

REDD+ BENEFIT SHARING IN INDONESIA

A Case Study by Leo Peskett





THE WORLD BANK

The findings, interpretations, and conclusions expressed herein are those of the author(s), and do not necessarily reflect the views of the funders. Supporting research for this document was carried out from July to October 2010.

Cover photo by Ray Witlin

Indonesia's initial regulations on REDD+ were some of the earliest national regulations to be proposed by a REDD+ country and they resembled the 'nested' proposal (Pedroni et al., 2007). Under this approach, entity level carbon trading from emissions reductions in REDD+ projects can be carried out by the private sector, NGOs or communities, but under national regulations. While there is still intense debate in Indonesia as to how exactly REDD+ revenues might be shared between national and local levels, the different policy proposals give some insight into the options.

The government has set out draft rules for REDD+ investments which detail:

- Who is eligible to participate: individual, cooperative, state and regional owned enterprises or Indonesian private legal entities. Indigenous and local peoples, women who are the permit holders of customary, community, and village forests are entitled to be REDD+ project developers.
- Eligible forest types: including customary, community, and village forests.
- The revenue sharing arrangements between different actors (see Figure 1).
- The role of the national government in implementation of the regulations.

Initial plans for the sharing of financial benefits from REDD+ between national and local levels therefore proposed that they be governed (at least on paper) by these different criteria.

The revenue rules under the REDD regulations were first proposed in forestry department decrees 30, 36 and 68 although

were quickly subject to intense political debate and a review that aimed at removing rules that overlap or clash. The draft rules on benefit sharing outline 11 different options depending on the type of licence held and the type of forest. The revenue split between government, communities and the project developer would vary between 10% – 50% for government, 20% – 70% for communities and 20% – 60% for project developers. These revenues would accrue from the sale of REDD+ credits.

The national government plays a role in benefit sharing through the development of the regulations (which has mainly occurred under a Working Group on Climate Change within the Ministry of Forestry) and their eventual implementation. A 'REDD Council' has also been created that will play a role in the application of REDD regulations. The REDD regulations stipulate that REDD project proposals (including an implementation plan) are submitted to the Minister of Forestry for approval. The REDD Council will assess project proposals on their technical aspects and following the assessment the proponent will be issued a REDD implementation licence. The project commences within 90 days of this licence being issued and forest must be managed in accordance with the implementation plan. The council should provide a structure to control the problem that many carbon brokers have been directly approaching regents, mayors or local communities to develop REDD projects.

