



UN-REDD
PROGRAMME
INDONESIA

**DESIGN ROADMAP OF INDONESIA REDD+ FUNDING AND COMPLIANT
BENEFIT/INCENTIVES DISTRIBUTION SYSTEM**

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A. INTRODUCTION

1. Indonesia's Forest and Climate Change

Indonesia's forests which cover about 136.8 million Ha (RKTN, 2010) have a unique potential to produce multiple environmental services from which people benefit, and upon which all life depends. These include provision of food, fuel, building materials, freshwater, climate regulation, protection against desertification, flood control, maintenance of biodiversity, and cultural services, to name a few. So, Indonesia's forests are central to all human life in Indonesia, particularly to whom living in thousand of villages in and surrounding forests who depending on forests for their livelihoods.

According to the Indonesia's Constitution of 1945, forests are a renewable resource and should be sustainably managed so as to provide their maximum benefit to the people of Indonesia. But, most people have known that Indonesia's forest is under threat. Rate of Indonesia's deforestation is quite high.

Deforestation happens because many people perceive that it is more profitable to cut down forests than to look after them. They did not know the IPCC report that the emissions from deforestation and degradation of tropical forests make up close to 20 per cent of the global emissions of greenhouse gases. After the IPCC report, and also since the Bali Climate Change meeting in 2007, Indonesia has put high concern on the role of forests as important carbon reservoirs. Since the Bali Climate Change meeting, Indonesia has been taking a proactive role in the international negotiations of new regimes of commitments and incentives and will try to prove during the 2008-2012 period of the Kyoto protocol. Indonesia is trying to show to the international that the Reducing Emissions from Deforestation and Forest Degradation (REDD), an effort to create a financial value for the carbon stored in forests by offering incentives for developing countries, particularly in tropical developing countries, to stop cutting down their forest to reduce deforestation and invest in low-carbon paths to sustainable development, can work in Indonesia. Commitment of Indonesia in reducing emission has been declared by the Indonesia's President to international community that by using its own budget, Indonesia will reduce emission up to 26% from its usual business. It may increase up to 41% if there are international supports.

Consider to the Indonesia's forest area and based on the range of possible emission reduction strategies as well as the expected future price of carbon credits, the total international transfers for REDD to Indonesia may well become a hundred million US-\$ to several billion US-\$ per year. It is a potential funding for Indonesia's development support. To make

REDD+ success in Indonesia, a well design of REDD+ funding and compliant benefit distribution system is needed.

2. REDD+ Mechanism Concept and Indonesia's position

a. REDD+ under the UNFCCC

In December 1997, delegates at the third Conference of the Parties (COP 3) in Kyoto, Japan, agreed to a Protocol to the UNFCCC that commits industrialized countries and countries in transition to a market economy to achieve emission reduction targets. These countries, known as Annex I parties under the UNFCCC, agreed to reduce their overall emissions of six greenhouse gases by an average of 5.2% below 1990 levels between 2008-2012 (the first commitment period), with specific targets varying country by country. The Kyoto Protocol entered into force on 16 February 2005 and now has 191 parties. In 2005, the first Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (COP/MOP 1), held in Montréal, Canada, established the AWG-KP on the basis of Protocol Article 3.9, which mandates consideration of Annex I parties' further commitments at least seven years before the end of the first commitment period. In addition, COP 11 agreed in Montréal to consider long-term cooperation under the Convention through a series of four workshops known as "the Convention Dialogue," which continued until the COP 13 in Bali in 2007.

In 2006, the Stern Review on the economics of climate change (Stern, 2006), noted that 'Reducing emissions from deforestation and forest degradation in developing countries' (REDD) could be a cost-effective route for mitigating the impacts of climate change. This recognition of the potential role and reasonable cost of REDD led to its inclusion in the "Bali Action Plan" (UNFCCC, 2007), agreed at CoP13 of the UN Framework Convention on Climate Change (UNFCCC) in 2007. As part of the Bali Action Plan, the discussion broadened further to consider: *"Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries"*, which is now referred to as REDD+. Basically, the REDD+ is an effort to create a financial value for the carbon stored in forests by offering incentives for developing countries, particularly in tropical developing countries, to stop cutting down their forest to reduce deforestation and invest in low-carbon paths to sustainable development.

Since the Bali CoP 13, UNFCCC debates on REDD+ have been held under two Convention bodies. The Subsidiary Body for Scientific and Technical Advice (SBSTA) has been considering methodological approaches to address the most problematic issues associated with

REDD+. At the same time, the Ad hoc Working Group on Long-term Collaborative Action (AWG-LCA) has been moving towards a mutually agreed text that could form part of a post-Kyoto agreement. Up to the last AWG-LCA meeting in Panama, in October 2011, discussions have established that:

- 1) Policy approaches should be performance-based, so that support for implementation is based on results (i.e. based on measurable and verifiable emissions reductions).
- 2) The REDD+ mechanism should be approached at the national level, rather than at sub-national levels, taking into account national circumstances. Thus, REDD+ will be unlike project-based approaches such as A/R CDM, or voluntary market carbon conservation projects. Although actual implementation of interventions under REDD+ will necessarily occur locally, and therefore resemble project-based approaches, accounting, reporting and revenue generation will occur at the national level. These make REDD+ fundamentally differ from A/R CDM or voluntary market carbon.

These important characteristics of REDD+ can be reflected as in Figures 1, showing a generic REDD+ system.

