

**INDONESIA-AUSTRALIA
FOREST CARBON PARTNERSHIP**

INDEPENDENT PROGRESS REPORT

MARCH 2011

TABLE OF CONTENTS

SUMMARY	1
1 INTRODUCTION.....	5
2. BACKGROUND	6
3. RELEVANCE	8
4. EFFECTIVENESS.....	12
5. EFFICIENCY	22
6. SUSTAINABILITY	27
7. RECOMMENDATIONS.....	28

ANNEXES

Annex 1	Terms of Reference
Annex 2	Schedule of Meetings
Annex 3	Aide Memoire
Annex 4	Key Documents
Annex 5	INCAS Performance Progress
Annex 6	KFCP Performance Progress

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SUMMARY

The Indonesia-Australia Forest Carbon Partnership (IAFCP) Agreement covers the period mid 2008-mid 2012. It aims to support GOI efforts to reduce greenhouse gas emissions from deforestation and forest degradation (REDD+), highlighting three areas for co-operation:

- Policy development and capacity building;
- Technical support for forest carbon monitoring and measurement;
- Development of demonstration activities.

The programme was recently extended until mid 2013 and the GOA commitment increased from AUD 40 million to AUD100 million. Major activities supported through the Partnership include assistance to develop an Indonesian National Carbon Accounting System (INCAS); and a REDD+ demonstration project located on peatland in Central Kalimantan (KFCP). A second REDD+ demonstration activity in Sumatra, announced in March 2010, has not yet commenced design.

The aim of the Independent Progress Report is to assess IAFCP implementation progress, the continuing relevance of IAFCP objectives, the effectiveness and efficiency of program delivery and to identify any recommendations to improve performance and sustainability.

In the lead up to COP 13 in Bali (2007) and COP 15 in Copenhagen (2009), the goal of the IAFCP was very much appropriate: to demonstrate that reducing emissions from deforestation and forest degradation in developing countries can be part of an equitable and effective post 2012 global outcome on climate change. IAFCP provided well regarded policy input and support to GOI nationally and internationally.

Since that time however, climate change negotiations have waxed and waned and there has been no agreement on binding emissions reduction targets, setting back early prospects for a compliance market. This is in contrast to REDD+ where negotiations have made real progress. COP16 in Cancun (2010) established the framework for a REDD+ mechanism to deliver economic opportunities for countries to reduce emissions from the forest sector.

International uncertainty has been mirrored in a lack of urgency in GOI domestic policy development. However, that changed with the Letter of Intent (LOI) signed by the governments of Indonesia and Norway in May 2010, which gave impulse to a new national-level, economy-wide approach to REDD+. Since then a whole of government team (REDD+ Task Force) led by the President's Delivery Unit (UKP4) has been tasked with establishing a REDD+ agency and completing a national REDD+ strategy; developing a strategy and institution for measurement, reporting and verification (MRV); designing a funding instrument; and selecting and supporting a province-wide REDD+ pilot project.

These reforms will likely require a major revision of regulations and of the roles of some powerful institutions of government. Such changes will take time to introduce and will inevitably involve periods of policy inconsistency, inertia in decision making and compromise. But success of the proposed institutional and policy reforms are essential for the sustainability of REDD+ initiatives.

The broad goal of IAFCP remains relevant, although the timeframe for an international agreement on climate change is likely to extend beyond 2012 and at the national level policy uncertainty may remain, perhaps until the next Presidential elections in 2014.

At the sub project level, the activity objectives similarly remain relevant. A functioning national carbon accounting system is essential to enable Indonesia to participate in a future international carbon market and the INCAS activity appears to have strong local ownership.

Based on the IPR assessment of performance to date, INCAS is proceeding well and there is a strong likelihood that a basic functioning carbon accounting and monitoring capacity will be established in Indonesia by the end of IAFCP. INCAS has a high profile and is likely to make a major contribution to a new MRV agency. Beyond the IAFCP timeframe it might be expected that Indonesia's carbon accounting and monitoring capacity and capability will be further refined and developed, including with input from other donors.

KFCP is more complex than INCAS; it involves a greater diversity of stakeholders; it is logistically more difficult and costly; it has a far larger implementation team; and a likely longer timeframe to generate results.

Site-specific demonstration projects are visible examples of commitment and, under the right circumstances, can generate lessons which inform both policy and practice, but they do not always fulfil their promise. They also raise issues of expectation and sustainability beyond the demonstration period.

KFCP has made some good progress, but it is likely that the KFCP objective of demonstrating effective and equitable approaches to REDD+ will be only partially achieved by mid 2013. Uncertainties remain in relation to the adequate scale of activities to confirm the model and the timeframe required; institutionalising an effective payments mechanism; processes for up-scaling and informing policy development; donor coordination; and building broad based capacity and integration with Central Kalimantan pilot province activities and district work- plans.

Against this background, the IPR considers a further site based demonstration project, proposed for Sumatra may not be the most effective utilisation of available funding and that the changing policy context provides an opportunity for re-consideration of the proposal. Even if outstanding institutional issues are now quickly resolved, it is clear that the funding commitment for the SFCP could not be disbursed in an effective way, even within the revised mid 2013 timeframe of the IAFCP. Further, there are already a large number of demonstration activities in Indonesia, most operating as projects outside GOI

systems, with little evidence to date of them influencing policy at the national or provincial levels.

An alternative approach should consider supporting national efforts to learn from those projects already established and to work through provincial governments to support low carbon growth strategies at the local level. More effective REDD+ knowledge management would help to accelerate policy development and reduce transaction costs for project developers. Alignment with government systems would likely have a greater impact on policy development than a stand alone project; and avoid difficulties associated with IAFCP as project developer. It would be more consistent with the pilot province approach proposed by the REDD+ Task Force for Central Kalimantan.

Further, the REDD+ Task Force has indicated that there is likely to be a much greater role for forest dependent communities and the private sector in delivering REDD+ initiatives in the future. The IPR recommends consideration of a Challenge Fund to direct support to these groups. IAFCP could also consider recruiting appropriate national expertise to support the national policy reform process and a policy focus in sub project activities.

The structure of the IAFCP is somewhat unusual, comprising a Partnership Office, Facility, GOI and GOA coordinators and technical and support staff. Despite efforts by the IAFCP to identify and address GOI concerns, the institutional arrangements have not worked effectively. There appears to be limited MOF ownership and incentives to actively participate; and there has been a lack of mutual agreement and understanding of the functioning of the Partnership Office. Management costs have often not been fully transparent or clearly understood by the GOI side and there have been reservations about perceived high numbers of international advisers and international technical assistance.

Redressing difficult institutional relationships is not easy, but should be assisted by an effective Steering Committee, greater efforts at communication, greater transparency and greater explanation of the requirement for technical inputs particularly international expertise. The proposed Management Committee would provide a forum for discussion of these matters and ultimately progress on institutional reform will also be beneficial.

Facility costs covering management fees, operating expenses and staff are largely fixed. Should IAFCP be successful in disbursing the current commitment of AUD 100 million the management expense ratio should be well below 20%, which would compare favourably with other facilities.

Sustainability of IAFCP beyond mid 2013 is uncertain and will be closely linked to progress on international negotiations and the challenging domestic reform program. It is clear that a carbon market that could channel funds to reduce emissions from forests is further away than appeared to be the case when IAFCP started. This means that public funds for REDD+, including KFCP, will be required on a larger scale and for a longer period than thought necessary only a short time ago.

While there can be some confidence that skills developed through implementation of the INCAS activity will be sustained, success more broadly will again be closely linked to the success of the domestic reform program and the allocation of budget to ensure INCAS work is institutionalised within work programs of relevant agencies.