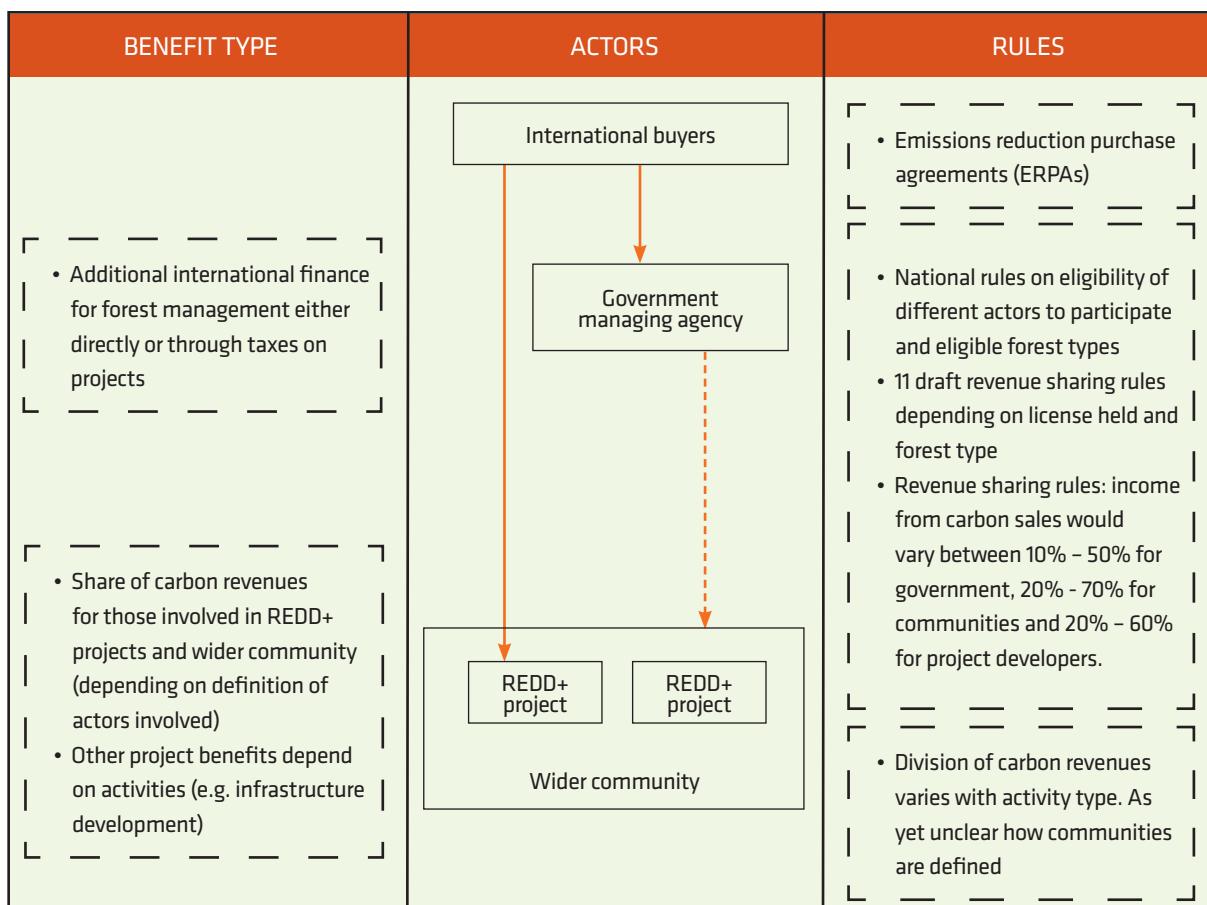


FIGURE 1: Stylized schematic of draft Indonesian REDD+ revenue sharing rules. Note that provincial and local government levels have not been included as arrangements are still unclear.

Alternative or complementary systems

The revenue sharing rules developed for REDD+ in Indonesia have been contentious and are under ongoing discussion. The main issue has been that the Ministry of Forestry does not have the legal authority to establish such regulations, which are under the purview of the Ministry of Finance. The Ministry of Finance also asserts

that the REDD revenue-sharing formulas would have important implications for the viability of different kinds of emission reduction activities, and for the overall effectiveness and efficiency of the scheme.

An alternative or complementary approach that is proposed in the Ministry of Finance Green Paper (2009), is the use of international fiscal transfers to run a nationally managed revenue sharing system to support climate



“For REDD+, regulatory and broader fiscal measures are likely to play a relatively greater role than direct emission-pricing instruments.”

change action by regional governments. The basic operation of such a system would include (Ministry of Finance Green Paper, 2009):

- Payments would be made from the central government to regional (mainly district) governments, linked to the achievement of milestones and outcomes in activities to reduce emissions, or to actual emission reductions.
- Payments to regional governments could exceed implementation costs and opportunity costs (i.e., in order to give a profit incentive). Some parts of the program would be tied to specific spending purposes, while the rest would be in the form of reward payments for successful implementation, with regional governments free to make their own spending decisions.
- A tendering system could be used for project selection and payment distribution, which would be ranked by central government according to agreed criteria such as cost effectiveness and other development priorities.
- The central government would have carriage of the international, national, and overall financing aspects of the scheme, including management of international finance inflows from REDD. The central government should also be paid out of REDD revenue for the functions it fulfils, such as administration and financial risk management – at least over time. However, care must be taken not to ‘tax’ REDD revenues at unnecessarily high rates at the central government level, as this would

weaken the incentive for, and reduce the supply of, REDD actions (figure 2).

- The regional incentive mechanism (RIM) could be revenue-neutral over time, with a share of the overall international REDD payments to Indonesia covering the payments to regional governments.
- Capacity-building programs and pilot activities would be the initial focus of the scheme. These could be supported through donor financing.
- Over time, the emphasis would shift from program-oriented spending to outcomes-based reward systems that pay for a region’s aggregate carbon reduction outcomes regardless of how they are achieved.

This approach has a number of potential attractions: For REDD+, regulatory and broader fiscal measures are likely to play a relatively greater role than direct emission-pricing instruments. This is because measuring carbon emissions and enforcing pricing policies at the micro level can be much more difficult for REDD+ than for fossil fuel emissions, due to the fact that emissions sources are more dispersed and there are few systems for monitoring. It is also argued that creating

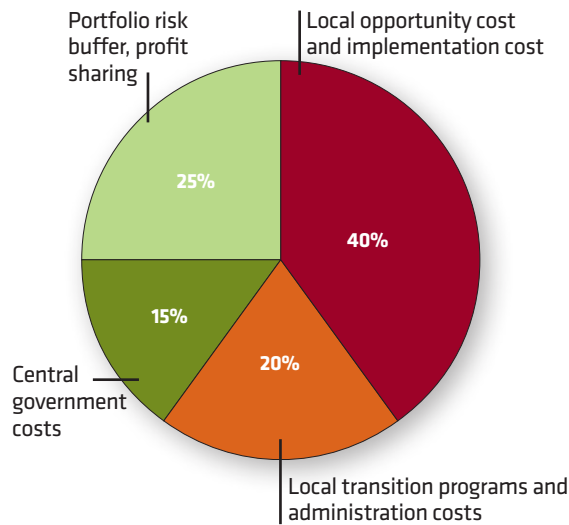


FIGURE 2: Schematic representation of cost categorization and divisions between different levels in an Indonesian REDD+ system

Source: Ministry of Finance (2009)

incentives for the regions to engage in REDD+ is particularly important in Indonesia, because decentralization laws mean that forest management is determined at the local level. The government could smooth funding over time, thus helping to provide more predictable flows to local levels.

