



Grant Assistance Report

Project Number: 47084
September 2016

Proposed Administration of Grant Republic of Indonesia: Community-Focused Investments to Address Deforestation and Forest Degradation Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 September 2016)

Currency unit – rupiah (Rp)

Rp1.00 = \$0.000075

\$1.00 = Rp13,280

ABBREVIATIONS

ADB	– Asian Development Bank
BAPPENAS	– Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency)
CBFM	– community-based forest management
FIP	– Forest Investment Program
FMU	– forest management unit
GHG	– greenhouse gas
IFC	– International Finance Corporation
ha	– hectare
MHA	– masyarakat hukum adat (customary communities)
MOEF	– Ministry of Environment and Forestry
PAM	– project administration manual
REDD+	– reducing emissions from deforestation and forest degradation, conservation, sustainable management of forests, and enhancement of forest carbon stocks
SFM	– sustainable forest management

NOTE

In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 47084-002	
Project Name	Community-Focused Investments to Address Deforestation and Forest Degradation	Department /Division	SERD/SEER
Country Borrower	Indonesia Government of Indonesia	Executing Agency	Ministry of Environment and Forestry
2. Sector		Subsector(s)	
✓ Agriculture, natural resources and rural development	Forestry	ADB Financing (\$ million)	0.00
	Land-based natural resources management		0.00
		Total	0.00
3. Strategic Agenda		Subcomponents	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change Information	
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
Regional integration (RCI)	Natural resources conservation		
	Pillar 4: Other regional public goods		
4. Drivers of Change		Components	
Governance and capacity development (GCD)	Civil society participation	Gender Equity and Mainstreaming	
	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Organizational development		
Partnerships (PAR)	Knowledge sharing activities		
	Pilot-testing innovation and learning		
	Bilateral institutions (not client government)		
	Civil society organizations		
	Implementation		
	International finance institutions (IFI)		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No		
6. Risk Categorization:		Complex	
7. Safeguard Categorization		Environment: B Involuntary Resettlement: B Indigenous Peoples: A	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.00	
Cofinancing		17.00	
Strategic Climate Fund - FIP - Grant		17.00	
Counterpart		1.70	
Government		1.70	
Total		18.70	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	



INDONESIA COMMUNITY-FOCUSED INVESTMENTS TO ADDRESS DEFORESTATION AND DEGRADATION PROJECT



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I. INTRODUCTION

1. As a pilot country of the Forest Investment Program (FIP) under the Climate Investment Funds, the Government of Indonesia has prepared a forest investment plan with support from the Asian Development Bank (ADB), the World Bank, and the International Finance Corporation (IFC).¹ At the government's request, ADB proposed to administer the Community-Focused² Investments to Address Deforestation and Forest Degradation Project. The design and monitoring framework is in Appendix 1.

2. The project will support the government and customary communities to manage forests sustainably and reduce greenhouse gas (GHG) emissions by enhancing institutional and technical capacity and improving the livelihood of rural communities to address drivers of deforestation and degradation.³ It will implement community-focused and gender-responsive pilot projects for reducing emissions from deforestation and forest degradation (REDD+)⁴ in four forest management units (FMUs)⁵ in Kapuas Hulu and Sintang districts of West Kalimantan province. The project will contribute to effective implementation of the provincial REDD+ strategy and harmonization of subnational fiscal policies on REDD+ with national policies.

II. THE PROJECT

A. Rationale

3. **Forests and climate change.** Deforestation, forest degradation, and peat decomposition account for up to 15% of GHG emissions globally and up to 60% in Indonesia.⁶ Annual GHG emissions from deforestation and forest degradation are estimated to be 320–430 million tons of carbon dioxide equivalent, while the average annual forest loss was 1.9 million hectares (ha) over 1990–1996 and 0.8 million ha during 2007–2014. Continued loss of forests will deplete key ecological functions for agriculture, which would affect the rural poor and reduce their resilience to climate change impacts. Efforts to reduce deforestation and forest degradation and to promote sustainable forest management (SFM) are, therefore, critical to address climate change and promote sustainable development.

4. Forests cover 70% of Indonesia's land area, and forest-related GHG emissions are expected to be at least 50% of total emissions in the foreseeable future. The country's ambition to reduce GHG emissions by 29% from business-as-usual levels by 2030 with its own funds, and by 41% with international support, can be only achieved by protecting its forests.⁷ The importance of forest protection to combat climate change is also a key feature of the Paris Agreement reached at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change in 2015. To achieve GHG reduction targets, the National

¹ The FIP Sub-Committee endorsed the investment plan (https://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_6_indonesia_0_0.pdf) for \$70 million (\$37.5 million grant and \$32.5 million soft loan) in November 2012.

² "Community-focused" is a generic term to represent activities implemented with communities, by communities, and for the benefit of communities.

³ ADB provided project preparatory technical assistance for Community-Focused Investments to Address Deforestation and Forest Degradation (TA 8660-INO).