Recommendation 1

Address institutional constraints impacting on the efficiency and effectiveness of program implementation as a matter of urgency;

Recommendation 2

Review activity budgets and the timeframe for implementation, including a sustainability strategy beyond 2013;

Recommendation 3

Review the proposal for a second site specific demonstration project in Sumatra and consider alternative options, including a stronger focus on policy development and support at the provincial and national level;

Recommendation 4

Develop a communications strategy, including a website and establishment of a knowledge network to capture lessons learned and support policy development;

Recommendation 5

Consider establishment of a Challenge Fund to leverage private sector financing and support a portfolio of activities, to strengthen and expand REDD+ initiatives.

INDONESIA-AUSTRALIA FOREST CARBON PARTNERSHIP (IAFCP) INDEPENDENT PROGRESS REPORT (IPR)

1 INTRODUCTION

- 1.1 The Indonesia-Australia Forest Carbon Partnership (IAFCP) is a bilateral government to government partnership. The IAFCP aims to develop Indonesia's capacity to engage in a future mechanism to reduce emissions from deforestation and forest degradation in developing countries (REDD+) and to generate practical on-ground lessons to support the establishment of a global REDD+ mechanism.
- 1.2 AusAID initiated this Independent Progress Report (IPR) at the mid point of the partnership agreement, with the aim of assessing IAFCP implementation progress, the continuing relevance of IAFCP objectives, the effectiveness and efficiency of program delivery and to identify any recommendations to improve performance and sustainability.
- 1.3 The Terms of Reference for the IPR (Annex 1) note that the review is taking place at a timely and important stage of IAFCP implementation. Since commencement of the IAFCP there have been significant changes in the international and domestic operating environments for REDD+ and new developments in terms of other bilateral and multilateral donor initiatives. Additionally, the IAFCP is poised to scale up its activities, while at the same time there is a need to clarify and enhance management and coordination arrangements with the GOI.
- 1.4 The IPR review team¹ visited Indonesia from February 1-14, 2011. Prior to the field mission, meetings were held in Canberra with management and desk officers in AusAID and the Department of Climate Change and Energy Efficiency. In Jakarta, the Mission met with senior GOI officials in BAPPENAS, Ministry of Forestry, the National Climate Change Council, UKP4, LAPAN, as well as representatives of CIFOR, NGOs, private sector REDD+ project developers, the Partnership Office, AusAID and other donors². The Mission also undertook a site visit to the Kalimantan Forests and Climate Partnership (KFCP) demonstration project in Kapuas district of Central Kalimantan. In Central Kalimantan, the Mission met with officials at provincial and district level as well as communities participating in the project (Annex 2).
- 1.5 The IPR review team presented an Aide Memoire (Annex 3) outlining their initial findings at the completion of fieldwork. This IPR reflects the detailed findings and recommendations of the review team and is subject to confirmation by the Governments of Indonesia and Australia. The assessment is based on a review of

¹ The IPR team comprised David Barber (Evaluation Expert, Team Leader), John Hudson (International Forests Carbon Expert) and Agus P Sari (Indonesian Forests Carbon Expert).

² Unfortunately the mission was unable to meet with a representative of Norway, a key donor.

available program documents (Annex 4), and discussions with key stakeholders, noted above.

2. BACKGROUND

2.1 In July 2007 the Australian government committed AUD10 million to Indonesia under the Global Initiative on Forests and Climate (later re-named the International Forest Carbon Initiative). Funding was earmarked as follows:

- AUD 1 million for the Indonesia Forest and Climate Alliance (IFCA) to assist Indonesia with REDD+ policy preparation ahead of the 13th Conference of Parties (COP13) to the United Nations Framework Conference on Climate Change (UNFCCC), held in Bali in December 2007;
- AUD 3 million to support design of REDD+ methodologies and pilot concepts;
- AUD 3 million for fire and peat lands management;
- AUD 2 million for forest carbon monitoring and assessment; and
- AUD 1 million for start-up programme management.

2.2 In September 2007 a further AUD 30 million was allocated to initiate the Kalimantan Forests and Climate Partnership (KFCP), with the initial objective of protection and rehabilitation of peat in Kalimantan. The KFCP later evolved into a large scale REDD+ demonstration project in Central Kalimantan.

2.3 The Indonesia-Australia Forest Carbon Partnership (IAFCP) Agreement, signed by the Indonesian and Australian leaders in June 2008, with a completion date of mid 2012, super-ceded the above. The Agreement set a framework for co-operation on reducing emissions from deforestation and forest degradation, highlighting three areas for co-operation:

- Policy development and capacity building;
- Technical support for forest carbon monitoring and measurement;
- Development of demonstration activities.

2.4 In November 2008, Australia and Indonesia agreed to add a second REDD+ demonstration project to the IAFCP. During the course of 2009 a site was identified in Jambi province in Sumatra and in March 2010 an additional AUD 30 million was committed by the Australian government for the Sumatra Forest Carbon Partnership (SFCP).

2.5 In December 2010, Australia announced another AUD 30 million commitment to IAFCP, taking the total commitment to AUD 100 million and extending the programme until mid 2013. That is, during 2010 the programme budget increased from AUD 40 million to AUD 100 million (Box 1).

Box 1: IAFCP Funding Commitment

Programme Element	Allocation (AUD)	Programme Element	Allocation (AUD)
1. Policy development and capacity building		4. Sumatra Forest Carbon Partnership (SFCP)	30,000,000
Policy support	3,000,000		
Indonesia Forest Climate Alliance (IFCA)	1,000,000	5. Additional Fast Start Resources	30,000,000
2. Technical support for forest carbon monitoring		INCAS	8,000,000
Indonesia National Carbon Accounting System (INCAS)	2,000,000	KFCP	17,000,000
Peat Carbon Assessment	1,500,000	Policy Support	3,000,000
FireWatch Indonesia	1,500,000	MRV	2,000,000
3. Demonstration activities		Sub total (new commitments)	60,000,000
Kalimantan Forests & Climate Partnership (KFCP)	30,000,000		
Start-up programme management	1,000,000		
Sub-total (original commitment)	40,000,000		
Grand total			100,000,000

2.6 The IAFCP structure (see also Section 5) comprises a Steering Committee with GOI and GOA membership³; Indonesian Executing Agency (Ministry of Forestry)⁴ and Australian Executing Agency (AusAID); the Partnership Office; and the IAFCP Facility.

2.7 The Partnership Office comprises a GOI nominated Coordinator, a GOA nominated Coordinator and three full-time technical specialists. The Partnership Office is supported by access to secondees from the GOI as well as access to high level technical advice and field teams to implement activities. Staff were recruited to the Partnership Office throughout 2008.

2.8 The Facility comprises a manager, M&E specialist and administrative support staff. A budget of AUD 1 million was allocated for start-up program management. The

³ Membership includes representatives of AusAID, DCCEE, BAPPENAS, Ministries of Forestry Environment and Finance.

⁴ The Executing Agency for IAFCP (excluding the planned SFCP) is the Director General for Forestry Planning who delegates this role to Director of Forest Inventory and Monitoring. The Executing Agency for SFCP is Director General for Forest Utilisation who delegates his authority to the Director of Forest Utilisation Planning.

Partnership Office and Facility are co-located and in practice work seamlessly together.

2.9 Major activities supported through the Partnership include:

- assistance to develop an Indonesian National Carbon Accounting System (INCAS) and a related Forest Resources Information System (FRIS). An initial budget of AUD 2 million was made available to support the design of the INCAS and preliminary activities, predominantly related to remote sensing, development of data protocols and associated capacity building. The activity design was completed in March 2010 and an additional budget of AUD 8 million was announced in December 2010;
- REDD+ demonstration project located in Central Kalimantan (KFCP). The initial phase commenced in early 2008 focussed on design and early implementation and preparatory activities. A full design was completed in early 2009 with a budget of AUD 31.4 million covering a 3.5 year implementation period from the start of 2009 through to the end of June 2012. Additional budget was allocated in 2010, taking the total commitment to AUD 47 million;
- a second REDD+ demonstration activity, to be provisionally located in Jambi province with a nominal budget of AUD 30 million.

3. RELEVANCE

3.1 Relevance relates to an overall assessment of the appropriateness (rationale, logic and quality) of the IAFCP design and objectives.

