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PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC895

Project Name	Forest Investment Program: Forest Management Unit Development (P144269)
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	Forestry (50%), Sub-national government administration (25%), Public administration- Agriculture, fishing and forestry (25%)
Theme(s)	Climate change (50%), Other environment and natural resources management (25%), Land administration and management (25%)
Lending Instrument	Specific Investment Loan
Project ID	P144269
Borrower(s)	Ministry of Forestry
Implementing Agency	Ministry of Forestry
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	26-Apr-2013
Date PID Approved/ Disclosed	11-May-2013
Estimated Date of Appraisal Completion	13-Sep-2013
Estimated Date of Board Approval	30-Jan-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Indonesia, the world's largest archipelago, has the third biggest area of tropical forests after Brazil and the Democratic Republic of Congo. 52% of Indonesia's land area is under forest cover. Indonesia also has the world's fourth largest population. Of a population of 240 million, 60 million live near or on forest land. 25,000 villages are located adjacent to or within forests.

Demographic pressure and sustained economic growth have resulted in an increased encroachment on forests. Poor land-use planning and management, weak forest administration, unclear land use rights and corruption continue to deplete Indonesia's forest assets thereby increasing Indonesia's vulnerability to climate change. Logging, forest fires and conversion of forest land to other uses are other causes of deforestration.

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Sectoral and Institutional Context

Indonesia had 118.5 million hectares of forest in 1990. This declined to 94.4 million hectares in 2010, a loss of 24.1 million hectares of forest in twenty years. Primary tropical forest, the most biologically diverse and carbon-dense category of forests, accounted for 77% of the decline. Complex development choices are needed to shift to a more sustainable forest management path.

Degradation of peat-land is of similar concern. Indonesia contained 17 million hectares of peat-land in 2000. Three million hectares of peat-land were cleared between 1987 and 2000 which was the main reason for the peak of GHG emission during those years. A further 1.04 million hectares of peat-land forest were cleared between 2000 and 2005, for oil palm plantations; about 78% of this loss in Sumatra.

As a result, Indonesia now accounts for a significant proportion of greenhouse gas (GHG) emissions in the world. Its GHG emissions are projected to more than double in twenty years i.e. from 1.4 Gigatons of CO2 equivalent in 2000 to 3.0 Gigatons per year by 2020. Deforestation, peat fires and the conversion of peat-lands contribute to more than two-thirds of the total volume of Indonesia's emissions in an average year.

The resultant impact on climate change is in turn a key threat to development. Indonesia's high population density, 80,000 kilometers of coast, vast areas of flood-prone low-lying land and reliance on agriculture make it vulnerable. Climate change in Indonesia will disproportionately affect the poor.

The Government of Indonesia has therefore prioritized climate change action. In 2009 it pledged to reduce GHG emissions by 26% over seven years while maintaining economic growth at 7%. It also pledged to reduce emissions by 41% by 2020 with added financial resources from its international development partners.

However, implementation of acceptable forest management practices has been ineffective due to weak institutional capacity at the local level. Traditionally, Ministry of Forestry (MOFOR) has decentralized forest management to concession holders without appropriate oversight and monitoring. With the decentralization process, responsibility for monitoring and supervision was effectively transferred to the district level.

Decentralized forest management began in 1991 with the establishment of the Production Forest Business Unit which through Forestry Law No. 41/1999 became the Forest Management Unit (FMU), the scope of which was extended to cover all forest areas and functions. Implementation of the FMUs aims to ensure decentralized local area forest management based on long- and short-term management plans, in close consultation with community groups, local industry, license holders and other stakeholder groups.

Forest management activities under FMUs include preparation of forest management plans, monitoring of permit holders, forest utilization in areas not covered by third party interests, forest reclamation and forest protection. The implementation of these tasks must involve the local communities in a participatory manner and must address social issues and conflict e.g. arising from tenurial conflicts, access to forest resources issues, and traditional rights.

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The FMU is expected to improve forest administration and the use of forest land by filling the institutional gaps at the local level and providing on-site management of forests in the field. The Forest Investment Project (FIP) is intended to increase commitment to an improved management of the country's forest cover through strengthened FMUs and improved consultations with local communities.

Decentralized forest administration can bring management closer to local people and can better reflect their demands and priorities, offering opportunities for government to become more relevant to local conditions. Decentralization can be instrumental in reducing local conflicts over the use of forest resources and the allocation of resulting benefits among local stakeholders. Thus, decentralization can lead to better environmental management outcomes.

The biggest challenges for the implementation of the FMUs are (i) appropriate long-term funding from public and private sources, including generation of own revenue from economic activities within the FMU, (ii) dealing with social and land conflicts that exist in a significant number of FMUs, (iii) the lack of a widely acceptable model and best practices for FMUs, (iv) current lack of ownership and buy-in by many district authorities and existing local political economy forces, and (v) the multiple reporting streams and responsibilities between national and sub-national entities and even between directorates within the MOFOR.