⁴ Reducing emissions from deforestation and forest degradation, conservation, sustainable management of forests, and enhancement of forest carbon stocks.

⁵ Referred to as *kesatuan pengelolaan hutan* in the Basic Forestry Law No. 41/1999.

⁶ Government of Indonesia, Ministry of Environment. 2010. *Indonesia Second National Communication under the United Nations Framework Convention on Climate Change*. Jakarta.

⁷ http://www4.unfccc.int/submissions/INDC/Published%20Documents/Indonesia/1/INDC_REPUBLIC%20OF%20INDONESIA.pdf

Development Planning Agency (BAPPENAS) has developed an action plan, and set emission reduction targets for each sector, including forestry.⁸ A national REDD+ strategy was prepared in 2012.⁹ Several provinces, districts, and cities prepared action plans in support of the national plan. However, progress in developing the REDD+ safeguards information systems and measurement, reporting, and verification framework was limited.

5. **Project area.** West Kalimantan, with a mean deforestation rate of 132,500 ha per year from 2001 to 2012, is one of the top five provinces contributing to Indonesia's GHG emissions. Forestry plays an important role in the province's economic development. However, about 667,383 ha of forest area in the province were degraded in 2013¹⁰ and about 3,356 ha were lost to forest fire in 2014.¹¹ The province has the highest poverty rate in Kalimantan. Within the province, the districts of Sintang and Kapuas Hulu hold the second and third largest state forest area. The province of West Kalimantan and the districts of Kapuas Hulu and Sintang have been selected as target areas because of their high potential for reducing GHG emissions and poverty.

6. **Drivers.** The key drivers of deforestation and forest degradation in the province are (i) commercial logging, (ii) forest conversion to agriculture, (iii) mining (primarily coal and gold), and (iv) uncontrolled fires.¹² Climate change—mainly evident through increased temperatures, low rainfall in the dry season, and high precipitation in the wet season—increases the risk of forest fires, droughts, and floods. The risk of forest fires is elevated during prolonged warm periods, promoting easier ignition and faster spread. In 2015, for example, massive forest fires occurred as a result of high temperatures and El Niño-induced drought. The rise in forest fire risk also has adverse implications on human health and biodiversity loss.

7. The underlying causes of deforestation and forest degradation include (i) inconsistent and inadequate spatial planning (resulting from limited accurate data to inform regional spatial plans), (ii) unclear land use rights and conflicts, and (iii) weak governance. Uncoordinated sector development planning, overlapping permits in forest areas, weak spatial planning capacity, limited site level forest management oversight, contradictory regulations and laws, irrational fiscal incentives, inadequate law enforcement, and lack of inclusive and participatory processes, all contribute to weak institutional governance.

8. To address key drivers of deforestation and forest degradation and improve the livelihood of forest-dependent communities in target areas, the project will invest in community-focused REDD+ activities (e.g., community-assisted forest regeneration and maintenance, community-based forest fire management, community-led land use planning and monitoring, and community-based ecotourism) in four FMUs—three in Kapuas Hulu district¹³ and one in Sintang district. With FMUs serving as the entry point, the project will strengthen the institutional and technical capacity of local governments in West Kalimantan; provide policy support to harmonize subnational policies for REDD+ with national policies; and establish incentives, safeguard systems, and gender-responsive benefit-sharing arrangements. By promoting SFM, the project will not only reduce GHG emissions but also enhance carbon stocks, provide

⁸ Government of Indonesia. 2011. *Presidential Regulation of the Republic of Indonesia No. 61 Year 2011 on the National Action Plan for Greenhouse Gas Emissions Reduction*. Jakarta.

⁹ Government of Indonesia, Indonesia REDD+ Task Force. 2012. *REDD+ National Strategy*. Jakarta.

¹⁰ Government of Indonesia, Statistical Agency of Indonesia. 2015. *West Kalimantan in Figures*. Pontianak.

¹¹ Indonesia online early warning system and data on forest fire. http://sipongi.menlhk.go.id/hotspot/luas_kebakaran.

¹² Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development (accessible from the list of linked documents in Appendix 2).

¹³ Two production FMUs and one conservation FMU in Betung Kerihun and Danau Sentarum National Parks.

community livelihood benefits, clarify and protect the tenure rights, and conserve biodiversity and ecosystem services.

9. **Development coordination.** Development partners such as Australia, Denmark, Germany, Japan, Norway, and the United States have long supported the forestry and climate change efforts of the government and West Kalimantan province.¹⁴ In May 2010, Indonesia and Norway signed a letter of intent under which Norway pledged to contribute up to \$1 billion to support REDD+ efforts. Progress achieved under the agreement has been modest, but it initiated new steps toward reducing deforestation such as increased transparency through more complete and accurate maps, enhanced political space to advance indigenous rights, and increased awareness of REDD+ governance. Indonesia also joined several multilateral REDD+ initiatives such as the Forest Carbon Partnership Facility and the United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation. The project will collaborate with these initiatives and build on their experiences. For example, the project may collaborate with the Forest Carbon Partnership Facility in improving the REDD+ Safeguards Information System, and with the REDD+ support facility by Denmark and Norway in providing advisory services.