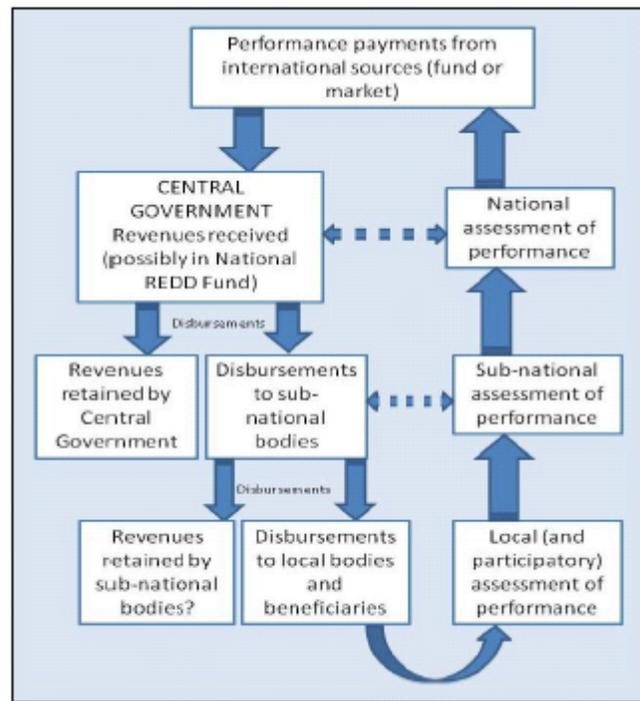


Figure 1: Potential Basic REDD+ System Design

The COP-16 at Cancun resulted that: REDD+ should be implemented in phases, covering (Figure 2):

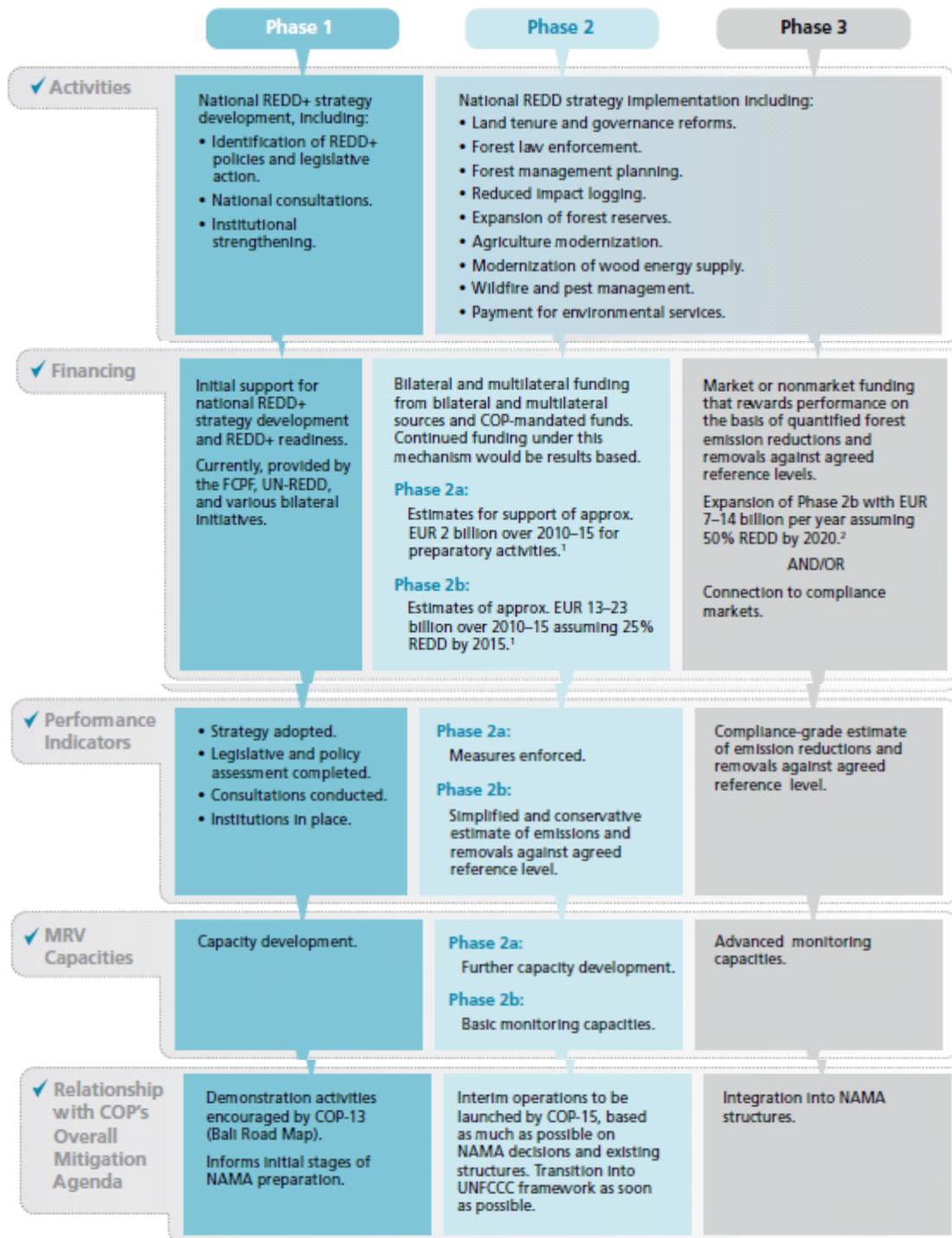


Figure 2: REDD+ phases after Cancun

- 1) Phase 1: Development of national strategy or action plans, policies and measures, and capacity building.
- 2) Phase 2: Implementation of national policies and measures, and national strategies or action plans that could involve further capacity building, technology development, and transfer and result based demonstration activities;
- 3) Phase 3: Evolving into result-based actions that should be fully measured, reported and verified.

The successful implementation of REDD+ at national level will depend on the capacity of national institutions entrusted with carrying out REDD+ activities. These institutions will need to demonstrate the effectiveness, responsiveness, environmental integrity, and fiduciary accountability necessary to gain the confidence of international investors and local communities. So, implementation of the Indonesia's REDD+ mechanism needs to be backed by strong national institutions to govern fund mobilization, allocation, and disbursement.

REDD+ institutional arrangements will unavoidably have to deliver tough judgments in relation to the relative performance of national REDD+ strategies and actions, while not encroaching on the sovereign discretion of nations to design adequate and acceptable policies and measures nationally. The national institutional and implementation arrangements will have substantial consequences for national economies and for the impact of REDD+ on many forest-dependent communities, including indigenous peoples. REDD+ institutional arrangements must therefore originate from a process characterized by the highest possible political legitimacy and must strive to maintain and enhance their legitimacy over time.