3.2 The partnership between Indonesia and Australia began in the lead up to COP 13 in 2007. The goal of the IAFCP was appropriate and unequivocal: to demonstrate that reducing emissions from deforestation and forest degradation in developing countries can be part of an equitable and effective post 2012 global outcome on climate change.

3.3 Since that time however, climate change negotiations have waxed and waned and there has been no agreement on binding emissions reduction targets, setting back early prospects for a compliance market.

3.4 All this is in marked contrast to REDD+ where negotiations have made real progress and enthusiasm for REDD+ has broadened and deepened, although questions relating to inclusion in emissions trading, how sub-national activities are to be dealt with and the legal status of safeguards remain to be answered.

3.5 These outstanding issues have affected the behaviour of the private sector and civil society as well as governments. Increased uncertainty about emissions trading after Copenhagen increases risk, and may decrease private sector interest in REDD+ activities.

- 3.6 Civil society organisations representing the interests of forest dependent communities, and indigenous people in particular, were, in general, pleased with the language on safeguards adopted in Cancun. However, they have also expressed concerns about how such policies will be applied and enforced in practice, especially by bilateral donor agencies which lack the codified policies and redress mechanisms of the World Bank⁵.
- 3.7 In Copenhagen commitments were made to provide USD 30 billion for ‘Fast Start’ work during the period to 2012. More than USD 4 billion of fast start finance has been pledged for forests. In 2010, in an effort to advance progress on REDD+ without pre-empting UNFCCC negotiations, 64 developed and developing countries agreed to a global ‘REDD+ Partnership’ to scale up REDD+ actions and finance, and improve the effectiveness, efficiency, transparency and coordination of REDD+ initiatives in the immediate term.
- 3.8 The amount of Fast Start money pledged for forests is large in relation to past levels of development assistance for forests and presents a major opportunity to make progress. However, in the absence of a pipeline of bankable projects it is hard to disburse large amounts of money quickly and effectively. Of the USD 4 billion pledged for REDD+ an unknown but probably significant proportion has not yet, in early 2011, been allocated to specific programmes for disbursement by the end of 2012⁶.
- 3.9 International uncertainty has been mirrored in GOI domestic policy development. Following COP 15, there was little urgency in national policy development. Indeed, until recently there has been no clearly defined national policy development process. That changed with the Letter of Intent (LOI) signed by the governments of Indonesia and Norway in May 2010, which gave impulse to a new national-level, economy-wide approach to REDD+.
- 3.10 Since then a whole of government team (REDD+ Task Force) led by the President’s Delivery Unit (UKP4) has been tasked with completing a national REDD+ strategy, developing a strategy and institution for measurement, reporting and verification (MRV), designing a funding instrument and selecting a province-wide REDD+ pilot project. It is not yet clear when these new strategies and institutions will emerge, probably in the second half of 2011, but delay in putting into effect one of the provisions of the LOI, a two-year suspension on new concessions for conversion of peatlands and natural forests, points to the difficulty in reaching agreement among stakeholders with widely diverging power and interests.
- 3.11 These reforms are likely to lead to a major revision of regulations and of the roles of some powerful institutions of government. Such changes, on top of the currently

⁵ As a consequence of establishment of a Trust Fund under the World Bank as part of a payment mechanism for KFCP, this AusAID funded demonstration project will be subject to the safeguard policies of the World Bank.

⁶ Australia pledged AUD 599 million in ‘fast start’ funding, which includes IAFCP.

confused situation, will take time to introduce; they will inevitably involve periods of policy inconsistency, inertia in decision making and compromise; and IAFCP should be ready to respond to requests for support and adapt its work programme and budget as necessary.

- 3.12 The broad goal of IAFCP remains relevant. However, the timeframe for an international agreement on climate change is likely to extend beyond 2012. Domestically, proposed institutional reforms will be on the basis of Presidential Decree, not legislation. Some policy uncertainty is likely to remain, perhaps until the next Presidential elections in 2014⁷.
- 3.13 At the sub project level, the activity objectives similarly remain relevant, although there is some lack of consistency in the way goals, objectives, targets and progress indicators of the IAFCP and its sub-projects are expressed in project documentation. This probably reflects in part the different timing in the preparation of the Facility, KFCP and INCAS designs. Sub project objective statements should be standardised and addressed in the IAFCP M&E framework and the Rolling Prioritisation Plan (RPP)⁸.
- 3.14 The INCAS design process engaged with multiple stakeholders. It took longer than expected, but benefited from a clear technical focus based on an existing Australian framework. The resultant design document is sound and clear and appears to have strong local ownership. A functioning national carbon accounting system is essential to enable Indonesia to participate in a future international carbon market.
- 3.15 The KFCP design similarly engaged with a large number of stakeholders through multiple workshops, although at the time it was not clear who would be the executing agency. As a demonstration project, KFCP is expected to influence national REDD+ policy development and inform international climate change negotiations. Consequently, there was considerable interest and involvement of Canberra government agencies in the design process and peer review – perhaps to a greater extent than GOI agencies. The resultant design document is logical and clear but may be less understood by the GOI side⁹.
- 3.16 As an area development activity, KFCP is more complex than INCAS; it involves a greater diversity of stakeholders¹⁰; it is logistically more difficult and costly; it has a far larger implementation team; and a likely longer timeframe to generate results.

⁷ Continuing Presidential support for the policy and institutional reforms will be required.

⁸ For example, the RPP states the IAFCP goal is to support GOI efforts to achieve significant and cost effective reductions in greenhouse gas emissions in Indonesia by reducing deforestation, encouraging reforestation and promoting sustainable forest management, which encompasses a stronger development focus.

⁹ It should also be noted that KFCP is a project, not harmonized with government systems. While there may be good reasons for this approach, it does mean that engaging with KFCP can impose an additional burden on district, provincial and national staff, although not part of their formal work plan.

¹⁰ The M&E Framework identifies 59 stakeholder groups for IAFCP as a whole.

- 3.17 When KFCP was first announced it was assumed considerable additional funding would be raised from other sources and the two governments agreed to ambitious targets¹¹ which have not been formally revoked and have been a source of misunderstanding among a number of GOI stakeholders.
- 3.18 In developing demonstration projects, donors and recipient governments have the choice of taking a systemic, economy-wide approach or providing the site-specific project-based support which has typified much of forestry development assistance in the past. Much of the early support for REDD+ in Indonesia, including KFCP, has taken this latter site-specific project -based approach.
- 3.19 Some estimates put the number of REDD+ demonstration projects in Indonesia as high as 35¹², with most of them in Kalimantan and Sumatra and varying in size from 10,000 hectares to 4.2 million hectares. International environmental NGOs are developing more than half of the REDD+ projects, working with a range of national partners. About a quarter are being developed by the private sector, sometimes in partnership with NGOs or government. Those supported by bilateral donors except KFCP are all fairly new.
- 3.20 Site-specific demonstration projects are visible examples of commitment and, if well designed and representative of a range of circumstances, potentially provide a good base for analysis and can generate lessons which inform both policy and practice. However, they do not always fulfil their promise. They often attract higher levels of attention and investment than can be maintained on scaling up. They have to operate within a given policy and legal context and cannot deal with factors which drive deforestation such as inequitable, unclear and contested land tenure, perverse subsidies for agriculture or corruption. Nor can they deal with inconsistencies in legislation or confusion over the mandates of different parts and tiers of government which may constrain action. They also raise issues of expectation and sustainability beyond the demonstration period¹³.
- 3.21 Demonstration projects can help to identify the policy, legal and institutional factors which are most constraining in their contexts and make this known to those with the authority and responsibility to bring about change. Early lesson learning from the Ulu Masen Project¹⁴ illustrates the value of such work.

¹¹ This included preventing deforestation on up to 70,000 hectares of peat swamp forests; re-flooding and rehabilitating 200,000 ha of degraded peatland; and planting up to 100 million new trees on rehabilitated peatland.