10. The project will complement the FIP projects administered by the World Bank and IFC. It will also collaborate with the FIP Dedicated Grant Mechanism for Indigenous Peoples and Local Communities. The project will establish a basis for performance-based REDD+ payments by promoting synergies with projects of other development partners and with ADB's ongoing technical assistance on SFM.¹⁵

11. **Lessons.** The project design has incorporated several lessons related to stakeholder involvement, capacity building, benefit sharing mechanisms, incentives and livelihood support, tenure clarification, and safeguards from other REDD+ initiatives by the government and development partners. The project recognized the need for promoting strong ownership and involvement of the local communities and subnational governments in project design and implementation and for implementing advance actions and application of project readiness filters to minimize start-up delays.

12. **Alignment with related policies and strategies.** The project will contribute to the objectives of the master plan for the acceleration and expansion of Indonesia's economic development, 2011–2025; the national action plan to reduce GHG emissions; and West Kalimantan's provincial action plan to reduce emissions. The project's objectives are closely aligned with the National Medium-Term Development Plan, 2015–2019; the National REDD+ Strategy; the West Kalimantan REDD+ Strategy; and the Heart of Borneo National Strategic Plan of Action, 2015–2019.¹⁶ The project is aligned with (i) the priorities of ADB's Midterm Review of Strategy 2020; (ii) ADB's draft country partnership strategy, 2016-2019 for Indonesia; (iii) ADB's climate change priorities; and (iv) ADB's Operational Plan for Agriculture and Natural Resources, 2015–2020.¹⁷

¹⁴ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁵ ADB. 2013. *Technical Assistance to the Republic of Indonesia for Sustainable Forest and Biodiversity Management in Borneo*. Manila (TA 8331-INO).

¹⁶ Government of Indonesia. 2015. *National Medium Term Development Plan 2015-2019 (RPJMN 2015-2019)*. Jakarta; Indonesian REDD+ Task Force. 2012. *REDD+ National Strategy*. Jakarta; Government of the Province of West Kalimantan. 2014. *REDD+ Strategy and Action Plan of West Kalimantan Province*. Pontianak;. Heart of Borneo National Working Group. 2009. *National Strategic Plan of Action – Heart of Borneo*. Jakarta.

¹⁷ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.; ADB. 2016. *Country Partnership Strategy: Indonesia, 2016-2019*. Manila. (for 2016 endorsement); ADB. 2010. *Addressing Climate Change in Asia and the Pacific: Priorities for Action*. Manila.; ADB. 2015. *The Operational Plan*

B. Impact and Outcome

13. The impact will be environmental and livelihood benefits increased. The outcome will be REDD+ implementation in project areas of West Kalimantan province improved.

C. Outputs

14. **Output 1: Community-focused and gender-responsive REDD+ pilot projects in Kapuas Hulu and Sintang districts implemented.** The project will implement REDD+ pilot projects in 17 villages of four FMUs, including Betung Kerihun and Danau Sentarum national parks. The focus is on conserving areas with high carbon stocks and restoring forest cover in areas with the highest potential for maximizing climate and development benefits from carbon sequestration and soil, water, and biodiversity conservation in the project area. Activities include (i) rehabilitating 6,000 ha of degraded land through community-based assisted natural regeneration; (ii) bringing 1,880 ha of deforested land under improved community-based agroforestry systems; (iii) formulating community-based forest management (CBFM) ¹⁸ agreements between villages and FMUs to cover about 17,000 ha; (iv) protecting 5,000 ha of natural forests directly and 91,000 ha indirectly from fire via community-based forest fire management; (v) strengthening REDD+ monitoring and safeguards information systems at the district level; (vi) developing spatial and business plans for FMUs, in line with CBFM plans; and (vii) strengthening the capacity of FMU staff and local communities, including women, on REDD+ safeguards, SFM, conflict mediation, and payment for ecosystem services. The activities will reduce pressure on forests by providing alternative livelihoods to local communities, contributing to their economic resilience.

15. **Output 2: Provincial REDD+ strategy in West Kalimantan effectively implemented.** This output will address barriers to effective implementation of the provincial policy framework and strategy for REDD+ in West Kalimantan. Key activities include (i) strengthening the capacity of provincial staff to understand REDD+ concepts, monitor and report on REDD+, prepare FMU business plans, draft REDD+ regulations, and perform carbon accounting; (ii) establishing and linking province-wide grievance and benefit sharing mechanisms with FMUs and national systems; (iii) creating a provincial REDD+ monitoring and safeguards information system, including a REDD+ activity registry; and (iv) establishing a grievance redress mechanism on tenure and REDD+ activities.

