

## Analysis of World Bank's INDONESIA COUNTRY FOREST NOTE DRAFT: Valuable Insights and Recommendation that Deserve to be Shared and Discussed

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### Introduction

According to the World Bank's Country Forest Note Draft (CFND), dated November 2016<sup>i</sup>, Indonesia is home to the world's third largest tropical forest (94 million hectares/52% of total land area<sup>ii</sup>). Indonesia's forest is globally significant due to its size, biodiversity, and carbon storage capacity.<sup>iii</sup>



Activities that often result in forest conversion (agriculture, mining, and other development) and forestry industry are important contributors to Indonesia's economy (34% of GDP), playing a strong role in economic growth and livelihoods.<sup>iv</sup> However, as the CFND recognizes, sustainable management of Indonesia's forest and decreasing drivers of deforestation such as expansion of agricultural production are critical to maintaining other basic environmental services.

Indonesia is the largest economy in Southeast Asia. The country's GDP per capita has steadily risen, from \$857 in the year 2000 to \$3,847 in 2017.<sup>v</sup> Today, Indonesia is an emerging middle-income country with high demographic pressure and a commodity-based economic model that relies on extractive industries and agriculture, posing high risks of forest degradation and deforestation and exacerbating global climate change<sup>vi</sup>.

In this context, the World Bank's Country Forest Note Draft is welcome since Indonesia is still struggling to balance trade-offs between a commodity-based economy and a sustainable growth model.<sup>vii</sup> The CFND recognizes that forests, if properly managed, can contribute to Indonesia's sustainable development and livelihoods. Otherwise, continued environmental

degradation will undermine economic growth and sustainable development in the archipelago.<sup>viii</sup> It is worth noting that Indonesia's deforestation rate has been the world's highest.<sup>ix</sup>

In April 2016, with the Forest Action Plan, the World Bank renewed its commitment to and engagement in forests as a key element for sustainable development. Part of the commitment is to develop a minimum of 10 Country Forest Notes (CFNs) during the Plan term, by June 30, 2020. The Indonesia CFN, when finalized and released, will provide stakeholders an opportunity to understand how the WBG is working to integrate forests' contribution to sustainable development in Indonesia.

### Summary of the Indonesia CFN Draft

The CFND outlines the current status of the WBG's programmatic landscape approach across sectors and financing instruments to respond to forest, land use and tenure challenges. It also analyzes opportunities for engagement beyond the current WBG portfolio (p.4).

The CFND identifies gaps and challenges in Indonesia's forest management and governance. Among the main limitations recognized, the CFND mentions: weak forest management and governance, limited awareness and capacity, insufficient evidence base to support policy decision making, policy and coordination gaps across government institutions, lack of accountability, ineffective dual system of land administration, poor spatial planning, and insecure tenure.

Likewise, the CFND recognizes opportunities in Government of Indonesia's (GoI) national programs and policies to address these forest management and governance issues. The CFND includes the following points: targets set in the country's 2016 INDCs and the National Medium-Term Development Plan 2015, strengthening subnational forest management<sup>x</sup>, adopting a landscape approach for natural resource management, implementing the One Map Policy tool to create a unified geospatial database, strengthening the integrated fire management system, sustainable management of lowland areas, delinking oil palm production & deforestation by introducing responsible production measures,<sup>xi</sup> and establishing a new institutional framework for community development.

In terms of its own financing, the WB response to gaps identified is the Sustainable Landscape Management Program (SLM) which aims to strengthen land management, design and implement a fire prevention management program, support sustainable development of lowlands, promote equity and inclusive growth in rural landscapes, and addressing other cross-cutting issues.

### Analysis of the Indonesia CFND

The Indonesia CFND is valuable for several reasons:

- Aligns with the WB Forest Action Plan, addressing actions needed both inside the forest sector and outside, such as land rights and tenure, agriculture (agro-forestry), and inclusive growth.
- Addresses key cross-cutting themes, particularly climate change & resilience, rights & participation, and institutions & governance. In this same line, component 5 of the SLM intends to address cross-cutting issues related to improving natural resource management, and carbon payments.
- Summarizes policy reforms that the GoI is undertaking (pp. 16-24) and the need for their implementation, including through community ownership (Social Forestry Program), decentralization (Forest Management Unit), and recognizing traditional village government (The Village Law, 2014).
- Recognizes that REDD implementation has been slow, reflecting a number of challenges, such as: no agreed national monitoring, reporting, and verification system; no forest reference emissions level; delayed climate finance mechanism has been delayed, lack of detailed investments programs, among others (p. 18).
- Acknowledges the positive role of decentralizing forest management and strengthening relations between private and public stakeholders at local levels (p. 19). Recognizes that the GoI has designed two programs to strengthen subnational forest management: The Forest Management Unit and the Social Forestry Program<sup>xii</sup>. Both can offer strategic approaches to address drivers of deforestation and degradation.
- Recognizes the importance of initiating a collaborative process to bring key development partners into supporting devising and implementing restoration plans (p. 22). For example, the sustainable management of Indonesia's lowland areas.
- Emphasizes the need and support for a Sustainable Landscape Management (SLM) approach and outlines the program for SLM to be implemented. The SLM program will be in the form of investments in five key intervention areas (land management and administration, fire prevention, peatland development, institutional coordination, and cross-cutting themes) and provides details of WB funded projects and how they will contribute to the implementation existing governmental programs that are underway.
- The SLM Program is aligned with Indonesia's CPF (2016-2020). The CFND mentions that the SLM program is one of the six core pillars in the Indonesia CPF: The SLM program's objective is to "incorporate sustainable natural resources management into the analysis of and dialogue about the subject with key land and natural resources related sectors as well as key partners, such as private sector." (p.25)
- The SLM Program is aligned with Indonesia's NDC: "Policy advice provided through the SLM Program are designed to establish a policy environment that is more conducive to a low-carbon development pathway, as described in Indonesia's NDC." (p.25)
- Supports the Strategy and Nationally Determined Contribution under the UNFCCC Paris Accord, which call for reducing the greenhouse gas emissions from land use, land use change and forestry (LULUCF), and for a landscape approach to forest and land management that empowers local jurisdictions from LULUCF (p.25).

