



Forestry financing in Indonesia

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www.forclime.org





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Introduction

- **Currently a lot of attention on Indonesia's forest sector**
 - 1 billion USD bilateral agreement (Indonesia/Norway)
 - Establishment of new institutions (REDD, MRV, Finance) → Moratorium on natural forest conversion → Conditional payments!
 - Australia (>100 Million AUD), Germany (ca. 30 Million EUR) and other donors very active
 - REDD demonstration activities (including RIL, SFM,...)
 - GTZ focusing mainly on capacity development for SFM, through the support of FMU development, REDD and SFM demonstration activities and promotion of the HoB initiative. www.forclime.org
- **A lot of money and many challenges**
 - Weak institutions, powerful drivers of deforestation, illegal activities, corruption, ...



Financing forestry in Indonesia

- **Where to invest in Indonesia?**
 - *Tree planting*
 - Restoring degraded ecosystems (forests, peat lands,...)
 - Industrial forestry (P&P, Tropical hardwood plantations, ...)
 - Traditional integrated farming systems with local communities (Agroforestry, Community forestry,...)
 - *Protecting and managing existing forests*
 - Halting conversion of forest into agricultural landscapes through land-use planning (REDD/REDD+)
 - Reducing the impact of destructive logging through improved techniques (RIL → Reduced Impact logging, IFM) → REDD+



Country experience

- **What has been financed so far?**
 - *Tree planting*
 - Especially → industrial forestry
- **Forest-land rehabilitation government initiative on forest-land**
 - started with the Re-greening Guaranteed Fund (*Dana Jaminan Reboisasi* – DJR) in 1980 and continues until currently → name was changed to the Re-greening Fund (*Dana Rebois*) also referred to as “Reforestation fund”. This national forest fund is financed by a volume-based timber levy to support reforestation and forest rehabilitation.
 - The Re-greening fund is managed by the national government and shared to the provincial and district government as Fund for Special Purposes - *Dana Alokasi Khusus*.
 - From 2003-2009, this fund was being actualized as a national movement on land rehabilitation called GERHAN and targeted 5 million hectares degraded land in total (Directorate General of Bina RHL, 2006)



Country experience

- **Work on PES in Indonesia → Rewarding Upland Poor for Environmental Services that they provide (RUPES)**
 - RUPES is a long-term research program dedicated to developing practical environmental services schemes (PES development) that can be adapted to work in different countries with different circumstances.





Case studies

- **Barr, C., et al., 2010.** Financial governance and Indonesia's Reforestation Fund during the Soeharto and post-Soeharto periods, 1989-2009: a political economic analysis of lessons for REDD+. Occasional paper 52. CIFOR, Bogor, Indonesia.
 - Since 1989, the fund has had receipts of US \$5.8 billion. During the Soeharto era, the Ministry of Forestry allocated more than US \$1.0 billion in cash grants and loans from the Fund to promote commercial plantation development.
 - Recipients fraudulently marked up their costs and overstated areas planted, causing the programme to fall well short of targets.
 - Ministry also disbursed US \$600 million to finance politically favoured projects outside the Fund's mandate. A 1999 external audit by Ernst & Young documented billions of dollars in losses, citing systematic financial mismanagement.



Case studies

- **Leimona, B., et al., 2006.** Financing mechanism for sustainable forest management in Indonesia: the role of public financing instrument. Preliminary Report of the Workshop Financial Mechanisms for Sustainable Forest Management: Sharing Experiences from Latin America and Asia-Pacific, FAO/GTZ, Chiang Mai, Thailand, pp. 101-110
- **Bustanul, A., 2005.** Institutional constraints and opportunities in developing environmental service markets: Lessons from Institutional Studies on RUPES in Indonesia, RUPES Working Paper, ICRAF, Bogor, Indonesia, 59 pp.
- **Verchot, L.V., et al., 2010.** Reducing forestry emissions in Indonesia. CIFOR, Bogor, Indonesia.
 - Financing forestry (e.g. plantation expansion) can be unsustainable
 - MoF is currently considering up to 12 new pulp mill project proposals for the total new production capacity of approximately 8 million tonnes of pulp



Challenges for forestry investments

- **Weak institutions** → control was already weak under central administration, but decentralization has accelerated forest depletion through giving more power to district governments, which has resulted in even more uncontrolled logging and conflicting licenses
- **Drivers of deforestation** → rapid expansion of alternative and very profitable land-uses: oil palm estates, mining, ...
- **SFM not economically attractive** → private actors do not have sufficiently long time horizons to prefer SFM over short term gain
- **Unclear responsibilities** → hardly any accountability and transparency for institutions at the central and local levels to achieve the implementation of SFM or forest protection / rehabilitation.
- **Private investment climate** → enforcing contracts, taxation, ...