16. **Output 3: Subnational fiscal policies on REDD+ harmonized with national policies.** Key activities include (i) analyzing fiscal policies for integration of natural capital considerations to provide policy guidance to national and subnational governments; (ii) conducting policy dialogues to assess gaps in fiscal, monitoring, and benefit sharing policies and West Kalimantan forest industry strategy, and identifying measures for effective harmonization of policies; and (iii) identifying funding sources for REDD+ implementation and conducting training to prepare proposals to extend the scope, area and/or time frame of the current project.

for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020.
Manila.

¹⁸ A generic term for management and use of natural or plantation forest resources where local communities are the main actors to protect, enrich, manipulate and harness wood and non-wood products.

D. Investment and Financing Plans

17. The project is estimated to cost \$18.7 million (Table 1). The Strategic Climate Fund¹⁹ will provide grant cofinancing equivalent to \$17 million, to be administered by ADB. This grant will fund consulting services, vehicles, equipment, civil works, training, coordination, and community livelihood activities. The government will cover taxes and duties through exemption. The financing plan is in Table 2.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Community-focused and gender-responsive REDD+ pilot projects	15.3
2. Provincial REDD+ strategy in West Kalimantan effectively implemented	1.3
3. Subnational fiscal policies on REDD+ harmonized with national policies	1.1
Subtotal (A)	17.7
B. Contingencies^c	1.0
Total (A+B)	18.7

REDD+ = reducing emissions from deforestation and forest degradation, conservation, sustainable management of forests, and enhancement of forest carbon stocks.

^a Includes taxes and duties of \$1.7 million to be financed from government resources through exemption. ADB may finance taxes and duties for the project. Taxes and duties financing by ADB is within the reasonable threshold identified in the country partnership strategy, does not represent an excessive share of the project investment plan, applies only to Asian Development Bank-financed expenditures, and is material and relevant to the project.

^b In mid-2016 prices.

^c Physical contingencies computed at 10% for civil works; 3% for consulting services; and 8% for community-driven development activities, training, surveys, and studies. Price contingencies computed at 1.5% on foreign exchange costs and 5.1% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Sources: Asian Development Bank and Government of Indonesia estimates.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Strategic Climate Fund ^a	17.0	90.9
Government	1.7	9.1
Total	18.7	100.0

^a Under the Forest Investment Program. Administered by the Asian Development Bank.

Source: Asian Development Bank.

E. Implementation Arrangements

18. The Directorate General of Social Forestry and Environmental Partnerships of the Ministry of Environment and Forestry (MOEF) will be the executing agency. The executing agency will establish a project management unit to provide overall coordination, ensure proper financial management, and comply with annual monitoring and reporting of the project's contribution to the FIP results framework. The implementing agencies will be (i) the Directorate of Business Development for Social Forestry and Customary Forest to implement REDD+ activities through partnerships with local communities in FMUs outside national parks, (ii) the Directorate of Environmental Services of Conservation Forest to implement REDD+ activities in national parks, and (iii) the Directorate of Production Forest Management Unit to implement REDD+ activities other than those related to social forestry in production forests of FMUs. Technical implementation units of the implementing agencies, at provincial level, will assist in project

¹⁹ Under the Forest Investment Program.

monitoring. Provincial and district forest agencies and FMUs will collaborate with the technical implementation units, supported by consultants.

19. The FIP steering committee for Indonesia, comprising representatives of various ministries, will serve as the project steering committee and will coordinate all FIP projects to be administered by ADB, the World Bank, and IFC. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).²⁰

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2017–December 2021 (60 months)		
Estimated completion date	31 December 2021 (Grant closing date: 30 June 2022)		
Management			
(i) Oversight body	Project steering committee Senior advisor to the minister and FIP focal point (chair), MOEF, Ministry of Finance, BAPPENAS, CMEA, representative of steering committee on dedicated grant mechanism (members) Representatives of ADB, the World Bank, and IFC (observers)		
(ii) Executing agency	Directorate General of Social Forestry and Environmental Partnerships		
(iii) Key implementing agencies	Directorate of Business Development for Social Forestry and Customary Forest, Directorate of Environmental Services of Conservation Forest, and Directorate of Production Forest Management Unit		
(iv) Implementation unit	Jakarta, MOEF (13 staff); Pontianak (three staff); Kapuas Hulu (three staff); Sintang (three staff), assisted by PISU consultants		
Procurement	National competitive bidding	42 contracts	\$9.06 million
	Shopping	43 contracts	\$2.05 million
	Community Participation	8 contracts	\$0.21 million
	Direct contracting	Multiple	for contracts below \$3,000
Consulting services	QCBS	1,665 person-months	\$4.00 million
	Individual consultants	100 person-months	\$0.37 million
Advance contracting	Advance contracting of PISU through QCBS. The government has requested ADB assistance in the recruitment. The government is aware that negotiation, contract signing, and supervision will remain its responsibility.		
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, BAPPENAS = Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency), CMEA = Coordinating Ministry of Economic Affairs, FIP = Forest Investment Program, IFC = International Finance Corporation, MOEF = Ministry of Environment and Forestry, PISU = project implementation supporting unit, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

20. ADB will assist the executing agency in selecting consultants for the project implementation supporting unit in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). The executing agency will retain the responsibility for negotiating and signing the contract with the consulting firm, issuing the notice to proceed, and supervising the consultant's services. Procurement of goods and services will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).