Irrespective of what the final decision on the institutional arrangement for REDD+ implementation will be, there are 5 aspects that should be considered including :

- 1) **Oversight.** Oversight entails the setting of overall policies and program priorities for a REDD+ mechanism. This includes taking decisions of important political character, such as determining whether a particular sub-national is eligible for REDD+ support, and managing relationships between the REDD+ mechanism and other institutions necessary for its functioning and, once in operation, oversight of the whole mechanism, including the financial support provided, to ensure that it is operating according to principles and standards established.

- 2) **Financial support.** Financial support encompasses three main tasks: resource mobilization or revenue raising, allocation, and disbursement. The three prerequisites for a successful funding mechanism are: (a) that it is well funded in terms of quantity, sustainability, and predictability; (b) that resources are allocated and distributed fairly, effectively, and efficiently; and (c) that the decisions on what to fund are taken according to agreed principles and criteria.

Figure 3.1: Functions and tasks of a REDD+ mechanism



Figure 3. : Functions and tasks of REDD+ mechanism

- 3) **Standard setting.** The results-based character of REDD+ requires the formulation of criteria and indicators that allow the determination of performance and the eligibility for incentives. Standard setting includes the development of technical or fiduciary criteria and social and environmental standards.

- 4) **Certification of results.** This is the function that ensures the quality of the actors involved and of the products resulting from their involvement. Certification of results and operations is based on a technical expert assessment and the political approval of such assessment.

- 5) **Accountability.** This is the system that ensures that the various entities and institutions involved in a REDD+ mechanism can be held responsible for their actions and decisions.

b. Indonesia Position

- Indonesia will apply national approach with sub-national implementation for REDD+.
- In the negotiations for the post-2012 commitment period of the UNFCCC, Indonesia will implement hybrid of market and non-market for REDD+ financing and this position is being negotiated at international negotiation for REDD+ financing mechanism.
 - Non-market: capacity building, addressing drivers of DD which are not attractive to private sectors and/or trans-boundary drivers.

 - Market: result-based actions which meet the MRV requirement under COP guidance.

3. REDD+ Funding Mechanism and BDS Principles

REDD+ mechanism will be an integrated system, involving Policies and Measures, Institutions, MRV/Registry, Benefit distribution and safeguards,. Among the components, Policies and Measures, MRV and BDS form the “engine” of the REDD+ mechanism supported the by safeguard, reputable institutions, National REDD+ strategy, and other remaining components.. (Figure 4)

BDS as part of an integrated REDD+ system

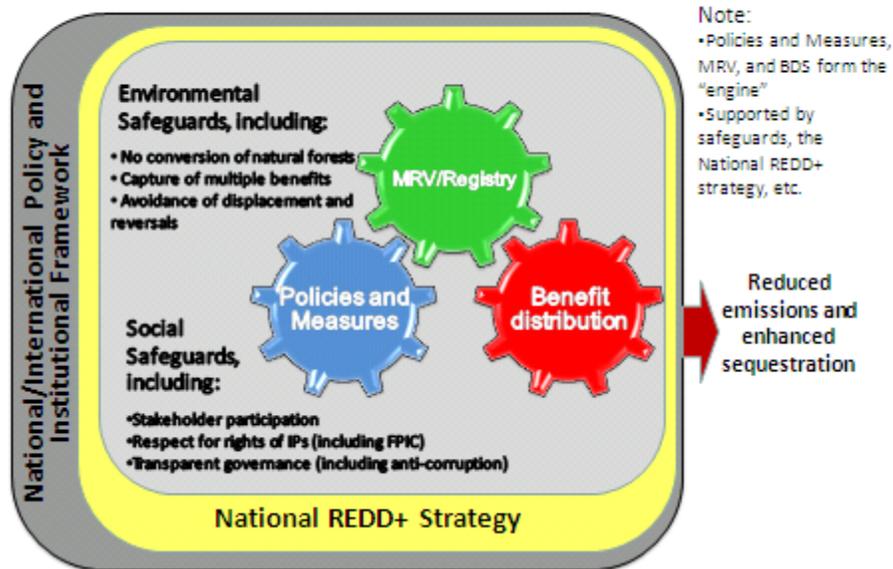


Figure 4. Integrating Policies/Measures, MRV/Registry and BDS

MRV is basic for REDD+ mechanism. It is a base for calculating emission reduction and amount of payment or incentive should be paid to initiator of a REDD+ project. It occurs at national, sub-national, event at management unit level. Figure 5 shows how MRV and BDS link in an integrated REDD+ system.

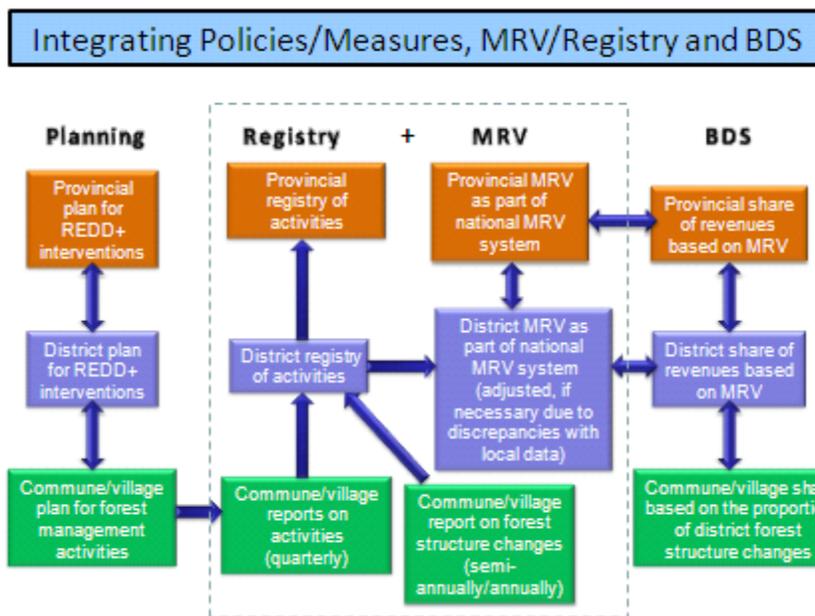


Figure 5: Integrating Policies/Measures, MRV/Registry and BDS in the REDD+ system

A REDD+ Funding Mechanism and BDS must be demonstrably at least :

- a. **Efficient**, so that payments are made to beneficiaries in as timely and fashion as possible; and so that the level of payment is adequate to compensate opportunity cost.
- b. **Transparent**, to reduce the risks of various forms of corruption, such as embezzlement, fraud, and abrogation of carbon rights,
- c. **Equitable**, to reduce the risk of social unrest through perceived inequities.