¹² CIFOR, 2009. Realising REDD+: National strategy and policy options
<http://www.forestforclimate.org/images/document/BAngelsen0902.pdf#page=291>

¹³ Civil society groups have also criticised the regulatory framework being developed by the GOI for REDD+ projects for the exclusion of forests identified for conversion, the focus on logging concessions and a lack of protection for customary rights-holders.

¹⁴ Ross Andrew Clarke, 'Moving the REDD+ Debate from Theory to Practice: Lessons Learned from the Ulu Masen Project', *6/1 Law, Environment and Development Journal* (2010), p. 36, <http://www.lead-journal.org/content/10036.pdf>

3.22 But to be effective, projects must invest sufficiently in monitoring, analysis and lesson learning and in understanding the institutions and processes through which policy and legislation are mediated. While REDD+ demonstration projects in Indonesia, including KFCP, are too recently established to be generating many lessons, the evidence from earlier generations of (non-REDD+) projects is that up-scaling and policy influence is often limited.

3.23 For KFCP to remain relevant, the challenge will be to have an impact on national/provincial policy development and a sustainable development impact at the community level.

4. EFFECTIVENESS

4.1 Effectiveness relates to the extent to which IAFCP objectives are being achieved or are expected to be achieved.

4.2 The following assessment of sub project progress and likely achievement of objectives by mid 2013 uses as a reference base the IAFCP Monitoring and Evaluation Framework of 2010, as modified in the draft Rolling Prioritisation Plan of January 2011. The assessment is based on discussion, observations and documentation review undertaken by the IPR mission. In some instances there are discrepancies between design documents and the M&E framework, and/or a large number of potential indicators of achievement. Some refinement/reconciliation of the M&E framework would more readily support future reporting against objectives and outputs.

Policy Support

4.3 Australia was the first major donor to provide assistance to Indonesia on REDD+ initiatives (through IFCA) to inform a post 2012 global climate change agreement and has worked closely with Indonesia in international negotiations ever since. Policy support in the lead up to COP 13 and subsequent meetings¹⁵, although relatively small in funding terms, has been well received and has also served to support practical efforts to implement REDD+ projects in Indonesia.

4.4 However, until the recent signature of a Letter of Intent for a USD 1 billion partnership between Indonesia and Norway the domestic policy process – reflecting international developments - had largely stalled. There is now a renewed momentum on REDD+ policy development, but opportunities for engagement will require targeting in a flexible and responsive way.

¹⁵ Indonesia was the first developing country to announce mitigation efforts in the lead up to COP 15.

- 4.5 Institutional linkages with Australian agencies and technical assistance to support policy reform are good ideas - other donors seek the same - but presently there is a lack of clarity on who to link with and there has been little evidence of demand driven requests for policy support. This of course could change quickly if the current institutional reform efforts bear fruit and the new REDD+ agency and MRV institution are established and gain institutional power.
- 4.6 One area that should be explored proactively by IAFCP is development of a REDD+ knowledge network. A previous attempt to develop such a network failed to materialise. However, an opportunity exists to revisit the proposal and perhaps consider facilitating a partnership between MOF, a suitable university and CIFOR. More effective REDD+ knowledge management would help to accelerate policy development and reduce transaction costs for project developers. Current feedback mechanisms for demonstration activities are inadequate.
- 4.7 Secondly, IAFCP should develop a communications strategy, including a website to clearly articulate program objectives, the long-term nature of the investment and update progress and risks. Again this would provide support to the policy development process and facilitate exchanges with other donors as well as the private sector.
- 4.8 To strengthen policy engagement, IAFCP (Partnership Office) should consider the future mix of long term technical assistance and the value of recruiting appropriate national expertise to support the policy reform process, including engagement with the REDD+ Pilot Province of Central Kalimantan and a potential alternative focus for SFCP assistance (see paras 4.48-4.63).

Indonesian National carbon Accounting System (INCAS)

- 4.9 The objective of INCAS is to support Indonesia to become self sufficient in forest carbon accounting and monitoring by mid 2013.
- 4.10 Based on the summary assessment below of component performance to date (a detailed assessment against specific indicators is included in Annex 5), there is a strong likelihood that a basic functioning carbon accounting and monitoring capacity - essential for Indonesian participation in a future carbon market - will be established in Indonesia by the end of IAFCP¹⁶. INCAS has a high profile and is likely to make a major contribution to a new MRV institution. Beyond the IAFCP timeframe it might be expected that Indonesia's carbon accounting and monitoring capacity and capability will be further refined and developed, including with input from other donors.

Component 1: GOI management teams and equipment function effectively

¹⁶ In terms of the IPCC good practice guide for Land Use, Land Use Change and Forestry, INCAS is designed to be a Tier 3 (most accurate) emissions measurement system, although it is not expected this level of capability will be achieved by 2013.

4.11 A small core team is established but needs to be expanded to multiple agencies; remote sensing and biomass taskforces are operational, but need to be formalised; hardware and software has been installed in LAPAN and MOF, but more is required. The expected establishment of a MRV agency will provide impetus.

Component 2: Wall-to-wall land-cover change analysis completed by GOI and updated annually

4.12 Preliminary analysis has been completed, but further validation is required along with substantial training to enable annual updates.

Component 3: Land use and management documented by GOI

4.13 Discussions continue with UKP4. Substantial numbers of land use maps remain to be collected and validated. The scale of the work requires collaboration with other donors as well as government institutions.

Component 4: Existing ground measurements systematically compiled by GOI

4.14 Substantial data has been collected and analysed, but progress on biomass has been hindered by inability to access National Forest Inventory data (some biomass data will be collected from REDD+ demonstration projects including KFCP).

Component 5: Knowledge about soil carbon compiled by GOI

4.15 Progress is satisfactory. KFCP is providing significant input, particularly through the work of the panel of peat experts

Component 6: Models adopted, calibrated and further developed by GOI to estimate emissions from land use change

4.16 Provision of software and training is continuing with the Bureau of Climate and Meteorology (BMKG) to facilitate climate modelling.

Component 7: GOI capacity enhanced to establish Reference Emission Levels for REDD+

4.17 Considerable data remain to be collected before different REL scenarios can be considered and assessed. GOI cooperation and leadership is essential to ensure progress.

Component 8: GOI operating an effective data management system for carbon accounting and monitoring

4.18 A database for storing Landsat data has been established at LAPAN, but it remains unclear which GOI institution (existing agencies or the new MRV institution and REDD+ agency) should have the mandate to ensure the broader array of data required for the INCAS is shared, updated and transferred.

Component 9: Transparency, communication and awareness-raising process effectively implemented by GOI

- 4.19 This is uncertain and is likely to remain so until the new MRV institution and its mandate is established. Bakosurtanal (Survey and Mapping) have the current mandate for sharing spatial data between government departments, but in the future public disclosure will also be required.
- 4.20 Overall progress to date and likely successful achievement of INCAS objectives can be attributed to an effective participatory design process; a high level of GOI ‘political’ support; a technical focus and working level buy-in. The benefits of engagement (eg technical training and skills development) are perceived as having wider application to participants work requirements than just REDD+.
- 4.21 The key issues remaining, include formalising a Steering Committee and core team to facilitate incorporation into internal planning processes and encouraging data accessibility; further product improvement including, for example, access to NFI data, land use/land tenure maps; further building broad based capacity to ensure sustainability; and coordination of donor assistance to facilitate system enhancement and refinements.

Kalimantan Forests and Carbon Partnership (KFCP)

- 4.22 The KFCP demonstration site was chosen in view of the national and global importance of emissions from peatlands; and the opportunity to provide lessons about rehabilitation, measurement and monitoring of peatland emissions¹⁷ and effective approaches to REDD+ which could inform intergovernmental negotiations on climate change.
- 4.23 The chosen peat dome covers about 120,000 ha, with 70,000 ha of peat swamp forest in good condition and 50,000 ha of severely degraded peatland from which the trees have largely been removed. The site is representative of the problems of rehabilitating the Ex Mega Rice Project EMRP¹⁸, which is the largest area of degraded peatland in Indonesia. With about 10,000 people living in small settlements close to the river on the western edge of the site and practicing traditional forms of livelihood it is also representative of many of the continuing pressures on the peatlands.