²⁰ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

III. DUE DILIGENCE

A. Economic and Financial

21. The cost–benefit analysis showed that the project is economically viable. Three benefit categories were quantified and assessed: (i) GHG emission reduction, (ii) improved ecosystem services, and (iii) incremental increase in income for communities from agroforestry and other livelihood interventions. The economic internal rate of return is estimated at 11.8% over 10 years, without accounting for GHG emission reductions. This is less than the 12% threshold but it is a conservative estimate considering that the project’s benefits extend well beyond the 10-year period. However, if GHG emissions are valued at \$10 per ton of carbon dioxide equivalent, the project yields a high economic internal rate of return of 45.2% over 10 years. The sensitivity analysis confirmed that the project benefits and returns are modest but robust.²¹

22. A financial and sustainability analysis was conducted from the perspectives of the government and local communities. For the government, the financial sustainability of the project was assessed by comparing incremental recurrent costs (considered to be 2% of the capital cost per annum) with the budget allocation available to cover those costs. Since the MOEF has substantial capacity to cover these recurrent costs, the project is considered financially sustainable. In addition, sustainability is assured through provincial regulations, which secure payments for ecosystem services to partially cover the recurrent cost of protection and enforcement. Agroforestry and a community rubber plantation will raise additional tax revenues to be channeled for forest protection, as specified in the government’s resource provision levy.

23. For local communities, the potential internal rates of return for land-based interventions are 20.2%–32.1%. On an incremental basis, the livelihood interventions are expected to increase total household income by \$6.9 million in present value in the project districts. The project yields other benefits that could not be monetized, including (i) sound REDD+ models for forest management, (ii) strengthened institutional and human capacity in SFM and biodiversity conservation, and (iii) increased ownership and involvement of local communities in protection and conservation of forest resources against forest fires and encroachment.

B. Governance

24. Project implementation, financial management, and procurement will be aligned with the government’s standard operating procedures. The executing and implementing agencies have adequate capacity for financial management, procurement, and legislation. The risk rating for financial management is medium, based on assessment of accounting and auditing procedures and staff expertise. The existing financial information system of MOEF (i.e., accounting, reporting, and internal control system) is adequate. MOEF staff is experienced in managing projects funded by ADB and other multilateral and bilateral agencies. The overall procurement risk is assessed as low. To address capacity shortfalls, the project will provide training to project staff on ADB project administration, especially financial management. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM.

25. **Grievance redress mechanism.** The executing agency will set up a grievance redress mechanism in consultation with relevant stakeholders within nine months of grant effectiveness or six months after the mobilization of project implementation supporting unit consultants,

²¹ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

whichever is earlier, and post it publicly on the project website with outreach for all project areas. Simultaneously, output 2 of the project will establish a grievance redress mechanism on tenure and REDD+ issues. In addition, an information disclosure mechanism will be in place to ensure that local communities in Kapuas Hulu and Sintang districts are aware of the grievance redress mechanisms and their potential involvement and responsibilities in the project activities.

C. Poverty and Social

26. The project will benefit at least 10,000 persons (2,800 households) increasing their income by participating directly in afforestation and other livelihood activities.²² The project will contribute to the government's poverty reduction efforts by providing income-generating activities and alternative livelihoods to poor communities, which will decrease pressure on the forests. Small-scale rural infrastructure provided by the project is expected to improve access to basic services and amenities. Downstream communities are also expected to benefit from enhanced ecosystem services generated through the actions of the direct beneficiaries. The project's institutional and capacity-building interventions are expected to generate significant social benefits to communities, local governments, and private and nongovernment organizations. As the project is community-focused, participation and engagement of the poor, local communities, civil society organizations, and other stakeholders is emphasized. During project implementation, a community empowerment specialist will be hired to look into poverty and social issues, and to integrate social dimensions into project operations and monitoring systems. A counterpart staff from the government will ensure that project implementation involves the poor and that project benefits accrue to the poor.