B. OBJECTIVE AND SCOPE OF THE DESIGN

For a full implementation in the post 2012, Indonesia is currently in readiness phase. Funding REDD+ mechanism and benefit sharing of benefit distribution (BDS) of REDD+ are important components in REDD+ implementation. Based on the Indonesia's REDD+ Road Map (figure 6), a benefit distribution system design is expected to be ready by 2012.

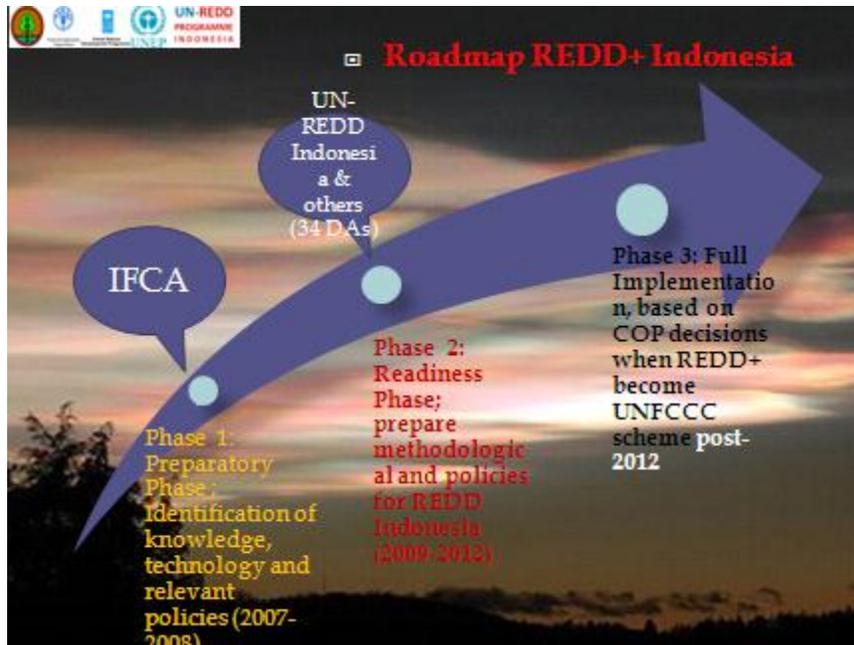


Figure 6: Indonesia REDD+ Road Map

The objective of designing Road Map of the Indonesia's REDD+ Funding mechanism and benefit distribution (BDS) of REDD+ is to have a set of recommendation to the Gol about clear actions on how to achieve REDD+ readiness from BDS stand point. The steps will be developed to include institution, policy, methodology, and also governance aspects, at national and sub national levels. Based on the milestones of the developed Road Map, it is expected that the Gol may request any bilateral and multilateral collaborations to take part in achieving the milestones of the road map.

C. TOWARD INDONESIA'S REDD FUNGING MECHANISM AND BENEFIT DISTRIBUTION SYSTEM

1. Basic Consideration

As a part of the response to the international process and in order to prepare the negotiation in COP-13, Indonesia has performed a quick study/analysis concerning its preparedness, in terms of methodology and policy, and formed Indonesia Forest Climate Alliance (IFCA) in July 2007. The IFCA recommended that Indonesia's REDD Readiness should be¹:

- a. Build on initial framework designed by IFCA,
- b. Continue consultations and technical analysis,

¹ Indonesia Forest Climate Alliance-IFCA (2010). National Strategy REDD Indonesia: Readiness Phases 2009-2012 and progress in implementation.

- c. Test and implement pilot/demonstration activities with heterogeneous conditions,
- d. Conduct capacity building at all levels,
- e. Create credible national framework for verifiable emission reduction, and
- f. Deliver real reductions in GHG emissions.

The IFCA recommended that during the REDD Readiness, Indonesia needs to prepare instruments necessary for the implementation of the third phase of REDD/REDDplus (establishment of REL/RL, carbon accounting etc.), MRV System, policy, institutional setting, funding and incentive distribution mechanism, participation of the stakeholders including people in/surrounding the forest (see Figure 7).

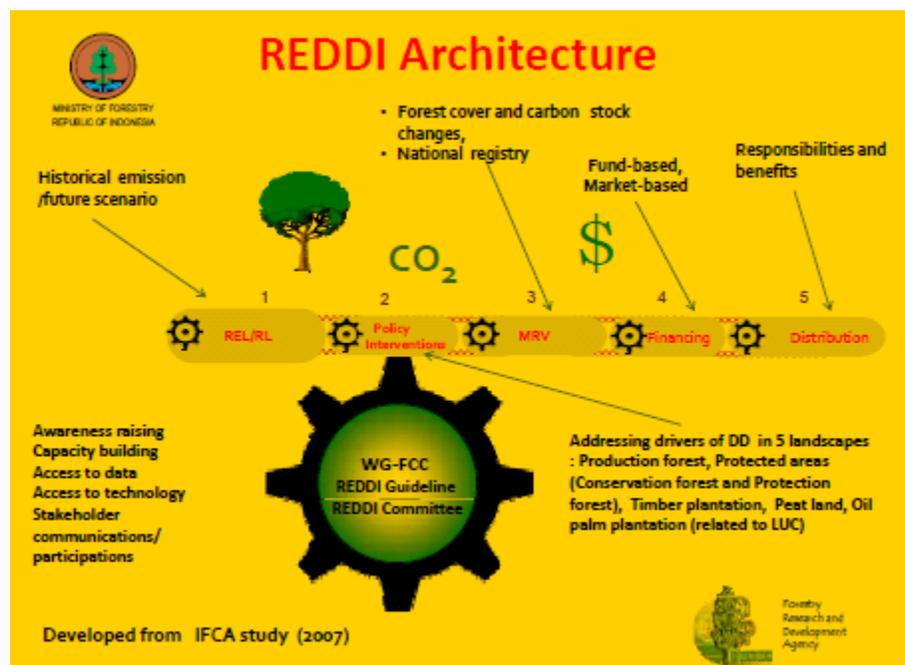


Figure 7; Indonesia REDD+ Architecture

The Indonesia government's commitment to reduce global climate change impact caused by the increase of carbon dioxide concentration, has been stated in PERPRES no. 5/2010 on *Rencana Pembangunan Jangka Menengah Nasional* (RPJMN-National Medium Development Plan) 2010-2014. The regulation affirms sustainable development in all aspects and areas of national development, and covers activities related to mitigation and adaptations steps towards climate change.

