

October 5, 2009

Dr. Tachrir Fathoni  
Director General  
Forestry Research and Development Agency  
Ministry of Forestry  
Indonesia

***Re: Forest Carbon Partnership Facility  
Aide Memoire***

Dear Dr. Fathoni:

On behalf of the World Bank team that visited the Indonesia between September 8 and 18, 2009, we would like to express our gratitude to the Ministry of Forestry for the welcome, and for your time and dedication spent on hosting the meetings and the public consultation. We appreciated the constructive atmosphere and would like to thank in particular Dr. Nur Masripatin and her team for their pioneering work in preparing the Readiness Preparation Proposal (R-PP). After having contacted a number of important stakeholders, including the Ministry of Finance, the National Council on Climate Change, international donors (UN-REDD, AusAid, USAID, AFD, GTZ, etc.), and a number of non-governmental and Indigenous Peoples organizations, and after extensive discussions with the Ministry of Forestry Working Group on Climate Change, the context and objectives of the readiness proposal are much clearer now.

We would like to highlight some of the most agreements reached during our in relation to the readiness process and the future Grant Agreement with the Forest Carbon Partnership Facility (FCPF):

1. **FCPF Participation Agreement:** The Ministry of Forestry will send the signed Participation Agreement to the World Bank office in Jakarta. The Participation Agreement guarantees the right of participating in FCPF meetings, eligibility to the Participants Committee, and full access to information.
2. **Definition of activities to be financed under the Grant Agreement with the World Bank acting as trustee of the FCPF:** A tentative list of priority activities to be financed by the FCPF was drawn up. The Ministry of Forestry will provide a refined proposal to the FCPF by mid-October 2009, which will include details on activities, costs and implementing agencies. The Ministry of Forestry will work with other donors to avoid double financing. The mission agreed that activities would be organized under the following categories:

- a. *Analytical work:*
  - i. Analyze Drivers of Deforestation from a development perspective, land use and demands, demographic development; and
  - ii. Identify priority investments needed to reduce deforestation and forest degradation.
  
- b. *Management of Readiness process:*
  - i. Analysis of institutional setting and legal framework to manage the readiness process and ultimately the REDD implementation;
  - ii. Capacity building of institutions involved in the implementation of REDD activities;
  - iii. Financial Distribution Mechanism (in cooperation with Ministry of Finance);
  - iv. Awareness Raising, Communication and Outreach; and
  - v. Monitoring of readiness activities including demonstration activities (management of data, lessons and donor coordination).
  
- c. *Reference Emissions Level (REL) and Measurement, Reporting and Verification (MRV):*
  - i. Studies to support the understanding of Land use and Management (indicated under MRV section in the R-PP):
    1. Analysis and possible mapping of nature and effect of land use on terrestrial carbon cycles; and
    2. Development of a time series analysis of the primary social economic and policy aspects of land use change.
  - ii. Other support on MRV and Information management.

3. **Definition of implementation arrangements for managing the FCPF's financial contributions:** One of the priorities will be to define the implementation arrangement for the financial contributions expected from the FCPF. The pros and cons of Bank-executed and country-executed grants were discussed. The World Bank stressed that the general preference is for a country-executed process, where procurement and financial management responsibilities stay entirely with the Government. We encourage the Ministry of Forestry to consult internally and inform the World Bank about its preference.

Before the World Bank can sign a Grant Agreement, it will have to analyze the capacity of the agency that will manage financial resources and handle procurement activities. The agency managing the grant will need to produce periodic independent financial audits and have the capacity to conduct

- procurement and financial reporting activities in accordance with World Bank operational guidelines.
4. **Donor Coordination:** The need for coordination of donor contributions was also discussed. The Bank recommended to the Ministry of Forestry to prepare a chart outlining the different contributions and the corresponding technical areas.
  5. **Due diligence by the World Bank:** The World Bank will, prior to signing the Grant Agreement, ascertain if the proposed activities comply with the applicable World Bank's Operational Policies and Procedures, in particular financial management, procurement and safeguards:
    - a. *Financial Management and Procurement:* Once the implementation arrangements and the activities are determined, the Bank will review the proposed financial management and procurement arrangements and capacity. A specialized team will provide orientation and may identify capacity building needs.
    - b. *Consultation and Participation Plan:* A Consultation and Participation Plan needs to be prepared that is in line with the FCPF guidance note. This Plan will specify what components of the readiness process will be consulted on, with whom, and what kind of instruments will be used. It was agreed that the draft consultation plan contained in the R-PP is provides a good basis, which should now be reviewed in light of the readiness activities to be financed. The World Bank team also brought to the Ministry of Forestry's attention recommendations made by various stakeholders to use relevant channels for consultation processes, including the DKN.
    - c. *Environmental Assessment:* It was agreed that a Strategic Environmental and Social Assessment (SESA) would be conducted during the readiness preparation phase, which would analyze the existing institutional and policy framework for readiness, the necessary institutional arrangements, capacity building needs, and the potential positive and negative environmental and social impacts of REDD, amongst other things. Before a Grant Agreement can be signed, the terms of reference for the SESA should be consulted upon with representatives of key stakeholder groups and finalized. The World Bank will provide draft terms of reference to the Ministry of Forestry in the coming week, as the basis for further discussion.
  6. **Upcoming events:**
    - a. *FCPF Participants Assembly and Committee Meetings:* The Government of Indonesia is invited to participate in the Participants Assembly and

Participants Committee meetings in Washington on October 26-28, 2009. Indonesia will be asked to report back to the Participants Committee on progress made since the Participants Committee meeting of June 2009. The invitation was sent out to Dr. Nur Masripatin as the Coordinator of the R-PP preparation.

- b. *Forest Investment Program*: The World Bank will provide more information on the Forest Investment Program (FIP) to the Ministry of Forestry and Ministry of Finance, including possibly through a videoconference.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bosquet', with a stylized flourish at the end.

Benoît Bosquet  
Coordinator  
Forest Carbon Partnership Facility

Cc:

Mr. Wandojo Siswanto  
Adviser to the Minister of Forestry on Partnership/Chairman of the Working Group on  
Climate Change  
Ministry of Forestry

Dr. Nur Masripatin  
Director of the Center for Social Economy and Forest Policy Research  
Ministry of Forestry

Dr. Agus Sarsito  
Director of International Cooperation  
Ministry of Forestry