27. **Gender.** The project is categorized as effective gender mainstreaming. It supports women's participation in all activities related to forest conservation, assisted natural regeneration, use of forest resources, benefit sharing, and livelihood activities, including setting up, operating, and managing small-scale income-generating projects. A gender action plan²³ has been prepared and includes the following: (i) women are 30% of beneficiaries in programs to improve value chain and livelihood skills; (ii) women's groups are established to support non-timber forest products-based microenterprise development; (iii) women are trained to manage forest-based microenterprises; (iv) women constitute at least 30% of the participants in consultation processes, members in CBFM groups, and participants of workshops and study visits on REDD+ readiness and implementation; (v) 30% of participants in the capacity-building activities targeted for FMU and district forestry agency staff are women; and (vi) proposals developed for additional funding will be gender-responsive, with clear gender outcome indicators and activities targeted at women's groups. The project will ensure equitable opportunities for representation of women to assume leadership functions in various organizations. Technical training will be provided according to women's needs and aspirations, including establishing and strengthening women's groups and mentoring programs for community-level women leaders. The project will support female government staff and women's groups to develop their knowledge of climate change mitigation and adaptation measures, focusing on forest ecosystems. Adequate resources have been allocated to implement the gender action plan.

²² Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²³ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

D. Safeguards

28. **Environment.** The project is categorized as B. It is expected to achieve significant environmental benefits, including cumulative reduction of 3.7 million tons of carbon dioxide equivalent of GHG emissions, improved watersheds, and increased biodiversity in the ecosystems of previously degraded and deforested areas. The project will undertake small-scale infrastructure (e.g., ecotourism facilities) and livelihood activities that could cause minimal disturbances to the environment, but can be easily mitigated with proper site selection, use of environment-friendly construction technology, and proper disposal of waste generated. The environmental assessment and review framework will guide the environmental screening and categorization of project interventions and identify potential impacts.²⁴ Sample initial environmental examinations for two villages (Bungan Jaya and Tanjung Sari) were prepared to provide a prototype for screening and identifying typical impacts of potential interventions, and will serve as a template for preparing environmental management and monitoring plans.²⁵

29. **Involuntary resettlement.** The project is categorized as B for involuntary resettlement. Land acquisition is expected to be minor and no relocation will take place. The resettlement framework was prepared in consultation with the FMUs, local governments in Kapuas Hulu and Sintang districts, and the MOEF to guide the preparation of resettlement plans as needed.²⁶ The framework includes institutional arrangements and mechanisms for disclosure, meaningful consultation, and redress of grievances.

30. **Indigenous peoples.** The project is categorized as A, mainly because of significant positive impacts on the customary communities (MHA) via livelihood improvement activities and beneficiary measures. An indigenous peoples planning framework²⁷ was prepared to provide guidance on (i) screening for the presence of MHAs and the project's impacts on them, (ii) preparing an indigenous peoples plan²⁸ for activities anticipated to have impacts on MHAs, and (iii) mitigating adverse impacts and enhancing positive impacts. The framework will ensure that project activities are implemented to foster full respect for MHA identity, dignity, human rights, livelihood systems, and cultural uniqueness as defined by the MHA. The framework will enable MHA to (i) receive culturally appropriate social and economic benefits, (ii) participate actively in the project, and (iii) ensure they do not suffer adverse impacts as a result of the project (Safeguard Policy Statement [2009]).

31. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents have been posted on ADB's website. The project will allocate adequate resources (human and financial) to strengthen the capacity of FMUs and district staff for implementing, monitoring, and reporting on social and environmental safeguards.

E. Risks and Mitigating Measures

32. The overall assessment of the project risks is rated *medium*. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁹ The integrated benefits and impacts are expected to outweigh the costs.

²⁴ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

²⁵ Initial Environmental Examination: Bungan Jaya and Tanjung Sari (accessible from the list of linked documents in Appendix 2).

²⁶ Resettlement Framework (accessible from the list of linked documents in Appendix 2).

²⁷ Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2).

²⁸ Indigenous Peoples Plan refers to Masyarakat Hukum Adat Plan.

²⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of ownership by FMU staff and local communities	The project will design (i) capacity building initiatives targeted at staff in FMUs and districts, and (ii) livelihood improvements to ensure strong ownership of communities.
Conflicts of interest and lack of clear responsibilities among stakeholders, including communities	Prior agreements on responsibilities of different stakeholders, including selection of beneficiaries and coordination among institutions at various levels, will be made.
Climate disasters, forest fires, and pests adversely affect forest growth	Project will include demonstration of climate change mitigation and adaptation measures.
Lack of clarity on tenure and overlaps with forest land concessions, and unexpected revisions in local forest management rules can delay implementation of CBFM and REDD+ pilot projects	Project will support efforts to clarify tenure, and restrict project locations to areas outside known forest land concessions; District and FMU staff will commit to communities entering into CBFM agreements not to make abrupt changes in local forest management rules in project areas.
Capacity constraints in governance, including financial management	Project will provide training on ADB project administration, including financial management and procurement

ADB = Asian Development Bank; CBFM = community-based forest management; FMU = forest management unit; REDD+ = reducing emissions from deforestation and forest degradation, conservation, sustainable management of forests, and enhancement of forest carbon stock.

Source: Asian Development Bank.