On 20th September 2011, President Susilo Bambang Yudhoyono has signed Presidential Decree [No. 61/2011](#) on National Action Plan to reduce Greenhouses Gas emission (refer as RAN-GRK). The RAN-GRK will be used as a reference document for Indonesia in planning and conducting direct and indirect activities to reduce GHG emissions in accordance to national circumstances such as development targets. The rate of GHG emission reduction will be based on annual basis. The document will be conducted as guidance for related ministers, head of institutions in implementing RAN-GRK, public and businesses, in relation to their main tasks and functions respectively. Implementation and monitoring of activities undertaken will be coordinated by the Coordinating Minister for Economy.

International finance is a crucial component in making a low-carbon future happen in Indonesia as in other developing countries. Indonesia also perceives that attracting carbon dollars is not an end in itself, but that additional international finance is needed to cover investment costs and to help in the transition. Indonesia is positioning itself firmly on middle ground in the international climate finance negotiations, and could well become the broker of a compromise between developed and developing countries. It has been playing a progressive role in the G20 climate finance talks, and is expected to take a constructive and pragmatic position in the Copenhagen talks (MoF, 2009)².

To date, Indonesia has approximately 35 REDD+ projects largely centered in the regions of Kalimantan, Sumatera, Sulawesi, Nusa Tenggara Barat, and Papua. In line with a key objective of the Readiness Phase, the majority of REDD+ projects are demonstration activities. In recent times, there has been a growing interest from the private sector and NGOs eager to commence voluntary activities in anticipation of a robust post-2012 compliance market. Figure 8 below provides an overview of current REDD+ funding flows in Indonesia from the international to national and project levels.

² 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.

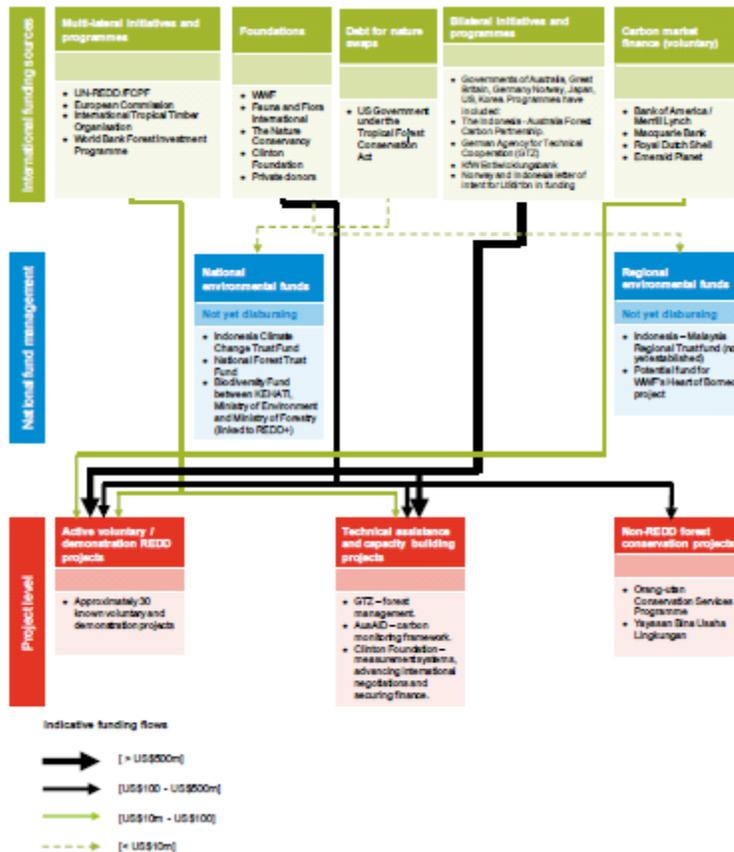


Figure 8: Indonesia – Current funding flows for REDD related activities (Source: Conservation Finance Alliance and PricewaterhouseCoopers, 2010)³

Related to the above climate change regulations, there are some funding mechanisms developed by the government. Some of them are still in working progress and some of them are already available. They cover the following:

a. The Indonesia Green Investment Fund (GIF)

- It is an investment fund consisted of mixed fund from grants, government fund, and private investment fund. The development of the fund is currently working on progress.
- The “Green Investment Fund” would finance an ambitious development program designed to simultaneously boost economic growth while reducing emissions blamed for climate change.
- The GIF will catalyze infrastructure development that could speed economic growth, boost food and clean water production and also help cut emissions blamed for global warming.

³ Conservation Finance Alliance and PricewaterhouseCooper, 2010. Report for the Conservation Finance Alliance: National REDD+ funding frameworks and achieving REDD+ readiness – findings from consultation.

- The goal was to raise a billion dollars with an initial deposit of 100 million dollars from the Indonesian government. A further \$900 million will come from foreign governments including Norway and Australia, plus institutional investors.
- The Indonesia's green investment fund will not offer loans or grants but rather top-up funding needed for projects where a bank lender is seeking an additional equity injection.

b. Regional Incentive Mechanism⁴ (RIM – Mekanisme Insentif Daerah)