However, there are also considerable challenges (Barr et al., 2009). Capacity of local governments to implement these schemes will need to be sufficient. This is particularly the case in REDD+ which requires new skills, and where local governments may take on significant private risks (i.e., they may support private investments with public finance that is conditional on emissions reductions being achieved). The system may entail high

administrative costs because of the extensive monitoring requirements for financial flows and how these couple with outcomes. Significant knowledge is required at central and regional government level about different activities that should be eligible. Knowledge about the breakdown of costs for different activities will be crucial in order to ensure that spending is efficient.

Relationship between national and provincial rules

The division of revenues between different levels of government in Indonesia is likely to be a major issue in REDD+. This is particularly the case for provinces such as Aceh, where post-conflict provincial autonomy grants the Aceh government control over natural resources and 80 per cent of the revenues from forestry activities. At the same time, the central government retains regulatory control over international conventions for which 'standards, norms and procedures' set by the government have to be followed (Clarke, 2010). This has already led to differences of opinion between the Aceh and Central governments. For example, in the case of the Ulu Masen REDD project, provincial government staff argue that the Government of Aceh has negotiated the Ulu Masen demonstration project in line with powers vested in the province by the Law on Governing Aceh, and that the law states that the provincial and district governments have the authority to manage Aceh natural land and sea resources (Macculloch, 2010).

On 7 July 2009, the Governor of Aceh issued Decree No.522/372/2009 designating Ulu Masen forest as the REDD demonstration project area covering around 750,000 ha. To manage the REDD project, a second Governor's Decree was issued, Decree No.522/18/2010 on the Formation of the REDD Task Force. The REDD Task Force is under the direct management of the Governor, and has its offices in the Governor's building. It is comprised of a steering committee and organizing committee. The steering committee is mandated to define the procedures and substantive issues related to the REDD project, and to report directly to the Governor. The task of the organizing committee is to conduct socialization, coordination and to facilitate all relevant parties in enhancing the process of the development of the REDD project, including in the process of due diligence; and to develop draft REDD policies in Aceh including those relating to ownership issues (Maculloch, 2010).

Under the Indonesian Ministry of Forestry's REDD regulations, any forestry permit holder (logging, industrial pulp wood, plantation, local forest owner, or user with the agreement of a District Chief) can develop a REDD proposal and submit it to the Ministry's REDD committee for approval. The Ministry of Forestry wants to maintain the right of approval for REDD projects throughout Indonesia, regardless of whether the funding is private or public. In negotiating and signing the REDD demonstration project agreement, the Government of Aceh has, according to the Ministry, flouted Indonesian law. In principle, Aceh cannot sign a direct cooperation with an international actor without

the approval of central government. The local government must first receive an endorsement letter from the Ministry of Home Affairs, and then from the Ministry of Foreign Affairs (Maculloch, 2010).

References

- Barr, C., Dermawan, A., Purnomo, H., Komarudin, H., 2009. Readiness for REDD. Financial governance and lessons from Indonesia's Reforestation Fund (RF), CIFOR infosheet number 20, CIFOR Bogor, Indonesia.
- Clarke, R.A., 2010. 'Moving the REDD Debate from Theory to Practice: Lessons Learned from the Ulu Masen Project', *Law, Environment and Development Journal*, 6(1), p. 36. Available at: <http://www.lead-journal.org/content/10036.pdf>. [Accessed on October 10, 2010].
- Maculloch, L., 2010. Ulu Masen REDD demonstration project: the challenges of tackling market policy and governance failures that underly deforestation and forest. Institute for Global Environmental Strategies, Japan. Available at: http://enviroscope.iges.or.jp/modules/envirolib/upload/2847/attach/occational_paper_no4.pdf.
- Ministry of Finance, 2009. *Ministry of Finance Green Paper: Economic and Fiscal Policy Strategies for Climate Change Mitigation in Indonesia*, Ministry of Finance and Australia Indonesia Partnership, Jakarta, Indonesia.
- Pedroni, L., 2007. 'The Nested Approach: A flexible Mechanism for Reducing Emissions from Deforestation and Degradation', International Roundtable on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries [online]. Available at: <http://www.climatefocus.com/focusareas/Reddpresentationpage.html>.

REDD
net



THE WORLD BANK

1818 H Street, NW
Washington, D.C. 20433 USA
Telephone: (202) 473-1000
Internet: www.worldbank.org/sdcc
Email: socialdevelopment@worldbank.org.