IV. ASSURANCES

33. The government has assured ADB that implementation of the project shall conform to all applicable ADB's policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and grant documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the grant agreement.³⁰

V. THE PRESIDENT'S DECISION

34. The President, acting under the authority delegated by the Board, has approved the administration by the Asian Development Bank (ADB) of the grant not exceeding the equivalent of \$17,000,000 to the Republic of Indonesia for the Community-Focused Investments to Address Deforestation and Forest Degradation Project, to be provided by the Strategic Climate Fund.

Takehiko Nakao
President

30 September 2016

³⁰ Grant Agreement (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Environmental and livelihood benefits increased (Indonesian REDD+ Task Force. 2012. <i>REDD+ National Strategy</i>) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome</p> <p>REDD+ implementation in project areas of West Kalimantan province improved</p>	<p>By 2026:</p> <p>a. Cumulative GHG emissions in project area reduced by 3.7 million tons CO₂e (2017–2026 baseline net GHG emissions of 12.4 million tons CO₂e)</p> <p>By 2022:</p> <p>b. Household income of local communities^b in three FMUs increased by 20% in real terms (2015 baseline: Rp30 million/year in Kapuas Hulu, Rp15 million/year Sintang in project villages) (with sex-disaggregated data on targeted beneficiaries)</p>	<p>a–b. Government reports to the UNFCCC, MOEF records, BAPPENAS statistics, West Kalimantan REDD+ monitoring system</p>	<p>Rapid expansion of agriculture into project areas can lower net emission reductions.</p> <p>Conflicts of interest and unclear responsibilities on REDD+ among stakeholders, including communities</p> <p>Low commodity market prices erode household income.</p>
<p>Outputs</p> <p>1. Community-focused and gender-responsive REDD+ pilot projects in Kapuas Hulu and Sintang districts implemented</p>	<p>By 2021:</p> <p>1a. Four FMUs in two districts implement REDD+ pilot projects in a participatory manner (2016 baseline: not available)</p> <p>1b. 6,000 ha of degraded land rehabilitated through community-based assisted natural regeneration (2016 baseline: 0)</p> <p>1c. 1,880 ha of deforested land brought under improved community-based agroforestry systems. (2016 baseline: 0)</p> <p>1d. 5,000 ha of additional natural forest protected directly (2016 baseline: 1,400 ha) and 91,000 ha indirectly (2016 baseline: 0) through community-based forest fire management, including improved honey collection and fish drying techniques</p> <p>1e. 17,000 ha of natural forestland brought under CBFM (2016 baseline: 0)</p> <p>1f. At least 20 staff and 500 community members (150 women) trained in implementing community-based REDD+ pilot projects (2016 baseline: 8 staff, 0 community members)</p> <p>1g. At least 10,000 people (5,000 women) in 2,800 households in project villages with improved clarification on access to land and natural resources (2016 baseline: not available)</p>	<p>1a–e. PPMS reports, FMU management plans, FIP progress report</p> <p>1f. Training reports, PPMS reports</p> <p>1g. Field surveys, PPMS reports</p>	<p>Lack of ownership by FMU staff and local communities</p> <p>Lack of clarity on tenure and overlaps with concessions, and unexpected revisions in local forest management arrangements can delay implementation of CBFM agreements and REDD+ pilot projects.</p> <p>Natural disasters, forest fires, insect pests, and plant pathogens affect forest growth and quality.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
2. Provincial REDD+ strategy in West Kalimantan effectively implemented	<p>By 2021:</p> <p>2a. Three provincial regulations supporting REDD+ issued (2016 baseline: not available)</p> <p>2b. Grievance redress mechanism on tenure and REDD+ operationalized (2016 baseline: not available)</p> <p>2c. At least 50 staff (15 women) trained on REDD+ planning, implementation, and communication (2016 baseline: 5)</p> <p>2d. Safeguards and community-based monitoring system for REDD+, including activity registry, established (2016 baseline: not available)</p>	<p>2a–b. Provincial reports</p> <p>2c–d. PPMS reports, provincial reports</p>	Conflict of interest and lack of commitment to make necessary changes in policies and regulation
3. Subnational fiscal policies on REDD+ harmonized with national policies	<p>By 2021:</p> <p>3a. Guidelines for integrating natural capital considerations into fiscal policies and incentive mechanisms drafted (2016 baseline: not available)</p> <p>3b. At least three subnational policies (fiscal, benefit sharing, and incentive mechanisms) harmonized with national policies (2016 baseline: not available)</p> <p>3c. At least three gender-responsive proposals for mobilizing subnational REDD+ funding developed (2016 baseline: not available)</p>	3a–c. PPMS reports, MOEF reports	Conflict of interest and lack of commitment to make necessary changes in policies and regulation