- Describes clearly the Bank’s forest-related existing WB engagement (p.25/37): divided among analytic work and policy advice under the SLM Program & WBG investments (582.4 m) that can be applied to the SLM program (p.31).
- Notes the need for additional resources to mainstream forests in other sectors: “It is strategically important to mobilize finance that complements existing investments (by the WBG and other development partners) and meets critical investment needs [...] funding that supports capacity for forest monitoring, funding mechanisms, and upfront investment financing is also critical” (p.31).
- Reports that the SLM Program was designed to blend and upstream policy analysis and advice, technical assistance, and investments made through grants, loans, government-own resources, and results-based payments.
- Recognizes the strong need for further readiness and capacity-building in the implementation and operationalization of forests programs at the subnational level.
- Notes that there are multiple potential strategic entry points and opportunities for additional financing and WB financial instruments in forests governance and management.<sup>xiii</sup>
- Supports the creation of a SLM-Multi-Donor Trust Fund (SLM-MDTF) to mobilize funds as the principal financing vehicle for short to medium-term scale-up of the SLM program. The SLM-MDTF plans to support long-term transformation toward sustainable landscape management. The immediate priority of the first phase will focus on supporting Indonesia’s efforts to better manage fire and haze.

While the CFND does cover all these, **some important issues still need to be addressed, or addressed more fully, such as how to:**

- Identify alternative, more sustainable resource based-models (other than the commodity-based model).
- Eliminate and/or reduce slash-and-burn agriculture (especially for palm oil).
- Identify particular forest-peoples populations, including at-risk and/or historically marginalized groups. The role of these populations in the key intervention component #4 of the SLM is not clear.
- Develop a plan to delink palm oil production and deforestation & ensure sustainability of smallholder’s producers (who account for 4.4 million of the 10.6 million of oil palm planted areas).
- Provide a clearer plan to improve capacity related to sustainable landscapes and evidence-based decision-making process at the local levels.
- Ensure that the SLM Program provides a platform to coordinate the use of existing global funds already in motion or in the pipeline.
- Integrate the WB efforts with those of other donors/partners.
- Propose ways to improve the implementation of REDD programs at the local level.
- Scale-up the development of jurisdictional emission reductions programs to other provinces (p.30).

- Identify alternative ways to support effective implementation of forest-related policies and programs by working with multiple stakeholders and ‘beneficiaries’ of the programs and projects.
- Identify opportunities to complement the third extension of the moratorium on issuing new licenses to use land designed as primary forest and peatland to help promote critical forest governance reforms and to strengthen forest governance.
- Help the GoI to show significant improvements in natural resource governance, and particularly in the forestry sector since it is not clear how the SLM will be effectively implemented in a country where governance reforms have progressed slowly.<sup>xiv</sup>

Indonesia needs to take action and effectively implement all of the programs supported by the WBG and other trust funds, and changes need to happen fast enough to protect the forests and landscapes. Action, implementation, and accountability are needed to enhance forest and forests peoples’ protection and combat climate change. The CFND needs to provide more clarity on how to make this happen in the short term.

#### World Bank’s Indonesia Forest Portfolio

Since the CFND was prepared close to two years ago, it is appropriate to see what the World Bank has in fact been doing in forest-related sectors in Indonesia since then. We find from a desk review of WB materials online that in the Bank’s project pipeline as of early FY19 (July 2018), 3 of 10 projects (totaling \$1,524.6 million, close to 34% of proposed pipeline loans) are likely to reduce deforestation pressure, and none increase it. Of WB Indonesia projects approved since the Forest Action Plan (FY2016-18), 7 of 23 projects with combined commitments of \$125.0 million (3.5%) reduce pressure on forests (or increase their sustainability), but five totaling \$1,100M (31%) increase deforestation risk.

