

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 TI

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

- A key finding of TI-Indonesia's 2013 assessment of the major corruption risk areas for REDD+ development and implementation in Indonesia was the risk of "state capture" in the development of REDD+ policy and legislation. From an anti-corruption perspective, this proposed legislation, policy and institutional strengthening process must address the risks of state capture of REDD+ development by vested interest groups at the national and local level. To ensure open and accountable decision making at all levels, it is imperative that civil society is engaged in this process.

Proposed answer: Involvement of all key stakeholders is considered important in the drafting of regulations to ensure that due consideration is given to the wide-ranging perspectives. The activities in component 1 that pertain to the formulation of laws, regulations and standard operating procedures will be subject to World Bank safeguards. As noted in the Environmental and Social Management Framework for the project the process will involve consulting on the drafted amendments with the key stakeholders from the forest sector. For technical assistance and inputs into higher level policy matters, the ESMF indicates that a strategic assessment may be needed.

- This component should include the activities for developing the concept note on PRISAI into some guidelines on PRISAI. These guidelines must be established in the form of a policy or regulation such as Presidential Regulation and/or Minister Regulation so these guidelines can be used and integrated by Local Governments into local REDD+ action plans.

Proposed answer: This is a well-justified suggestion. Government of Indonesia is receiving support from the Forest Carbon Partnership Facility (FCPF) for REDD+ Readiness. As part of this support resources are available for activities related to REDD+ safeguards development. The development of safeguards in Indonesia is proceeding through two main initiatives, which are PRISAI that was developed by the (former) REDD+ Agency and SIS REDD+ commissioned by the MOEF. The former REDD+ Agency has initiated the development of guidelines for implementation of PRISAI as well as the development of operational procedures. Under the new ministry, MOEF, the main Executing Agency for the FCPF financed activity – the Directorate on Climate Change – will be deciding on how to proceed with the development of guidelines. The FIP project will not be including this activity in order to not duplicate efforts.

Component 2: Knowledge platform development

- TI-I welcomes the establishment of a multi-level knowledge and management and information system (KMIS) to collate information, increase coherence and transparency and build institutional memory. This component should serve not only for harmonizing data and knowledge but also for discourse and based on that action. Project management should put this as an arena for discourse development on KPH.

Proposed answer: The platform serves as two-way source of information. It will be able to service on-line forums and other on-line approaches for exchanging information. The platform will include non-proprietary information on performance of the KPH, including benchmarking KPH performance and rewarding good performers in an effort to strengthen public service integrity.

- The lack of coordination among government institutions especially in map and spatial data is an ongoing challenge in Indonesia, this project should seek to address this problem. TI-Indonesia recommends that MoEF works to enhance the coordination among many institutions that have authority to manage map and spatial data such as BIG/the Geo-spatial Information Agency, and BPN/the National Land Tenure Agency.

Proposed answer: The project intends to address the issue of lack of spatial data coordination among institutions. The KMIS in component 2, with its focus on data sharing, aims to coordinate MOEF spatial data with that in other ministries and agencies, and BIG is one of the candidate agencies. As the platform becomes more established, and the need for additional sectoral datasets arises, both at national and sub-national level emerges, the project could explore expanding to other relevant ministries including agencies such as BPN.

- TI-Indonesia further recommends that knowledge and information not only related to KPH but also related to risks of corruption and how to mitigate them should be collated and disseminated through this system.

Proposed answer: The platform aims to include several data sets including data on conflicts at KPH level and their resolution, information on indigenous groups and local communities, and so on. KMIS system will be modular enough to contain both spatial and no spatial datasets, and would have the ability to add governance related datasets especially related to environmental or forestry laws, regulations and/or parameters.

Separate from the broader WB requirements for compliance with high standards of financial management and procurement, the performance metrics of the project will be disclosed to the public on the KMIS. This will include information on how the KPH is performing according to local communities, private stakeholders and other government officers.

Component 3: Improve forest management practices in 10 KPH areas

- This project should seek improve the capacities of KPHs not only in terms of forest management but also in terms of forest governance. In particular in terms of transparency and accountability (including grievances mechanism) in forest licenses, integrity of public officials in forest management agencies including KPHs.

Proposed answer: The project provides TA to KPHs on a host of activities in addition to forest management including stakeholder engagement, conflict resolution and communication and outreach. There will also be training and capacity building of KPHs to implement the safeguard requirements. The ESMF associated with the project, the KPH will have to comply with the community participation framework. The project also provides incentives to improve performance of KPHs (by benchmarking KPHs) in an effort to strength public service integrity.

- MoEF should involve the Indonesia Commission on Anti-Corruption (KPK) to support forest governance capacities of KPHs, and draw lessons from the supervision and monitoring activities the KPK has led developing good governance practices in natural resources including forestry.

Proposed answer: MOEF is already working with the KPK through the NKB 12 (an MOU between 12 ministries and the KPK). As a result there will be KPK inputs to improve forest governance.