- Regarding deforestation, forest management and Indonesia's huge emissions from peat fires, the Ministry of Finance puts emphasis on creating financial incentives for regional governments to do what is within their power to cut carbon. The Ministry of Finance is proposing a 'regional incentive mechanism' that would pay regional governments for climate change action, using existing and new emerging channels for intergovernmental fiscal transfers. If Indonesia can successfully design and implement transfer mechanisms for carbon incentives from the international down to the local level, this will be a globally significant innovation.
- Regulatory, fiscal and budgetary measures will all be important in achieving the emissions reductions that Indonesia is aiming for. This Green Paper focuses on ways to harness the intergovernmental fiscal transfer system for the task, which is one important aspect of the overall climate policy package for land use change and forestry.
- One difficulty is that the people, businesses, and institutions on the ground that control land-use-change practices reap little or no direct benefit from actions to cut carbon emissions, and so lack the incentive to pursue them. Carbon mitigation policy also needs to heed local aspirations for development. Many decisions relevant to land use and forestry management, and other aspects of climate change, are under the control of local governments in Indonesia. Hence, one avenue for promoting climate change action at the regional level is to use the intergovernmental fiscal transfer system. Through it, the Government of Indonesia could make payments to the regions to support and incentivize climate change action by regional governments.
- The intergovernmental fiscal transfer mechanism could also be used to channel payments for forest carbon (REDD) from industrialized countries to tropical developing countries. The intention is to put a financial value on the carbon stored in forests, and thereby change land-use decisions toward lower-emission options where this is

⁴ Ministry of Finance, 2009. Economic and Fiscal Policy Strategies for Climate Change Mitigation in Indonesia.

Available at

<http://www.fiskal.depkeu.go.id/webbkf/siaranpers/siaranpdf%5CGreen%20Paper%20Final.pdf>.

economically sensible. REDD payments are likely to be attributed in large measure at the national level, creating the need to transfer financial incentives down to the regional and local levels.

- This could be achieved through a *Regional Incentive Mechanism*, providing payments to regional governments to support climate change mitigation action, including payments linked to successful program implementation, and for carbon reduction outcomes (see figure 6, where down arrows denote monetary flows and up arrows denote emissions reductions). Regional governments would be free to take part and have full control over the design and implementation of projects, while the central government would choose the most cost-effective proposals for implementation, taking into account development priorities, possibly by way of a tendering system.
- The central government would manage the national and international aspects of the scheme, including management of international finance inflows from REDD. The scheme could be revenue-neutral over time, with a share of the overall international REDD payments to Indonesia covering the payments to regional governments.

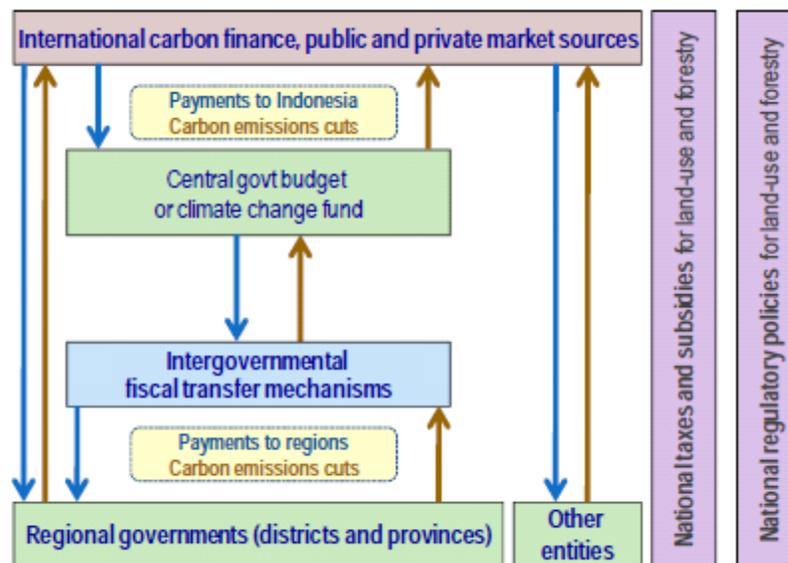


Figure 9: Payment transmission under a Regional Incentive Mechanism (Source: Ministry of Finance, 2009).

- c. REDD+ Fund Mechanism developed by Ministry of Finance.
 - 1) Current funding mechanism for Government priority multi years activities covered by APBN is sufficient until at least the year 2020 to implement RAN-GRK, including REDD+, only if the following requirements are met:

- RAN-GRK, including REDD+ continue to become priority Government program in RPJM, and elaborated into priority programs in RKP for the subsequent years, local priority programs included in the RAD-GRK for each provinces, and become part of Renstra in each Line Ministries/Institutions and Local Governments based on their core tasks and functions.
- In performing the budgeting activities, line ministries/institutions/local governments always comply with Performance Based Budget which are conducted by defining program/activity, program/activity performance indicators, program outcomes/activities output, activities output budget allocation, and ensuring relevancy/alignment of input components and their associated costs with output achievement.
- Beside of that, Medium Term Expenditure Framework' (MTEF) approach is implemented by calculating activities output budget allocation using budget allocation requirements for more than one year.

Because most of REDD+ activities are carried out in local areas, increase of transfer portion to areas are required through forestry sector Dana Bagi Hasil (DBH) or Redistribution Funds and Dana Alokasi Khusus (DAK) or Special Allocation Funds. Therefore, it is required to develop Rancangan Peraturan Pemerintah (RPP) or Government Regulation Concept on Pendapatan Negara Bukan Pajak (PNBP) or Non Tax Revenue for revenues generated from REDD+, followed by Ministry Of Finance Decision on DBH allocation on PNBP from revenues generated from REDD+.

For DAK, in relation to REDD+ implementation, The Ministry of Forestry and Ministry of Home Affiar, Ministry of Finance, and Chief of Bappenas should establish criteria for special activities that will be handed over to local governments, decide areas eligible for implementation, and the amount of DAK for each areas.

Regulations on Government grant acceptance in PP No. 10/2011 are directed to open broad opportunity for grant inflow to Government, both from local or international source, However, that opportunity must maintain prudence, transparency, and accountability in its acceptance process. Therefore, Line Ministries/ Institutions/ and Local Governments need to be given authority to search grant opportunities but maintain good grant acceptance principles as considerations.

Before PP 10/2011 is published, complicated bureaucracy in grant acceptance or management may cause disincentive for donor candidates. Therefore, PP 10/2011 simplify grant acceptance mechanisms, for grants that follow planning mechanisms, and direct grants that still require registration and administration.

Regarding foreign grant acceptance currently managed by Ministry of Forestry, all grants can be implemented according to Accounting System and Procedure for Grant in our budget system. For planned grants, grant acceptance approvals follow general procedures, by listing that particular activities in DIPA, while approval of expense uses payment mechanism from Treasury Office, and will be documented in Central Government Financial Statement.