Key Activities with Milestones

<p>1. Community-focused and gender-responsive REDD+ pilot projects in Kapuas Hulu and Sintang districts implemented</p> <p>1.1 Facilitate coordination and information dissemination on SFM and REDD+ between FMU offices and provincial agencies, with improved communication infrastructure (Q4 2017)</p> <p>1.2 Conduct workshops and study visits for FMU staff and local communities, including women, on REDD+ aspects such as safeguards; forest law enforcement; free, prior, and informed consent; conflict mediation; and payment for environmental services (Q3 2018) [GCD]</p> <p>1.3 Formulate CBFM agreements with local communities, including women (Q3 2018) [GEM, GCD]</p> <p>1.4 Train FMU staff and local communities, including women, in forest products utilization, value addition, and enterprise development (Q4 2018) [GCD, GEM, PSD]</p> <p>1.5 Establish a REDD+ monitoring and safeguards information system with geospatial databases (Q3 2019) [GCD]</p> <p>1.6 Develop spatial and business plans for FMUs through a participatory process consistent with CBFM plans (Q3 2019) [GCD]</p> <p>1.7 Support establishment of FMU “block XXI” and prepare its long-term business plan (Q4 2019)</p> <p>1.8 Establish a fund flow mechanism at community level as a basis for results-based payments for verified performance in SFM and emission reduction (Q4 2020) [GCD]</p> <p>1.9 Implement REDD+ pilot projects with local communities, including women, to generate income and reduce emissions^c (Q3 2021) [PSD, GEM]</p> <p>1.10 Provide equipment and training for community-based forest fire management (Q3 2021)</p> <p>2. Provincial REDD+ strategy in West Kalimantan effectively implemented</p> <p>2.1 Facilitate coordination and information dissemination on forestry planning and policy between provincial agencies and national and district level agencies, with improved communication infrastructure (Q4 2017)</p> <p>2.2 Conduct provincial workshops and training programs on REDD+ concepts, FMU business plan development, and carbon accounting, including drafting of regulations (Q3 2019) [GCD]</p> <p>2.3 Establish a provincial monitoring system and safeguards information system for REDD+ (Q4 2019)</p>

2.4	Establish a grievance redress mechanism on tenure and REDD+ activities (Q3 2019)
3.	Subnational fiscal policies on REDD+ harmonized with national policies
3.1	Analyze fiscal policies with regard to integration of natural capital considerations, in Indonesia and other countries with significant forest resources, and prepare a policy paper (Q3 2017) [KNS]
3.2	Facilitate coordination and information dissemination on forestry policy between national and subnational agencies with improved communication infrastructure (Q4 2017)
3.3	Conduct policy dialogue to assess gaps and identify remedial measures on fiscal, monitoring, and benefit sharing policies and West Kalimantan forest industry strategy, leading to policy harmonization (Q2 2018)
3.4	Identify relevant funding sources for REDD+ implementation and conduct training to prepare proposals to extend the scope, area, and/or time frame of the current project (Q4 2021) [GCD]
Project Management Activities	
PPMS established and operational (Q3 2017)	
200 staff from various levels (national, provincial, and FMU) trained on project management (Q2 2018)	
Inputs	
Strategic Climate Fund: \$17.0 million (grant)	
Government: \$1.7 million	
Assumptions for Partner Financing	
Not applicable	

BAPPENAS = Badan Perencanaan Pembangunan Nasional (National Development Planning Agency); CBFM = community-based forest management; CO₂e = carbon dioxide equivalent; FIP = Forest Investment Program; FMU = forest management unit; GCD = governance and capacity development; GEM = gender equity and mainstreaming; GHG = greenhouse gas; ha = hectare; KNS = knowledge solutions; MOEF = Ministry of Environment and Forestry; PPMS = project performance monitoring system; Q = quarter; REDD+ = reducing emissions from deforestation and forest degradation conservation, sustainable management of forests, and enhancement of forest carbon stocks; SFM = sustainable forest management; UNFCCC = United Nations Framework Convention on Climate Change.

^a Indonesian REDD+ Task Force. 2012. *REDD+ National Strategy*. Jakarta; Government of Indonesia. 2012. *Forest Investment Plan, document FIP/SC.9/6*. Jakarta; Government of West Kalimantan. 2012. *Provincial Action Plan for Reducing GHG Emissions*, Pontianak.

^b The local communities mainly comprise Dayak and Melayu, known as customary communities (masyarakat hukum adat).

^c REDD+ pilot projects include forest-based activities (such as agroforestry systems, rubber plantations, and assisted natural regeneration); other income generating activities (beekeeping, catfish culture, handicrafts, and community-based ecotourism); and provision of training and small-scale infrastructure (such as rural road improvement, micro-hydro power, and solar panels).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

1. Grant Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Initial Environmental Examination: Bungan Jaya and Tanjung Sari
11. Environmental Assessment and Review Framework
12. Resettlement Framework
13. Indigenous Peoples Planning Framework
14. Risk Assessment and Risk Management Plan

Supplementary Documents

15. Poverty and Social Impact Analysis
16. Detailed Economic Analysis
17. Financial Management Assessment
18. Procurement Risk Assessment
19. Gender Analysis
20. Stakeholder Consultation and Participation Plan
21. Stakeholder Communication Strategy
22. Climate Risk Assessment and Management