¹⁷ KFCP work is very important as the combined effect of increased methane and potentially decreased nitrous oxide and carbon dioxide from re-wetting peat cannot be reliably estimated based on current evidence (see <http://www.environmentalevidence.org/Documents/Briefs/BriefSR49.pdf>).

¹⁸ Rehabilitation of the EMRP was designated as a national priority under Presidential Instruction (INPRES) No. 2/2007 which calls for government departments to rehabilitate and sustainably develop the area over a five-year period under the direction of the Governor of Central Kalimantan. The INPRES has now expired with little to show for it apart from a master plan developed with support from the Netherlands and some practical experience gained from work by NGOs and, more recently, KFCP. The lack of progress is a consequence of failure to allocate a budget for rehabilitation, a lack of knowledge about rehabilitation and the inevitable difficulties which arise when different tiers of government have to work together.

4.24 However, based on the assessment below of component performance to date (and a brief assessment of KFCP progress at the output level in Annex 6), the IPR team considers it likely that the objective of the KFCP will be only partially achieved by mid 2013.

Component 1: Deforestation and degradation of Peat Swamp Forest (PSF) reduced

4.25 The M&E Framework does not provide an indicator for the monitoring of achievement of this Component only of the constituent outputs.

4.26 Considerable work remains to be done engaging with the communities of the 14 settlements in the project area. A good start has been made: there is a competent implementation team in the field and encouraging progress has been made in strengthening one aspect of the livelihoods of, as yet, a small number of farmers, through rubber cultivation and marketing; but helping to establish community institutions that can play a real and sustainable role in reducing deforestation and degradation of peat swamp forest will take time and is only likely to be partially achieved by mid-2013¹⁹. Rushed interventions, into an environment in which villagers are still adjusting to the traumatic changes to their lives from the EMRP, pose unacceptably high risks.

4.27 Fire management, re-establishment of tree cover and the re-wetting of peat by canal blocking have not yet progressed much beyond the planning and preparation stage. Progress has been slower than anticipated: authority over the project area rests in a number of hands and bureaucratic procedures for approval of works and legal status have been slow. Work has also been affected by inconsistencies between funds disbursement schedules and work schedules. Ironically, the unusually wet weather in 2010 also set progress back.

4.28 The original targets announced at the inception of this demonstration project no longer apply, but new targets have not been formally stated. This may be justified in terms of a focus on demonstrating processes, but it would be useful to specify some targets in the RPP. It would appear that the ambition now is to prevent deforestation in the remaining 70,000 ha of forests, re-wet the degraded 50,000 ha by installation of up to 400 canal blocking structures²⁰, re-plant 3,000 hectares and facilitate natural regeneration in an area yet to be determined and reduce damage from fires.

4.29 The decision to scale back re-planting makes sense. At about AUD 1000 per ha it is expensive and canal blocking should be prioritised over large scale re-planting. Furthermore, seed sources are presently insufficient and more experience should be

¹⁹ The presence, in the village which the IPR mission visited to discuss village planning and reforestation, of a small sawmill converting illegally harvested logs from forests upriver, illustrates the complexities and challenges of behavioural and livelihood changes that REDD+ requires and that KFCP has to help deliver.

²⁰ While installation of 400 canal blocking structures in a two-year period might appear ambitious given progress to date, the skills and organisational abilities of contractors as demonstrated during the EMRP is not in doubt.

gained before very large investments are made. For example, earlier experience shows that timing of planting in relation to the depth of the water table is important. The true potential for assisted natural regeneration has yet to be tested but where feasible it will be the more affordable option.

4.30 The future legal status of the demonstration site and the rights of local communities to timber, non-timber forest products and carbon has not yet been negotiated. All of these have implications for the motivation of local communities and for the protection and maintenance of planted trees in particular. The legal status could also have implications for the additionality of the emissions reductions achieved.

4.31 It is likely this component objective will only be partially achieved by June 2013.

Component 2: KFCP GHG emissions estimation and monitoring program established and linked to INCAS

4.32 Good progress is being made on the emissions and monitoring program, guided by the Peat and GHG Panel. Monitoring routines are well established and while work on establishing a reference emissions level is at an early stage a clear plan of work is in progress with strong encouragement from the district government. Though methods will continue to be refined over time the evidence suggests that this objective will be achieved or largely achieved by June 2013.

Component 3: Practical and effective REDD+ GHG payment mechanism demonstrated

4.33 An interim input-based payment mechanism has been introduced and tested for reforestation in two villages and procedures for payment for canal blocking and fire management are being developed. This is the first step in a phased three-step process leading to an outcome-based system linking payments to emissions reductions. CARE, an NGO with experience in the demonstration area, has been contracted to manage input payments but the intention is to pass this responsibility to village institutions once their capacity for financial management has been strengthened.

4.34 The next step is to link payments to performance in maintaining canal blocking structures, reforestation and fire management. This can happen quite quickly for reforestation but will take longer for the canal structures which have yet to be installed and, because of annual variations due to climatic variability, will pose some design challenges for fire management.

4.35 Work has not yet begun on the third step - a payment mechanism directly linked to emissions reductions (outcomes) - and is unlikely to be more than partially achieved by the end of the project period. Development of this mechanism will have to take into account developments in national policy and institutions which are still at an early stage

4.36 A REDD+ Trust Fund, managed by the World Bank, with an initial capitalization of AUD8.4 million has been established from which input, performance and outcome

based payments will be made. It should become operational in the second half of 2011. It could be extended beyond the end of KFCP, subject to performance and agreement with Indonesian government authorities and the World Bank, and provide a mechanism for rewarding performance until income from a carbon market comes on stream.

4.37 It is likely this component objective will only be partly achieved by June 2013.

Component 4: REDD+ management/technical capacity and readiness developed at provincial, district, sub-district and village levels

4.38 After a slow start, district, sub-district, and to a lesser extent provincial government staff, have become more engaged in KFCP and REDD+. This increases the prospect of KFCP activities being incorporated into district planning processes.

4.39 Once new national REDD+ agencies and their responsibilities are defined, probably in the second half of 2011, it will be easier for Provincial REDD+ Pilot provinces such as Central Kalimantan to understand their roles and the contribution of lessons learned from KFCP. IAFCP staff time will have to be dedicated to this expanded role, particularly in informing policy development and institutional capacity building.

4.40 Progress has been made in strengthening management and technical capacity at village level, but further time and work is required.

4.41 It is likely this component objective will be partly or largely achieved by June 2013, with variability of capacity between institutions.

4.42 Overall progress to date and expected success in demonstrating various elements of a workable 'model' that can inform policy, can be attributed to a sound design incorporating both livelihood and conservation (emission reduction) components; efforts to engage stakeholders; and a strong implementation team supported by access to technical expertise .

4.43 However, the risks identified in the Design document are well considered and still largely apply. Further, the time and effort required in communicating with stakeholders was probably underestimated; and tenure issues and the introduction of payment mechanisms are revealing new risks which will have to be managed. Longer term, sustainability will be dependent on secure and sufficient financial incentives arising from progress in climate change negotiations.

4.44 At the midterm of the project, uncertainties remain in relation to the adequate scale of activities to confirm the model, particularly tree planting and canal blocking targets; the timeframe required and the need for re-alignment of budgets; processes for up-scaling and informing policy development; further building of broad based capacity; donor coordination and integration with pilot province activities and district work- plans.

