

The UN-REDD Programme

Asia/Pacific Knowledge Management Action Plan, 2015

Regional Knowledge Exchange on National Strategies/Action Plans

Bangkok, July 29-31, 2015

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**Day 2, Session 5: Identification and Selection
of Policies & Measures (PAMs): Indonesia and
other countries**



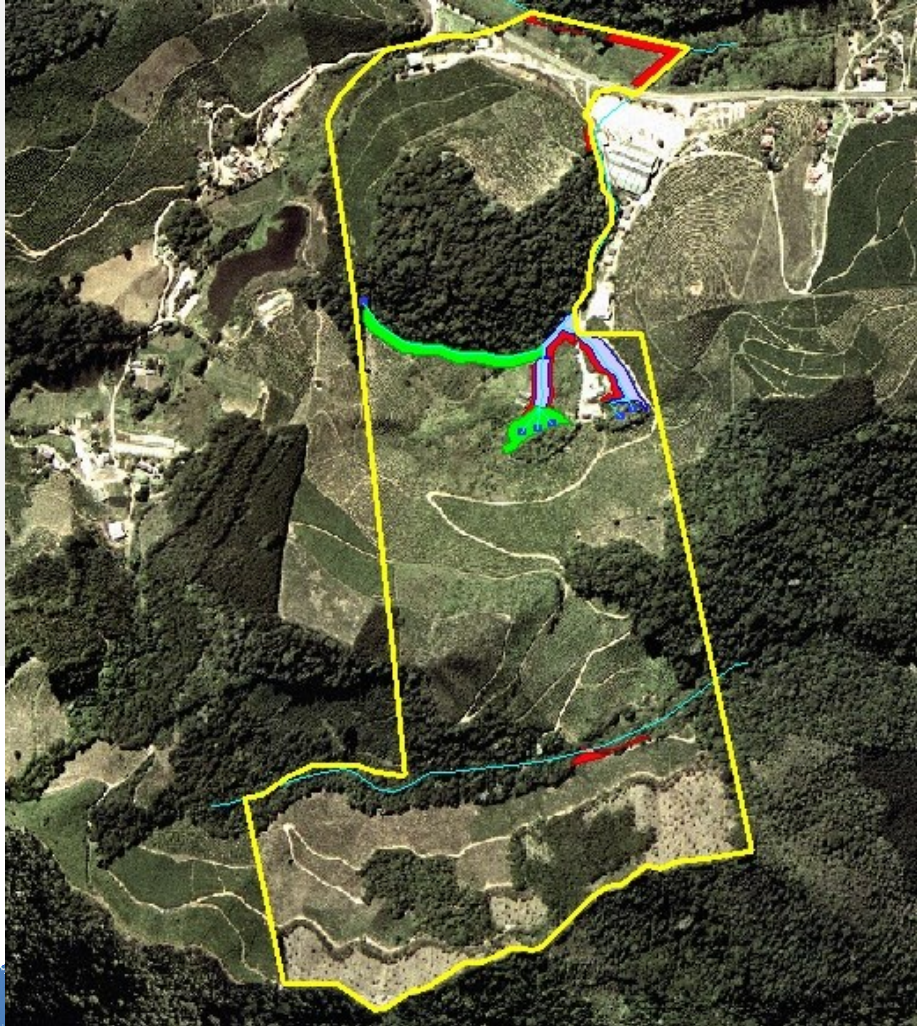
Selection of Policies & Measures (PAMs) - Intro

Warsaw framework for REDD+:

- Encourages Parties and others to take action to reduce the drivers of deforestation and forest degradation,
- Reaffirms the importance of addressing these pressures in the context of the development and implementation of REDD+ national strategies and action plans by REDD+ countries, depending on their national circumstances



Fiscal incentives and subsidies for agricultural commodities: compatibility with REDD+?



Definitions

World Trade Organization (WTO) defines a subsidy as ‘any financial contribution by a government, or agent of a government, that confers a benefit on its recipients.’

Food and Agriculture Organization (FAO) uses a broader definition and classifies subsidies into four main categories: (1) direct financial transfers; (2) services and indirect financial transfers; (3) regulations; and (4) lack of intervention.

Global Subsidies Initiative further refines the WTO definition to include the market price support enabled by consumption mandates to be a subsidy. Consumption mandates increase demand for biofuels, and are a primary means through which government-led demand-side measures influence land conversion activity for commodities.