For example, the action plan under the MOU has elements that would support improved forest governance capacities that are of relevance to KPHs. A more specific example would be the harmonization of policies and legislation which will include revision of the regulation on forest area gazettement and evaluation of the implementation of forest area gazettement

- The risks of corruption for each KPH should be identified as part of the selection process.

Proposed answer: This is a welcome suggestion. The project has in place measures to prevent financial and procurement mismanagement as per the World Bank policy requirements. These systems will be the basis for preventing mismanagement of funds at the KPH level as it uses established systems.

- Governance and anti-corruption aspects should be amongst the criteria for the selection of the 10 KPH. As a minimum, the 10 selected KPH should 1) implement corporate integrity principles such as participation, access to information, accountability and compliance; 2) Have been assessed to present the lowest corruption risks 3) personnel of the KPH should be shown to display high standards of integrity.

Proposed answer: To engage in the project the KPH has to agree to comply with all the requirements of the project including to comply with the World Bank's financial, procurement and safeguard policies. For the project specifically, there will be periodic reporting on performance which is validated with supervision missions. Moreover, surveys will be conducted (as per the agreement on the results of the project) regarding the performance of the KPH and also regarding the benefits derived by communities and the practices of forest management

- The community empowerment activities associated with this component should include an anti-corruption perspective. Local affected communities should be empowered to develop an effective control mechanism of the KPH operationalization.

Proposed answer: There are various mechanisms by which communities can influence the KPH operationalization. All KPHs participating in the project will need to revise their long-term management plan to ensure that community input is accounted for. In addition, there will be a consultative committee at the level of KPH, through which communities and CSOs can provide input to the progress and operationalization of KPHs. Lastly, the safeguard framework offers different ways by which communities and other local stakeholders can provide feedback on the KPH operationalization.

Component 4: Project Management, monitoring and reporting

- From the outset, the risk of corruption of this project should be identified, as well as actions that will be implemented to mitigate any corruption risks. Progress on anti-corruption indicators should duly be measured and recorded through the M&E system.

Proposed answer: The risk assessment section of the project document presents an assessment of the risk. In this section it is noted that there are varying levels of corruption across sectors that may impact the project and that any mismanagement of funds will impede the achievement of the overall PDO. The preliminary procurement assessment of the project indicated that project procurement processes should introduce specific measures to enhance competitiveness, transparency and accountability particularly on the community driven procurement processes, anticipated under the project and focus on strengthening the capacity and awareness of the KPH and the communities group implementing the Project. The financial management risk is related to the MOEF's lack of experience on managing a grant that is 'on-budget-on-treasury' (i.e., the funds are accounted for in the Indonesian national budget with the funds flowing through accounts controlled by the government. Risk also noted in relation with project implementation

that is across the country, across some directorate generals within MOEF, and at different levels of government.

The proposed mitigation measures for the potential mismanagement of funds include transparent Procurement and Financial Management practices within MoEF, participating subnational governments and KPHs supported under FIP. Necessary facilitation and technical assistance will be provided under the project, and specific arrangements will be discussed, developed and agreed prior to completing appraisal. Adequate financial management support within PMU is also agreed during pre-appraisal including clarity on its coordinating role on Financial Management aspect of the project across PIUs. The fiduciary safeguards will be integrated into the FIP project design and the POM.

- The M&E system should include the involvement of external oversight groups from civil society on the implementation of this project management including financial management and procurement process.

Proposed answer: There are ongoing discussions on how to engage CSOs in the M&E. At a minimum, as noted in the questions regarding the KMIS, the monitoring and reporting information will be made accessible through the KMIS, enabling public view of performance. There will also be a grievance redress mechanism that would be responsive to grievances by any stakeholder group regarding the project. The specifics of this mechanism will be detailed in the project operational manual.

Further detail on anti-corruption

- The cost of corruption and effectiveness of law enforcements on illegal practices or crimes in Indonesia forestry sector such as illegal logging, illegal mining, corrupt practices in forest licenses, etc. should be considered as a factor within the investment criteria. It is crucial to identify the risks of corruption of KPH in usage of this fund/budget and how to mitigate this risk. TI-Indonesia recommends that the Gol develop new section or paragraph titled anti-corruption safeguard or, anti-corruption considerations.

Proposed answer: Assuming this statement is recommending that the regulations on KPHs there should be a section titled anti-corruption safeguards, it should be noted that Component 1 aims to help strengthen regulations and SOPs that would ensure effective performance of KPHs. While the main regulations that need refining or revising have been identified, there is room for the project to explore supporting the drafting of additional regulations that are seen to be needed to ensure effective management of KPH.

For purposes of this project, the draft legal agreement for the project includes language that requires the recipient of the grant (Gol) to ensure that the recipient conducts the project in accordance with the provisions of the World Bank's anti-corruption guidelines.