze financing into sustainable forestry projects.
- Increased investments in the forestry sector by financial intermediaries: FIP concessional financing will help leverage additional investments in small and medium forest enterprises from public forestry support programs and private sector investors who currently view these investments as economically unviable and high risk.

ENHANCING COMMUNITY-LEVEL CAPACITY FOR SPATIAL PLANNING AND REDD+ THROUGH FOREST MANAGEMENT UNITS SMALLHOLDER FORESTRY

RATIONALE: FIP financing aims to transform significant areas of degraded and underutilized lands into productive assets through smallholder forestry with potential private sector partnerships. Programs will be piloted in areas where annual household cash income is less than US$50 and literacy rates are below 20%.

FINANCING: US$3.3 million FIP financing will support this IFC-implemented project.

EXPECTED RESULTS:

- Support and strengthen the collaboration of communities and smallholders with the private sector for industrial tree plantation and woodlot development projects, as well as for capacity development at the farmer level.
- Promote participatory land use and allocation of land to farmers, combined with documentation of ownership, extension services, technical assistance on sustainable agro forestry, and other related REDD+ activities.
- Increase carbon stocks on degraded lands through smallholder woodlot development to improve local livelihoods and incomes, as well as reduce fire risk.

Source: CIF AU