Fiscal incentive typology

Type	Example
Grants and other direct payments:	<i>Subsidized land, fertilizer subsidies, inputs, rural development grants</i>
Tax concessions:	<i>Tax exemptions, credits or deferrals</i>
In-kind subsidies:	<i>Non-monetary but confer a benefit on the recipient: streamlined land access and permitting, corruption</i>
Cross-subsidies:	<i>price discrimination within the scope of one unit</i>
Credit subsidies and government guarantees:	<i>Loss compensation, concessionary interest rates</i>
Hybrid subsidies:	<i>Tax-free bonds, tax increment financing</i>
Derivative subsidies:	<i>Compensatory or countervailing support, subsidy clusters</i>
Procurement:	<i>Public procurement commitments seeking to support domestic producers</i>
Market price support (in the producer country):	<i>Fuel blending mandates, artificial price support</i>

Framework for analyzing fiscal incentives

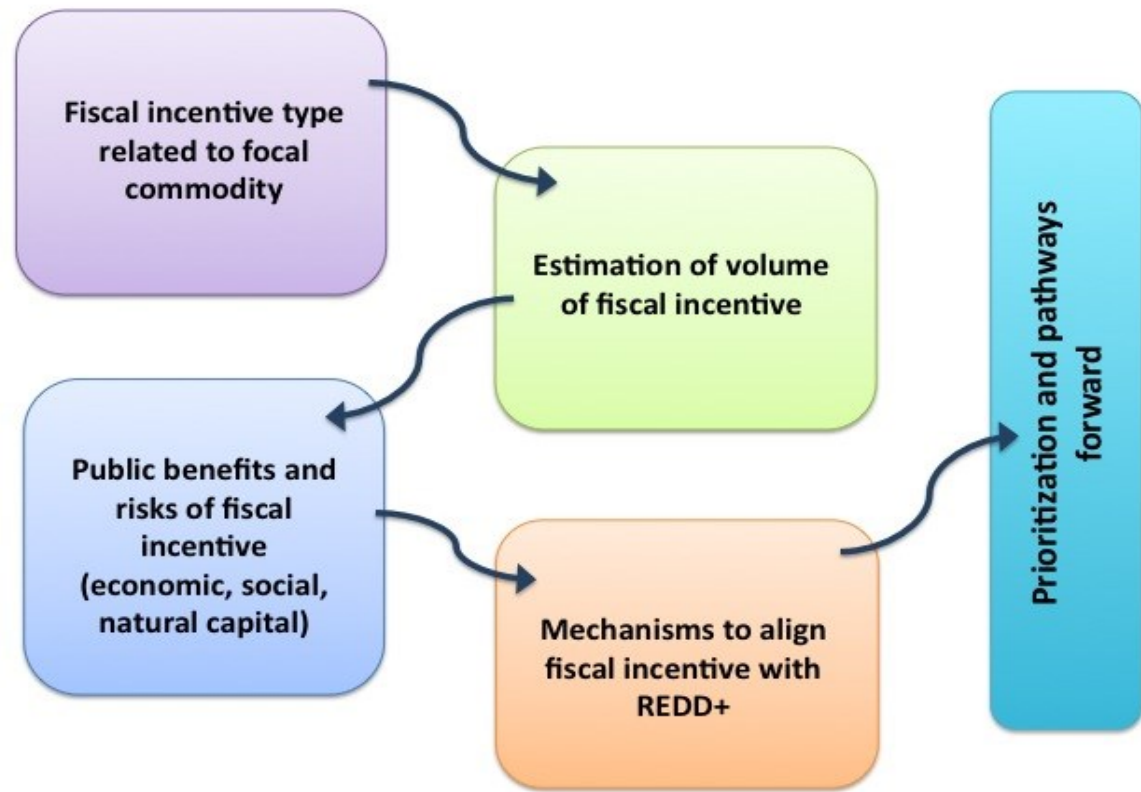
Countries: Ecuador and Indonesia

→ Fiscal and policy incentives supporting agricultural development were usually not designed with REDD+ in mind

→ Need to better social, economic and environmental impacts and benefits



UNEP Finance Initiative



Ecuador: Recommendations for complementary with REDD+ policies and measures

- **Link fiscal incentives** (subsidized credit, tax concessions, credit guarantees) **to certification and standards**
- **Fund technological innovation for improved productivity** of small and medium farmers (agricultural sector, especially in the oil palm sector)
- Create **differentiated rural property tax exemption** for conversion of crops to agroforestry
- Prioritize, allocate and guarantee finance to support objectives aligned with REDD + in the **budget guidelines**
- Establish a **differentiated tariff** in the Comunidad Andina de Naciones to import palm oil certified as sustainable
- Include **an indicator related to REDD+** in the Territorial Equity Model, so that transfers from the central government increase if territorial projects are aligned with REDD+ objectives

Preliminary results of oil palm analysis in Indonesia

- **High-level political commitment is essential** for alignment between the 2015-2019 National Mid-Term Development Plan and REDD+.
- Review the **intergovernmental fiscal transfer system**. Could determine allocations based on productivity, not land area, or retaining the land area basis, but amending it to better reflect levels of ecosystem service provision.
- Bring coherence to management of forest land outside the forest estate (incl. HCV), but **consider using spatial planning and regulatory tools rather than new fiscal incentives** for plantation estates.
- **Link smallholder access to fiscal incentives** and government-facilitated land tenure clarification, **concessional loans for certified producers**.
- **Limit access** to credit subsidies and government guarantees through state banks, and tax concessions, **on the basis of performance measures**.