On the other hand, for direct grants, implementation and recording follows Accounting System and Procedure for Direct Grants. This is not only for direct grants in the form of goods or services, but also for direct grants in form of cash received by Line Ministries/ Institutions approval and recording of direct grants are also accommodated by our budget system.

- Regarding the existence of direct grants currently not recorded in APBN system, this is caused by the reluctance of some international partners to deliver data of expenses spent to finance activities conducted directly by the international partner, causing ministry/institution responsible for that activities unable to conduct approval process for implementation of that particular grant into APBN system.
- Requirements for financing related to RAN-GRK have attracted interest of partners from international donors or private sector. Those donors come not only with cash but also programs related to reducing greenhouse gas emission.

2. Technical approach for REDD+ Financing implementation

In designing a REDD+ Benefit Distribution system, two key issues need to be considered, namely the form of the benefit and the recipient of the benefit. There are a number of options for benefits from REDD+. They may take the form of direct cash payments to stakeholders; improved services (e.g. provision of new or improved health or education facilities; improved rural infrastructure, and so on); increased budget support to initiatives designed to reduce deforestation and degradation; provision of subsidies to encourage appropriate behavior; reduction of taxes on goods or services, etc. Similarly, beneficiaries might be rural households or communities, governmental or nongovernmental organizations, or businesses.

In developing BDS for Indonesia, Indonesia needs to consider all the possible options for measures to reduce deforestation and degradation (including conservation, sustainable forest management and enhancement of forest carbon stocks) and thereby identify the optimum combination of form of benefit and selection of beneficiaries to secure the planned reduction in emissions as effectively and cost-efficiently as possible. In most cases, it is to be expected that

several types of benefit distribution will be required in different parts of the Indonesia, or to address different drivers of deforestation and degradation.

Challenges in implementing a fair, equitable and transparent system of benefit distribution vary according to the selected combination. For example, determining a fair and equitable level of budgetary support to a government department to undertake actions designed to improve forest conservation is a relatively simple matter. The most complex form of benefit distribution concerns benefits (either cash or improved services) provided to rural households or communities, as they are the smallest and most numerous type of beneficiary, and the most distant in terms of institutional hierarchy from a centralized national system for receipt of REDD+ revenues. Therefore, challenges of benefit distribution to rural stakeholders (households or communities) should be taken into seriously account, since if this can be achieved in a fair, equitable and transparent manner, the simpler forms of benefit distribution should also meet these principles.

It should also be noted that REDD+ benefit distribution needs to incorporate a gender perspective, to ensure that the needs of women, who frequently form a marginalized group in the forest sector, are taken into account, and that REDD+ can act as an impetus to improved gender equality. Thus, benefits made to households and communities should include safeguards to ensure gender equality.

3. Issues to be answered.

In designing the benefit distribution system, a framework of REDD+ financing strategy written in the Indonesia's National REDD+ Strategy (draft) will be used as starting condition for the BDS development. The Indonesia's National REDD+ Strategy (draft) was developed using multi-stakeholder process involving various stakeholders at national, sub-national and international stakeholders.

A scheme of how to manage REDD+ fund has been developed in the REDD+ National Strategy for REDD+ Implementation (Figure 10).

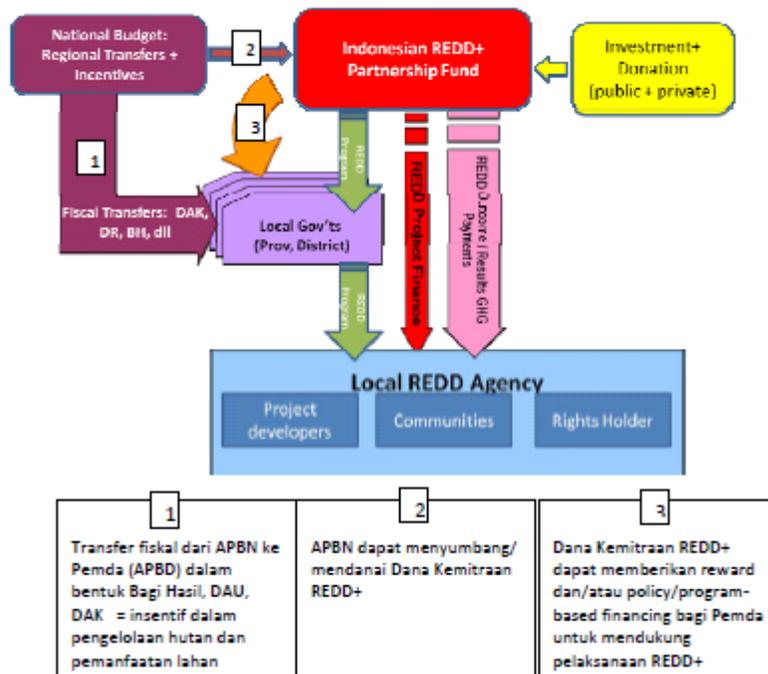


Figure 10: Scheme of REDD+ National Revenue and Distribution (draft Stranas REDD+, 2011).

The REDD+ strategy has explained what should be achieved related with Funding mechanism and BDS, including:

- a. Funding mechanism will be established in a flexible manner so that there are possibilities to explore funding from public and private, both from national and international. It should also consider various type of funding including funding for inputs, investments or for performance payment.
- b. Benefit distribution system should include distribution to project initiators, communities, local government and also REDD+ agencies at national and sub nationals.
- c. Available REDD Funding will be used to fund activities related with emission reduction from deforestation and forest degradation, carbon sink and to generate co-benefit such as biodiversity.
- d. Institutions and funding instruments will be built based on the following principles: transparency, accountability, good governance, professionalism, timely and progress local finance institutions.
- e. Management of the fund is encouraged to be able to:
 - 1) ensure that management of the mechanism should be based on marketing perspective to attract funding for input funds, performance-based payment, and for investment funds.
 - 2) build ownership by all national stakeholders in their responsibility get benefits from developing fund. The ownership will be built (i) by

developing an effective distribution mechanism to reach grass roots who have right to receive the fund (robust distribution channel);(ii) increasing capacity and trust to finance institutions and fund distribution institutions in Indonesia.