- 4.45 While KFCP is a demonstration project, the level of expectations generated at the community level will require the continuation of support to ensure sustainability of this REDD+ initiative until a functioning and equitable on-going payments mechanism is institutionalised.
- 4.46 After the mission and just prior to submission of this report, the IPR team has become aware of a letter prepared by a consortium of local NGOs expressing concern about some elements of KFCP implementation. Some of these concerns are generic relating to REDD+ and large scale area development initiatives and some are more specific. Some reflect issues already identified in the IPR assessment of KFCP performance above and illustrate how important issues of rights of local communities will be in the evolution of REDD+.
- 4.47 It is understood AusAID and the IAFCP are preparing a response to the matters raised. Indonesia is hosting a conference on *Forest tenure, governance and enterprise: Experiences and opportunities for Asia in a changing context*²¹ in July organised by the Rights and Resources Initiative and the International Tropical Timber Organisation where issues of the kind raised in this letter from NGOs will be debated.

Sumatra Forest Carbon Partnership (SFCP)

- 4.48 In March 2010 the Sumatra Forest Carbon Partnership (SFCP) was formally announced by the GOI and GOA as the second large-scale demonstration activity under IAFCP. It is proposed it be located in Jambi. However, progress in commencing design and preparatory activities has been delayed by discussions with GOI on the management arrangements for the IAFCP (see paragraph 5.4).
- 4.49 Even if outstanding institutional issues are now quickly resolved, it is clear that the funding commitment for the SFCP could not be disbursed in an effective way, even within the revised mid 2013 timeframe of the IAFCP.
- 4.50 More fundamentally, the IPR team considers this may not be the most effective utilisation of available funding and that the changing policy context provides an opportunity for re-consideration of the proposal for a large scale site specific demonstration project in Jambi, Sumatra. The value of demonstration projects is canvassed in paras 3.18-3.22 above. There are already a large number of demonstration activities in Indonesia, most operating as projects outside GOI systems, with little evidence to date of them influencing policy at a national or provincial level.
- 4.51 Consequently, the IPR team recommends that as an alternative to another demonstration project, IAFCP should consider supporting national efforts to learn from those projects which are already established, building on the ideas it has already

²¹ See: <http://www.rightsandresources.org/events.php?id=432>

developed²²; and to work through decentralised governments (province and district) to support low carbon growth strategies at the local level. Harmonisation encourages closer alignment with government systems; it is likely to have a greater impact on policy development than a stand alone project approach; and avoid difficulties associated with IAFCP as project developer. A provincial approach would be more consistent with the pilot province approach proposed by the REDD+ Task Force for Central Kalimantan.

4.52 There is no shortage of lessons on which to draw from large area development projects that work with communities, including on forest rehabilitation. What is different in the current context is the potential for long term incentive payments to support change in behaviour. To take advantage of this opportunity there is a need to learn more about appropriate institutional arrangements, how to develop a suitable payments mechanism and how to equitably share the benefits.

4.53 The IPR is aware that there may difficulties for donors in directly supporting provinces/districts; and reasons for concern in channelling funds through government. However, this should not preclude support through training, capacity building and technical assistance. In particular where there is energetic leadership and a sense of ownership, the opportunities are likely to be enhanced.

4.54 Terms of reference should be prepared to undertake a feasibility study, in conjunction with MOF, the REDD+ Task Force, provincial authorities and other key stakeholders to investigate site specific and pilot province options, including institutional arrangements for REDD+ program support to Jambi/Sumatra province. This would need to be linked to realistic assumptions regarding future funding and the timeframe required for delivering sustainable outcomes. Depending on the focus for support to Sumatra, which may include some site specific activities in particular districts, IAFCP should review its own requirement and mix of fulltime technical expertise. A stronger policy engagement capacity may be justified.

4.55 Further, the REDD+ Task Force has indicated that there is likely to be a much greater role for forest dependent communities and the private sector in delivering REDD+ in the future. The IPR recommends consideration of a Challenge Fund to direct support to these groups, utilising some of the funding earmarked for the SFCP demonstration project.

4.56 The objectives of a Challenge Fund or Matching Fund²³ would be to:

²² The international comparative study which CIFOR leads, and incorporates KFCP, would support this.

²³ Indonesia already has some experience of matching funds for climate change financing. The National Economy, Environment, and Development Study (NEEDS) for Climate Change (financed by UNFCCC in early 2010) aimed to find the best way to finance climate change-related activities. To mobilise climate finance, the Government established the Center for Government's Investment (PIP/Pusat Investasi Pemerintah) under the Ministry of Finance. PIP manages government investment in partnership with the private sector and may undertake portfolio investment as well as direct investment. To fund government supported activities related to low carbon development, PIP established a clean technology fund together with the Qatar Investment Authority (QIA) and allocated 1.5 trillion rupiah for initial financing. The PIP

- increase the effectiveness and efficiency of public financing in spearheading the development of REDD projects;
- leverage private financing, thus enlarging the pool of resources for REDD+ projects; and
- increase sustainability of IAFCP beyond the period of the IAFCP funding.

4.57 The Challenge Fund concept would usually involve matching funds or leveraging private financing as part of a Public Private Partnership (PPP), where project initiatives are perceived to have high and privately unmanageable risks. While PPP has gained momentum as it has been recognized that public resources are limited and diminishing²⁴, it should be noted that the original KFCP concept involving mobilising additional funds from the private sector and other donors was not adopted by the GOI.

4.58 Leveraging works through more appropriate risk allocation between the public and private entities. For a project to be bankable, private financing usually requires all risks be identified, managed, and hedged. Where risks, real or perceived, cannot be fully quantified, a public entity may be able to take them on for ‘societal reasons’.

4.59 In many cases, the “costs” of REDD+ mitigation actions are actually investment costs, which over time may be expected to create a significant income stream. A Challenge Fund sourced from the IAFCP would provide matching funds²⁵ for private investment. The beneficiaries of the Fund would be the private entity (companies or NGOs) that develop REDD+ projects.

4.60 Matching funds would usually be provided as a grant, although other options including equity participation or a loan is possible. In this way, the Fund can expect a return on its investment that can be used to finance more projects in the future.

4.61 A number of strategic intervention points can be identified for the Challenge Fund to cover, as follows:

- Investment Guarantee - some risks have no existing hedge policy. In REDD+, market risk, (international and domestic) policy risks also have no hedge yet

also hosts a mechanism to manage public and private investment on low carbon economy called Indonesian Green Investment Fund (IGIF). However IGIF has not taken off as quickly and in the scale that was expected: there is a sense that since the majority of funding comes from the private sector, an institution like IGIF should be managed by a private fund manager, especially as the level of trust of the private sector with the public sector in Indonesia is not yet high; secondly, it also needs to be managed by a professional team of fund managers, with a private fund management background.

²⁴ For example, the \$100 billion per year (public) financial resources committed by the Copenhagen Accord will only cover a small part of the more than \$500 billion that may be needed to finance climate-related requirements. For a summary of how Public-Private Partnership is developed and implemented in Australia, see Webb, Richard, and B. Pulle, Public-Private Partnership: An Introduction. Research Paper No. 1 2002-03. Commerce and Industrial Relations Group, September 24, Canberra (2002). Or on the web: <http://www.aph.gov.au/library/pubs/rp/2002-03/03rp01.htm#appendixone>

²⁵ Typically, for every \$10 financing requirements, \$1 might be provided by the IAFCP Challenge Fund with \$9 leveraged from the private sector.

- available in the market. The Challenge Fund can provide such risk coverage through a guarantee;
- Rate subsidy - risk is usually reflected in the interest rate of a loan or the expected return on an equity investment. The Challenge Fund can be used to subsidize the rate so it is lower than it would have been given the perceived risks. The financial feasibility from the project developer's point of view will then be more favourable;
 - Guarantee of the First Loss - based on the business plan of the developer, the Challenge Fund can commit to cover the first loss;
 - Buyer of Last Resort - typically, buyer of last resort is a way to cover market risks by providing a last resort for the developers to sell their credits. The price is typically slightly lower than the expected market price, and it is rarely a highly profitable price level. But the existence of a buyer of last resort allows for at least a no-loss strategy by the developers;
 - Grant - this is the simplest form of a matching fund. But in some cases a straightforward grant without any consideration for strategic intervention may not be the most effective way to allocate resources.