Private investment criteria

- *Clear legal title* to land and forest (land tenure, license, ...)
- *Clear legal title* to units (e.g. carbon rights)

- *Low investment risk* (e.g. CDM investment climate index)
 - Low host country risk → e.g. Country credit rating
 - Ability to control risk → e.g. Corruption Perceptions Index
 - <http://www.kyoto-coaching-cologne.net/publikationen/CDM-Indonesien-Endversion-englisch.pdf>

- *Enforceable sale and purchase contracts*
- *Stakeholder consultation* and engagement → FPIC
- *Independent verification* (3rd party using standard)
- Clear, long-term *demand* for...certified products (e.g. timber, NTFPs, carbon credits,...)

Angelsen, A. et al. (2009). Reducing Emissions from Deforestation and Forest Degradation (REDD): An Options Assessment Report.
Available at: <http://www.REDD-OAR.org>



Doing Business in Indonesia

World Bank (2009) Doing Business 2010, Washington, D.C: <http://www.doingbusiness.org/data/exploreeconomies/indonesia>

REGION	East Asia & Pacific	DOING BUSINESS 2011 RANK	DOING BUSINESS 2010 RANK	CHANGE IN RANK
INCOME CATEGORY	Lower middle income	121	115	↓ -6
POPULATION	229,964,723			
GNI PER CAPITA (US\$)	2,230.00			

TOPIC RANKINGS	DB 2011 Rank	DB 2010 Rank	Change in Rank
Starting a Business	155	159	↑ 4
Dealing with Construction Permits	60	60	No change
Registering Property	98	94	↓ -4
Getting Credit	116	109	↓ -7
Protecting Investors	44	41	↓ -3
Paying Taxes	130	125	↓ -5
Trading Across Borders	47	49	↑ 2
Enforcing Contracts	154	153	↓ -1
Closing a Business	142	141	↓ -1

The table lists the overall "Ease of Doing Business" rank (out of 183 economies) and the rankings by each topic.



Opportunities for forestry investments

- Funding sources of international assistance are enormous
 - *Preparing the ground for SFM, e.g. Public private partnerships*
- Indonesia remains overly dependent on natural resources and fails in developing processing industries to capitalize on the cost advantages
 - *SFM through investing in processing industry for timber from certified sustainable sources?*
- Investments in community forestry schemes and/or NTFPs (e.g. value chain, access to markets, certification)
- REDD+ and carbon forestry (Ecosystem Restoration License)



Conclusion

- International donors are already working on the enabling conditions for SFM in Indonesia, including forestry financing mechanisms
- However, before introducing any forest financing instruments in Indonesia, the underlying causes of failure in forest management / conservation should be addressed:
 - uncertainty forestry land tenure, limited access for locals to forest resources, limited capacity of human resources in managing forests, and inconsistency in forest law, regulations and management scheme.
- Despite the potential of Indonesia for forestry investments and the high number of REDD demonstration activities and “projects”, important issues remain unclear under the current legal framework, leading to relatively high barriers for private investment.



**Thank you for your
attention!**



Additional information

- Bond, I., et al. (2009).** *Incentives to Sustain Forest Ecosystem Services: A Review and Lessons for REDD*, International Institute for Environment and Development, London, UK, Center for International Forestry Research, Bogor, Indonesia, World Resources Institute, Washington D.C., USA
- Boscolo, M., et al. (2010).** *Financing sustainable small-scale forestry - Policy issues and lessons from developing national forest financing strategies in Latin America*, Infobrief Nr. 29., CIFOR, Bogor
- Costenbader, J. (2009).** *Legal Frameworks for REDD. Design and Implementation at the National Level*. IUCN, Gland, Switzerland, 200 pages
- Saich, A., et al. (2010)..** *From Reformasi to Institutional Transformation: A strategic Assessment of Indonesias Prospects for Growth, Equity and Democratic Governance*, Harvard Kennedy School Indonesia Program, Harvard, USA, 119 pages