Reflections from Ecuador and Indonesia country analyses

1. Fiscal & policy incentives supporting agricultural development were designed to promote rural development, without consideration of social and environmental cost
2. Enabling environment is crucial for REDD+, supply chain sustainability, and zero net deforestation commitment
3. More analysis required on understanding perverse incentives
4. REDD+ implementation = sticks, carrots and enabling conditions
5. Consider revisions to or redesign of fiscal incentive structures in the context of relevant development plans
6. Consider the political economy: Packaged interventions can be effective and manage socio-economic impacts of change. Cross-sectoral and 'whole-of-government' approaches are useful
7. Governments can provide guard-rails to guide private sector investment that maintains economic, social and natural capital
8. Find "no-regret" options!

- Where can government have **influence**?
- Look at **success stories** (fisheries, etc.)
- What agencies need to be involved, when?
- Public **benefits and risks**?
- **Political economy**: Packaged interventions, or house within medium-term development plans, etc.
- **Best practices** to access incentives or rural credit
- **No-regret options** – adaptation + mitigation, livelihood improvements, multiple benefits (e.g. tenure)



A source of inspiration: India's intergovernmental fiscal transfer system now includes a forest criterion

India's 14th Finance Commission recognized the perverse incentives that state and local governments had to undervalue and mismanage forests. Declining revenue from forests was a concern to some states, due to the implementation of the National Forest Policy.

Table 1: Criteria and Weights

Criteria	Weight (%)
Population	17.5
Demographic Change	10.0
Income Distance	50.0
Area	15.0
Forest Cover	7.5

- The percentage weight allocated to forest cover is expected to deliver US\$6 billion a year to states.
- Amounts to US\$120 per hectare per year and is competitive with agriculture production earnings
- Is revenue neutral!



Identifying and Selecting PAMs in Indonesia



Background to the Process to Identify and Select PAMs in Indonesia

- 2010: Indonesia's **REDD+ Readiness Plan** was submitted
- Norway and Indonesia agree to **US \$1 billion bi-lateral commitment** to support Indonesia's REDD+ readiness activities and for results-based REDD+ payments
- Indonesia participates in UN-REDD Programme and Forest Carbon Partnership Facility for institutional capacity support
- **BP REDD+ Agency** (Badan Pengelola REDD+) established by Presidential Regulation 62/2013 in late 2013
- **Indonesia REDD+ Investment Fund** (FREDDI) financial mechanism framed as an agency for REDD+ MRV and to channel investment
- 2015: BP REDD+'s role now part of the reorganized Ministry of Environment and Forests



Legal and regulatory frameworks within REDD+ National Strategy

The REDD+ National Strategy



Legal and regulatory frameworks:

- Review land rights and accelerate spatial planning
- Improve law enforcement and prevent corruption
- Enforce 2 year moratorium
- Improve data and permit issuance – forests and peatlands
- Incentives for private sector

Indonesia's PAM

- Dec 23, 2010 – One Map Policy Launched
- Dec 23, 2010 – Central Kalimantan as REDD+ Pilot Project
- May 25, 2011 – New License Moratorium, 2 years, last extended May 25, 2015
- Sep 15, 2011 – Pres Reg on GHG APN *672m tCO₂e in 2020*
- Jan 18, 2012 – National Strategy Launched
- Dec 2012 – Anti Corruption Committee website:
Indonesia Forest Monitor launched



Collective PAM

- Dec 20, 2012 – Joint Policy (*AG, Police, Finance, Forestry, Environment, Financial Transaction Monitoring Agency*) on Natural Resource Crime – Multi Door Approach



Indonesia's PAM

- Jan 30, 2013 – National Standard for REDD+ Demonstration Activity
- Mar 11, 2013 – Acceleration of Forest Gazettement Program
Joint Agreement of 12 Min/HR Commission
- Aug 31, 2013 – Establishment of REDD+ Agency
- Jan 15, 2014 – Law on Village Government
- ***Forestry Ministry Ministerial Decree No. 633/2014***
 - *Sets Indonesia's forest reference emissions level at 0.816 gigatons per year, based on average emission levels between 2000-2006*