4.62 To establish an effective Challenge Fund it is necessary to understand the risk profile of a commercial REDD+ project, and the risk appetite of private investors; and to determine funding parameters. This would require conduct of a small study to canvas key stakeholders in the sector²⁶.

4.63 An administrative unit under the IAFCP would need to be established to administer the Challenge Fund. This includes a supervisory division, with requisite skills in investment banking, that assesses proposals and reporting of successful applicants to ensure money is spent effectively and meets the objectives of the Fund.

5. EFFICIENCY

5.1 Efficiency concerns the quality of program management, structure and delivery. There are two overlapping elements to this in the IAFCP, viz the partnership model and the programme delivery model. The IAFCP structure is shown in Figure 1 below.

Program Management and Structure

5.2 The IAFCP framework was designed at a time when various IAFCP activities (notably INCAS and KFCP) were under concurrent development; GOI and GOA coordinators were in the process of appointment to the Partnership Office to lead already appointed forest and climate technical specialists; and there were time pressures to develop Indonesian and Australian positions on REDD+. From the

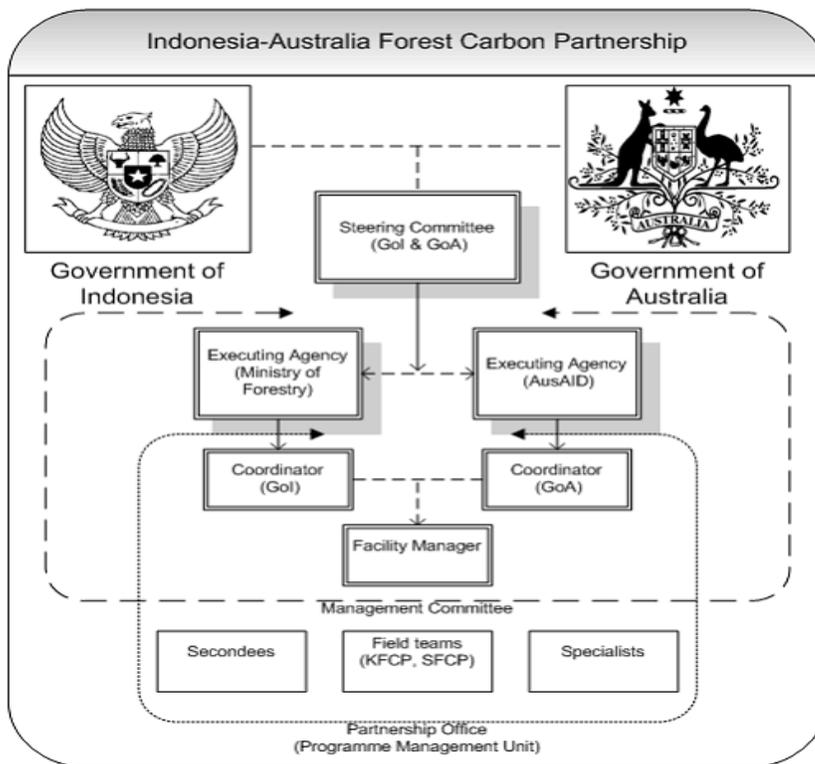
²⁶ Indicatively, it is expected that a Challenge Fund should be capitalised with a minimum of AUD 5 million. Proposals could be accepted in a range between AUD500,000 and AUD 5 million with a five year maturity date. A study including desk research, focus group discussions, etc to determine detailed parameters may cost in the order of AUD 100,000 – 200,000.

Australian end there was strong interest and participation in the design process for IAFCP activities. At the same time the political and institutional framework, internationally and domestically, was fluid and evolving.

5.3 In this context, a strong Indonesia-Australia partnership, effective working relationships and shared objectives was essential; and preference for a flexible and responsive approach to management and delivery had inherent logic.

5.4 In practice, despite efforts by the IAFCP to identify and address GOI issues of concern, the management structure has not worked effectively. At the time of the IPR mission, the Steering Committee, scheduled for 6 monthly meetings, chaired by BAPPENAS, had not met since February 2009²⁷; the standard operating procedures (SOP) for the Partnership Office, submitted for consideration in early 2010, had not been agreed with the GOI Executing Agency; the Subsidiary Arrangement for the IAFCP had not been updated to reflect change in funding and new activities; and the design of a second demonstration activity agreed by Ministers in November 2008 had not proceeded.

Figure 1: IAFCP Structure



Source: IAFCP draft standard operating procedures (modified from the 2009 IAFCP Design Document)

²⁷ The IPR provided impetus leading to convening of a Steering Committee meeting on 22 February 2011.

5.5 The reasons for the breakdown in institutional arrangements are not fully clear, but while the MOF is the most obvious institutional partner in terms of forest management, the higher level objectives/rationale of the IAFCP relate to (international as well as domestic) climate change issues which don't fit as easily within the mandate and expertise of MOF²⁸:

- As the institutional partner, the IAFCP is shown 'on treasury/off budget' in the MOF. MOF has no financial responsibilities, but additional reporting responsibilities. There is limited ownership and incentives - IAFCP is implemented outside government systems; and there is no specific allocation of GOI budget;
- The Executing Agency within the MOF was not appointed until November 2008 and then changed in December 2009;
- The key activities – INCAS and KFCP – have closer direct implementation involvement with agencies other than MOF;
- Bappenas, not MOF, is the GOI Chair of the Steering Committee.

5.6 There has also been a lack of mutual agreement and understanding of the functioning of the Partnership Office:

- The PO understood that the Steering Committee would provide strategic guidance and sign off on a rolling work plan, consistent with the activity designs, which would then be implemented by the PO/Facility;
- The Executing Agency has expressed the view that it doesn't have a role in 'executing' and rather than just receiving progress reports, seeks a greater voice and involvement in decision making, including approval of individual technical activities, budget allocation/transparency and contracting; and has expressed some reservations about perceived high numbers of international advisers and international technical assistance;
- The GOI appointed partnership office Coordinator from the MOF is from a different Directorate to the Executing Agency and has limited delegation on these matters.

5.7 Additionally, management and financial arrangements lack a degree of transparency and clear logic:

- The GOA coordinator is contracted to, and reports to AusAID;
- The GOI coordinator is on leave from the MOF, contracted to and paid by the IAFCP Facility²⁹;
- Three PO international technical advisers are contracted to the IAFCP Facility but report to the GOA coordinator; the M&E adviser is contracted to, and reports to the Facility manager;
- The IAFCP Facility has contractual responsibility for activity implementation, but little capacity to support or manage performance;

²⁸ This is reflective of current efforts of policy and institutional reform.

²⁹ Proposed additional secondees from MOF will similarly be paid from project funds and will not retain formal line-management links to MOF. This raises issues about developmental benefit and extent of agency engagement.

- There appears to have been some GOI confusion about management costs and composition. The initial management allocation of AUD 1 million was expended within the first year. Facility management costs and PO technical adviser costs have subsequently been variously apportioned from activity funding. The additional AUD 60 million committed in 2010 did not include a specific allocation for facility management, technical advisers, etc.

5.8 It should also be noted that the involvement of two Canberra agencies, AusAID and the Department of Climate Change and Energy Efficiency, together with ministerial interest, adds another layer of complexity.

5.9 Redressing difficult institutional relationships is not easy, but should be assisted by an effective Steering Committee, greater efforts at communication, greater transparency and greater explanation of the requirement for technical inputs to support sub project implementation, particularly those involving international expertise. The proposed Management Committee would provide a forum for discussion of these matters. It is not considered, at this stage of project implementation, that structural changes would enhance relationships or should be made to management arrangements.

Funding

5.10 Beyond the institutional issues, implementation progress and efficiency has also been affected by the availability and timing of funding. The IAFCP budget is substantial, but within this, annual appropriations have proven difficult to reconcile with the challenges and pace of implementation on the ground. At the national level, it takes time to build consensus and ownership, particularly around new ideas; at the provincial, district and community level, these challenges are often amplified.