- 3) maximize disbursement based on flexibility of funding mechanism without endangering fiduciary, social and environmental safeguards principles; and
- 4) ensure availability of transparent and affordable monitoring and evaluation mechanism .

4. Milestones need to be achieved

Consider to the current status of Funding Mechanism and Benefit Distribution System in Indonesia, and also to the Funding Scheme in the National REDD+ strategy, there are some issues need to be tackled the Gol so that the Gol is ready for REDD+ Implementation from funding mechanism and BDS aspects. The potential issues are identified to include:

a. Policies, Institutions and Measures

- 1) REDD+ finance institutions to daily operate the funding system and distribute payment to stakeholders who have rights for the payment at national and sub-national.
- 2) A flexible funding mechanism for REDD+ funding in Indonesia including a design of funding management based on marketing perspective to attract funding for inputs funds, performance-based payment, and investment fund, market and non-market.
- 3) A design of distribution of fund utilization such as for payment of emission reduction from deforestation and forest degradation, carbon sink, and to generate co-benefits of REDD+.
- 4) A design for maximizing funding disbursement without endangering fiduciary, social, and environmental safeguard principle
- 5) Developed Funding legal and technical instruments based on transparency, accountability, good governance, professionalism, timely principles and also based on progress of local finance institutions capacities, and its links with existing fiscal transfers.
- 6) A benefit distribution system covering project initiators, communities, local government, REDD+ agencies at national and sub-national and clear timing arrangement of distribution/payment.
- 7) Clear legal framework and links/interaction with existing fiscal transfers from national to sub-national
- 8) Law enforcement mechanism for performance-based distribution

b. Monitoring Reporting and Verifying/Registry

- 1) A set of criteria and indicator on eligibility of beneficiaries
- 2) Availability of registry system including its registry agencies at national and sub-national level.

- 3) A resource/complaint mechanism and establishment of institutions to take care of complaints.
 - 4) Availability of transparent and affordable monitoring and evaluation mechanism of funding and BDS systems to include also monitoring revenue disbursement, and financial transaction (auditing) and participatory monitoring approach.
- c. Capacity Building
- 1) Capacity building to build ownership at all stakeholders at national and sub-national on the available funding and BDS systems.
 - 2) Cases through success stories (pilots experiences).

5. Who do what and time line

a. Who do what?

Outputs	Potential Main Actor(s)	Supporting actors
POLICIES, INSTITUTIONS, MEASURES		
1. REDD+ finance institutions to daily operate the funding system and distribute payment to stakeholders who have rights for the payment at national and sub-national.	REDD+ Task Force (?)	
2. A flexible funding mechanism for REDD+ funding in Indonesia including a design of funding management based on marketing perspective to attract funding for inputs funds, performance-based payment, and investment fund, market and non-market.	REDD+ Task Force (?)	
3. A design of distribution of fund utilization such as for payment of emission reduction from deforestation and forest degradation, carbon sink, and to generate co-benefits of REDD+.	UN-REDD	
4. A design for maximizing funding disbursement without endangering fiduciary, social, and environmental safeguard principle	REDD+ Task Force / WB-FCPF (?)	
5. Developed Funding legal and technical instruments based on transparency, accountability, good governance, professional, timely principles and also based on progress of local finance institutions capacities, and its links with existing fiscal transfers.	WB/FCPF (?)	

6. A benefit distribution system covering project initiators, communities, local government, REDD+ agencies at national and sub-national and clear timing arrangement of distribution/payment.	UN-REDD / WB-FCPF (?)	
7. Clear legal framework and links/interaction with existing fiscal transfers from national to sub-national	WB/FCPF (?)	
MRV/REGISTRY		
8. A set of criteria and indicator on eligibility of beneficiaries	UN-REDD	
9. Availability of registry system including its registry agencies at national and sub-national level.	WB/FCPF – UN-REDD (FAO)	
10. A resource/complaint mechanism and establishment of institutions to take care of complaints.	UN-REDD	
11. Availability of transparent and affordable monitoring and evaluation mechanism of funding and BDS systems to include also monitoring revenue disbursement, and financial transaction (auditing) and participatory monitoring approach.	WB-FCPF/UN-REDD	
Capacity Building		
12. Capacity building to build ownership at all stakeholders at national and sub-national on the available funding and BDS systems.	REDD+ Task Force / WB-FCPF (?)	
13. Success stories	REDD+ Task Force / WB-FCPF (?)	

b. Time line

Milestone/Output	Time target to achieve
POLICIES, INSTITUTIONS, MEASURES	
1. REDD+ finance institutions to daily operate the funding system and distribute payment to stakeholders who have rights for the payment at national and sub-national.	
2. A flexible funding mechanism for REDD+ funding in Indonesia including a design of funding management based on marketing	

perspective to attract funding for inputs funds, performance-based payment, and investment fund, market and non-market.	
3. A design of distribution of fund utilization such as for payment of emission reduction from deforestation and forest degradation, carbon sink, and to generate co-benefits of REDD+.	
4. A design for maximizing funding disbursement without endangering fiduciary, social, and environmental safeguard principle	
5. Developed Funding legal and technical instruments based on transparency, accountability, good governance, professional, timely principles and also based on progress of local finance institutions capacities, and its links with existing fiscal transfers.	
6. A benefit distribution system covering project initiators, communities, local government, REDD+ agencies at national and sub-national and clear timing arrangement of distribution/payment.	
7. Clear legal framework and links/interaction with existing fiscal transfers from national to sub-national	
MRV/REGISTRY	
8. A set of criteria and indicator on eligibility of beneficiaries	
9. Availability of registry system including its registry agencies at national and sub-national level.	
10. A resource/complaint mechanism and establishment of institutions to take care of complaints.	
11. Availability of transparent and affordable monitoring and evaluation mechanism of funding and BDS systems to include also monitoring revenue disbursement, and financial transaction (auditing) and participatory monitoring approach.	
Capacity Building	
12. Capacity building to build ownership at all stakeholders at national and sub-national	

on the available funding and BDS systems.	
13. Success stories.	