This does not show any improvement compared to pre-FAP active projects, among which those reducing forest risk (9 projects) totaled \$1276.5M (39% of pre-FAP active projects) while those increasing risk (4 projects) totaled \$679.6M (21%). The projects increasing forest risk were concentrated in two areas: transmission lines projects, and other infrastructure. Depending on specific objectives and how these are carried out, these could reduce risk to forests compared to a no-project scenario.

However, if we consider active and pipeline projects together, there are 19 projects (totaling \$1,917.5 M, close to 23% of proposed commitments) that are likely to reduce deforestation, while there are 9 projects (totaling \$1,779.60, close to 21% of the proposed commitments) are likely to increase deforestation risk. While this is on balance positive, it depends critically on the Bank moving ahead with and successfully implementing its Indonesia project pipeline. It also highlights the importance of early and thorough application of WB environmental and social standards, including ESS1 (assessment), so that the potential risks of infrastructure projects are avoided or minimized and mitigated.

## References

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- <sup>i</sup> World Bank, 2016: Indonesia - *Country forest note Draft (English)* [CFN or CFND]. Washington, D.C.: World Bank Group, unpublished. This draft has not been made public, nor has any later draft; BIC received it through informal channels. BIC has requested that the Bank make all CFNs, which are primarily analytic and descriptive documents, public. As of October 2018, three CFNs are public, for Liberia, Mozambique, and Nepal.
- <sup>ii</sup> Other sources report higher and lower total forest area; per Global Forest Watch's [country dashboard](#), in 2010, Indonesia had 113M ha. of natural forest, ca. 60% of its land area. It averaged annual forest loss of ca. 1.44M ha., meaning it would have fallen to 103M ha. by 2018. Per Mongabay, however, Indonesia's total forest area is 88.5M ha., and forests are 48.8% of land area. Of note, primary forest cover is 48.7M ha. or just 26.9% of land area (55% total forest area).
- <sup>iii</sup> Multiple sources report this, including other World Bank documents; see e.g. Acceleration Program of One Map Policy Implementation (P160661) [Project Information Document](#) (PID; Dec 8, 2016, p. 3).
- <sup>iv</sup> The CFND identifies that the main Driver of deforestation is the conversion of forests to agricultural production. Palm oil is the primary agricultural commodity. Indonesia is the world largest producer of palm oil. Also, the pulp and paper industry is one of the world's largest and a significant export earner. Forest extractives & energy industries are 11% of GDP (50% of exports).
- <sup>v</sup> <https://www.worldbank.org/en/country/indonesia/overview>
- <sup>vi</sup> As identified in the CFND, two-thirds of Indonesia's GHG come from land use change and such patterns will make it difficult for Indonesia to meet the climate targets set in its NDC. In addition, the Indonesia Country Environmental Assessment, done by the WB in 2009, estimated that the annual economic losses from environmental degradation ranged between 6.1 to 10.6% of GDP.
- <sup>vii</sup> Deforestation, Degradation & Climate change: 2000-2012, Indonesia exhibited the largest increase in forest loss in the world (1012 km/year).
- <sup>viii</sup> World Bank. 2018. Indonesia - *Country forest note Draft (English)* [hereafter, CFN]. Washington, D.C.: World Bank Group: "Economic losses from environmental degradation ranged between 6.1 to 10.6% of GDP".
- <sup>ix</sup> World Bank PID, op. cit., p. 3. While this was true at the time the CFN draft was prepared (see also <https://www.theguardian.com/environment/2014/jun/29/rate-of-deforestation-in-indonesia-overtakes-brazil-says-study>), in 2017 Indonesia experienced a drop in tree cover loss, including a 60 percent decline in primary forest loss, according to WRI: <https://www.wri.org/blog/2018/06/2017-was-second-worst-year-record-tropical-tree-cover-loss>. Indonesia remained third in absolute forest loss, at 1.3M ha., behind Brazil and DR Congo.
- <sup>x</sup> by the design of two programs: The Forest Management Unit: which has designed 629 decentralized forest management units across the forest estate to coordinate planning and management with public and private stakeholders at the local level. The Social Forestry Program: which aims to transfer 12.7 million hectares of degraded land to community ownership by 2019.
- <sup>xi</sup> Such as the Indonesian Sustainable Palm Oil (ISPO) standards. We are not endorsing ISPO over RSPO or any other standard, just noting that it is identified in the CFN as an opportunity for addressing deforestation from oil palm. For a "Comparison of the ISPO, MSPO and RSPO Standards," see [https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca\\_PO-Standards-Comparison.pdf](https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca_PO-Standards-Comparison.pdf).
- <sup>xii</sup> The Forest Management Unit has designed 629 decentralized forest management units across the forest estate to coordinate planning and management with public and private stakeholders at the local level. The Social Forestry Program aims to transfer 12.7 million hectares of degraded land to community ownership by 2019.
- <sup>xiii</sup> Such as: Inception and scale up of the SLM-MDTF, Development Policy Finance, Investment finance, Results-Based (Non-Carbon) Payments, Carbon Finance and Potential Top-Up Funding for Existing Carbon Funds.
- <sup>xiv</sup> World Resources Institute, Working paper 2014, [INDONESIA'S FOREST MORATORIUM: IMPACTS AND NEXT STEPS](#)