5.11 Disbursements have fallen short of targets. In particular, at the end of the 2009-10 financial year AUD 8.4 million was transferred from the KFCP budget into a World Bank trust fund³⁰, effectively reducing funding available for delayed KFCP activities in future years. Substantial IAFCP funds are committed against long-term PO technical personnel, operating expenses and management fees, leaving limited 'free' budget for designed activities.

5.12 Throughout 2010, administrative, bureaucratic and financial constraints had an impact on IAFCP physical progress. Many contracts, particularly those involving specialist international technical assistance, were deferred or scaled back reflecting both GOI sensitivities around contracting and limited available funding. Some examples include scientific research work on peat emissions; assessment of governance issues, incentives, and appropriate compensation, etc in relation to a

³⁰ The trust fund when established will be used to support input (establishment), performance (maintenance) and outcome (emission targets) based payments under KFCP in accord with sustainable land use and forest management objectives.

payments financing mechanism; and the KFPC canal blocking programme³¹; implementation of INCAS activities has also proceeded at a reduced pace.

- 5.13 Additional funding committed by GOA during 2010 substantially addresses IAFCP and sub project requirements, although at the time of the IPR mission, for reasons that were not clear, and many months after the announcement, had not yet been transferred to IAFCP accounts. This aside, there is a need to re-align annual appropriations to more realistically reflect achievable implementation targets and updates of the Rolling Prioritisation Plan (RPP). Decisions on a second demonstration project and the design of assistance to Sumatra will have an impact on this.
- 5.14 Extending the project timeframe to mid 2013 is appropriate, but in terms of sustainability it is necessary also to plan for post 2013.

Program Delivery

- 5.15 The rationale of the IAFCP Facility is to support the Partnership Office deliver, in a flexible and responsive way, sub activities that contribute to the IAFCP goal to inform international negotiations on REDD+. This function is essentially a process requirement for identifying, contracting and managing technical inputs. But there is also a requirement to monitor performance and ensure the quality of technical work. This latter role is undertaken by the fulltime technical experts located in the PO and the M&E expert contracted to the Facility.
- 5.16 AusAID has considerable experience with Facility models for the delivery of programmes. The advantages of this type of delivery model can often be offset by a high management expense ratio. An issue for the IAFCP is that management costs have often not been fully transparent or clearly understood by the GOI side.
- 5.17 The total IAFCP project management costs allocated to mid 2013, covering Facility management fees³², Facility operating expenses and staff costs, including GOA and GOI coordinators, accounts for about 13% of the total budget commitment of AUD 100 million. This is at the very lower end of similar facilities operating in the Indonesian and other AusAID programmes. However, in terms of management costs incurred to mid 2011 against funds actually disbursed³³ the management cost ratio is around 30%, which is more comparable to other facilities.
- 5.18 In addition to direct management costs, a further management fee of 8% applies to trust funds managed by the World Bank together with a management fee payable to CARE for disbursement of trust fund payments at the community level. This would

³¹ Aside from funding constraints, canal blocking has been affected by provincial delays in approving/conducting the AMDAL (environmental assessment).

³² Facility management fees operate on a fixed annual scale – they do not increase in percentage terms as a result of the substantial increase in budget (and expected increase in number of contracts to be let and managed). This may emerge as an issue for efficient management of the IAFCP.

³³ Just over 50% of the original budget commitment of AUD 40 million has been disbursed through the IAFCP. A further 20% has been transferred to the World Bank trust fund.

take the IAFCP management costs to the end of the 2010-11 financial year beyond 30%.

- 5.19 Since most management costs are fixed, the management cost ratio is sensitive to actual disbursements. Should IAFCP be successful in disbursing the current commitment of AUD 100 million within the contract timeframe the management expense ratio should be well below 20%, which would compare favourably with other facilities.
- 5.20 Management costs do not include the cost of the three technical experts located in the partnership office. The cost of these experts has been apportioned to the programmes in which they have worked.

6. SUSTAINABILITY

- 6.1 Sustainability relates to the extent to which the knowledge, capabilities and outputs supported by IAFCP can be expected to continue beyond the end of the project period in mid 2013 and contribute to the goal of emissions reductions.
- 6.2 There is considerable opportunity to achieve IAFCP objectives and goal. Indonesia is a large carbon emitter, particularly in high fire years. Indonesia has made a commitment to reduce emissions by 26% and by 41% with sufficient external assistance; and there are very large areas of forest and peatland in need of protection and rehabilitation. What is at question, is whether the motivation and means will be sufficiently well developed by mid 2013 to ensure continuity.
- 6.3 Motivation is shaped by two main factors, both of which are largely beyond the control of IAFCP. They are, perceptions of national interest and management of the competing aims of different interests on the one hand, and progress in intergovernmental climate change negotiations on the other.
- 6.4 The prospects for systemic change in Indonesia that could lead to significant emissions reductions are better now than they were at the start of IAFCP. The vision being developed by UKP4 is of a shift from accelerating exploitation of natural resources with scant regard to the environmental consequences, to a future in which these consequences shape decisions about how such resources are used. Such a radical change threatens established interests and power relations. Those who may lose institutional, political or economic power will resist such change. Delay in the moratorium on conversion of forests and the growing voice of forest dependent communities in claiming and protecting their rights illustrate this point.
- 6.5 It is too early to predict how successful the reform process will be and even by mid 2013 the future is likely to remain uncertain. Indeed, the next few years will inevitably involve periods of policy inconsistency, inertia in decision making and compromises that will be hard to navigate for projects such as KFCP engaged in

operational work. Continuing support from the international community is likely to be necessary if the reform process is to be successful.

6.6 International climate change negotiations are similarly uncertain. However, it appears that a carbon market that could channel funds to reduce emissions from forests is further away than appeared to be the case when IAFCP started. This means that public funds for REDD+ will be likely required on a larger scale and for a longer period than thought necessary only a short time ago. Although Indonesia has attracted more support for REDD+ than almost any other country, international progress in delivering funds already committed under the Fast Start arrangement has been slow. The subject of long term financing is likely to be a key element of the negotiations in COP 17 in Durban and this slow progress could unsettle the broad consensus on REDD+ that has been developed. This strengthens the argument for attracting more private capital and skills (through, for example, a Challenge Fund) in advance of a compliance market.

6.7 While there can be some confidence that skills developed through implementation of the INCAS activity will be sustained given many have broader application, the sustainability of the MRV system will again be closely linked to the success of the domestic reform program and the allocation of budget to ensure INCAS work is institutionalised within work programs of relevant agencies.

6.8 KFCP is less likely to be sustainable at the end of the project period without the continuing support of donor funding and perhaps technical assistance. As a demonstration activity, aspects of a successful implementation 'model' will be apparent, but the extent to which they will be up-scaled and influence policy are less clear. Some gaps in a workable model are also likely – notably clarity and understanding of an equitable and operational payments system. Further, until long-term financing is secured through successful climate change negotiations there will be an obligation to provide support at the community level to ensure sustainability of the KFCP REDD+ initiative. This may be possible through the extension of the World Bank trust fund, subject to the successful establishment and operation of appropriate institutions at the community level. The selection of Central Kalimantan as a REDD+ pilot province under the LOI will help to maintain a focus on the issues which KFCP is addressing.

7. RECOMMENDATIONS

Recommendation 1: Address institutional constraints impacting on the efficiency and effectiveness of program implementation as a matter of urgency (Section 5.4-5.9);

Recommendation 2: Review activity budgets and the timeframe for implementation, including a sustainability strategy beyond 2013 (Section 5.13-5.14);

Recommendation 3: Review the proposal for a second site specific demonstration project in Sumatra and consider alternative options, including a stronger focus on policy development and support at the provincial and national level (Section 4.48-4.54).

Recommendation 4: Develop a communications strategy, including a website and establishment of a knowledge network to capture lessons learned and support policy development (Section 4.6-4.7).

Recommendation 5: Consider establishment of a Challenge Fund to leverage private sector financing and support a portfolio of activities, to strengthen and expand REDD+ initiatives (Section 4.55-4.63).