Indonesia's PAM

- **Aug 27, 2014 – Claim and Verification Mechanism – MoF Regulation**
- **Sep 1, 2014 – VP Launched National Program for Acceleration of Acknowledgment and Protection of IP Land Right Regulation**



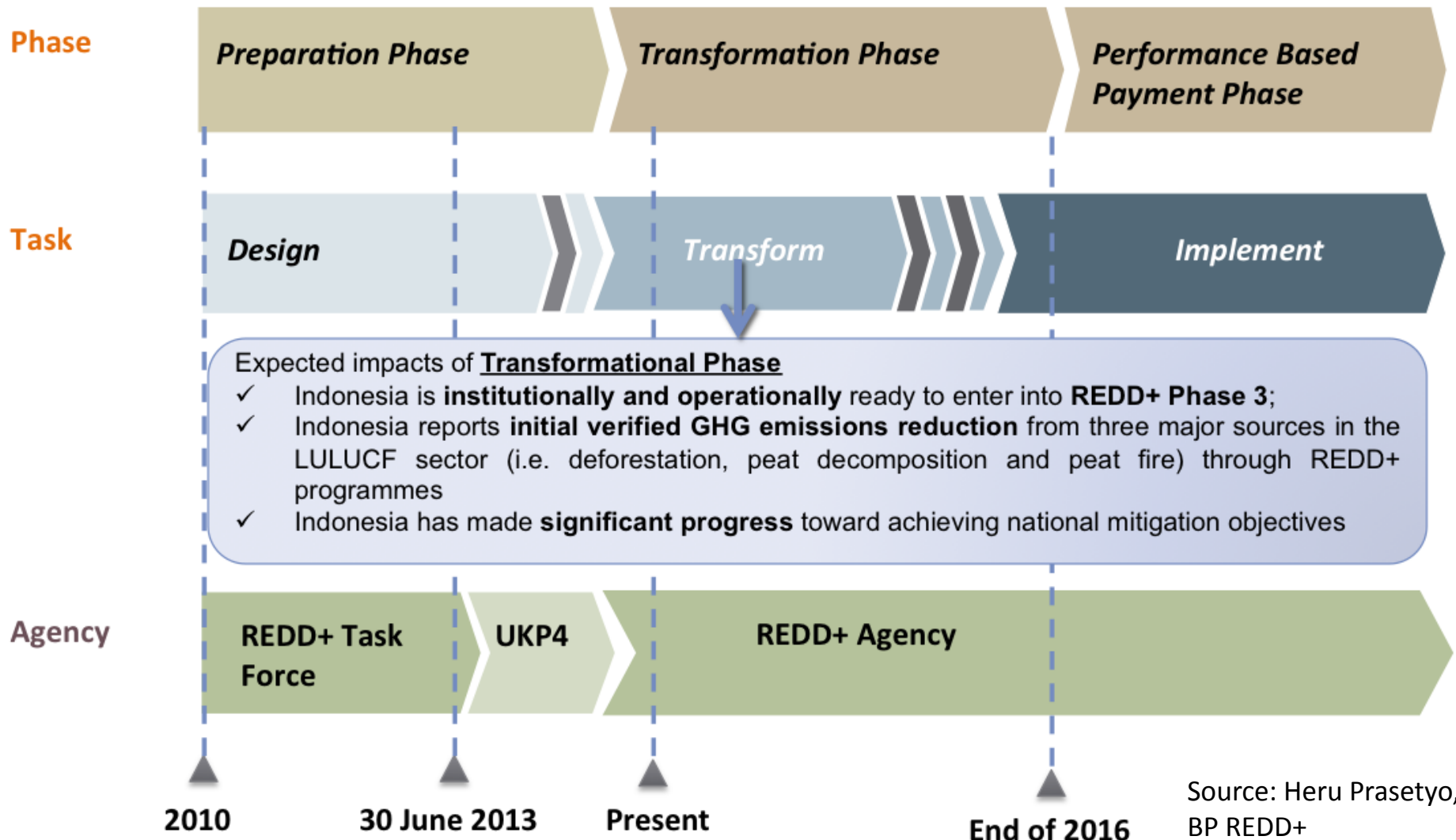
Indonesia's PAM

- Sep 15, 2014 – One Licensing Information Database launched
- Oct 23, 2014 – New President Inaugurated
- Dec 22, 2014 – AMAN submitted Indigenous People's Participatory Map to REDD+ Agency



Selected PAMs in Indonesia

Phased Approach on REDD+ Full Implementation



Source: Heru Prasetyo, BP REDD+

Thank You!

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