Relationship to CAS

The Bank's Country Partnership Strategy (CPS) for Indonesia for the period FY 2013 - 2015 is aligned with the country's Master Plan for the "Acceleration and Expansion of Indonesia's Economic Development 2011- 2025". It seeks to fast-track development througha pro-growth, pro-jobs, pro-poor, and pro-green strategy. Related to the pro-green agenda identified in the Government's economic development Master Plan, the Bank's engagement will support development results that include the implementation of Indonesia's REDD+ Strategy, protection for coral and marine resources, and scaling up disaster and climate risk reduction and adaptation measures.

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The FIP funded FMU project is aligned with the CPS in supporting Indonesia's 'pro-green' development agenda of ensuring sustainable development via green growth programs. The Project aims to contribute to pro-Green results by supporting the implementation of Indonesia's REDD+ strategy and improving forest governance mechanisms. It is one of several Bank projects that aim to help establish coordination mechanisms and institutions for climate change management.

II. Proposed Development Objective(s)

Key Results (From PCN)

The anticipated key project results at the national and sub-national levels are:

At the national level:

a. An institutional framework established within the MOFOR to support the development and operationalization of FMUs
b. Policy work supported through appropriate multi stakeholder platform
c. A centralized FMU Knowledge and Management Information System established within

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MOFOR to generate and disseminate knowledge

At the sub-national level:

a. Participatory forest land use planning piloted (consultations, appraisals, assessments, mediation and conflict resolution, etc.) within Model FMUs

b. Three Pilot FMUs operational and engaged in sustainable forest management and REDD+ activities

c. Reduced emissions in the selected Pilot FMUs, based upon a realistic baseline

III. Preliminary Description

Concept Description

The Project will have three components.

Component 1 will help build national (both intra- and inter-ministerial) coordination, ownership and understanding for FMU development. It will establish a support base for FMU development within the MOFOR and in cooperation with Ministry of Home Affairs. Technical assistance and financial support will be provided to MOFOR, the National FMU Secretariat (SEKNAS KPH) and the Executing Agency within MOFOR. The Project will support activities that can add value to the FMU process such as analytical and policy work. This will include studies in support of policy improvements for FMU operation, sustainable forest management and REDD+. The establishment of a centralized FMU Knowledge and Information Management System (KIMS) will be supported. As part of the KIMS, the establishment of an Advisory Board, consisting of experienced FMU practitioners, may be supported.

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Component 2 will support advanced Model FMUs with participatory land-use planning processes to address constraints in connection with such processes and learn therefrom. Encroachment and land use conflicts are critical issues in many of the Model FMUs. MOFOR will competitively call for proposals from stakeholders that are able to support participatory land-use planning process within FMUs. Potential implementing partners could be FMUs themselves or local communities and community groups, local government, forest cooperatives, local and national NGOs, wood- and non-wood based rural enterprise, industry groups, universities and research bodies that would work in close cooperation with the FMUs. The participatory planning activities may include participatory land use mapping, stakeholder assessments, socio-economic surveys, participatory rural appraisals, consultations, mediation, and conflict resolution mechanisms related to forest access and encroachment.

Component 3 will provide financial support to approximately three pilot FMUs , with the objective to assist local stakeholders to implement economic activities. Pilot FMUs will be selected in a consultative selection process, from the group of FMUs that (i) have already attained a certain degree of operational capacity, (ii) have already multiple support systems in place, (iii)are not constrained by serious issues and land use conflicts, and (iv) hold good potential for business development, revenue generation, and long-term economic independence.

Risks: The overall project risk is rated ‘substantial’. The risk include: a lack of ownership by sub-national entities and the unclear role of the MOFOR, particularly across directorates and directorates-general; ongoing conflicts of interests and a lack of clear responsibilities on the ground between FMUs and local government units; the lack of understanding from stakeholders on the need

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for community inclusive participation in FMU development; potential land conflict issues in FMU sites; uncertain budget allocations from the national government past the 2014 period, and the potential that this issue will affect local governments' appetite to provide counterpart funding to FMU development; and low capacity from national and local government civil servants, as well as a shortage of technically qualified foresters to staff the FMUs.

Gender: The project will affirm the role of women in the local economic and social context. In components 2 and 3, the project will support women organizations that work with local households whose livelihoods heavily depend on forest resources. The project will involve women as staff members of the FMUs and the Steering Committee. A women's organization will be represented on the Steering Committee. The KMIS proposed in Component 1 will be used to support a gender sensitive impact assessment and analytical work on the links between forestry, household livelihood and gender. The project will also develop specific gender related project indicators and possibly a gender action plan.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	×		
Natural Habitats OP/BP 4.04	×		
Forests OP/BP 4.36	×		
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11			×
Indigenous Peoples OP/BP 4.10	×		
Involuntary Resettlement OP/BP 4.12	×		
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Financing (in USD Million)

Total Project Cost:	17.00	Total Bank Financing:	0.00
Total Cofinancing:		Financing Gap:	0.00

Financing Source	Amount
Borrower	0.00
Strategic Climate Fund Grant	17.00
Total	17.00

VI. Contact point

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