FCPF INNOVATIVE FINANCIAL CARBON MECHANISM

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THEME “EMPOWERING INNOVATION AND ENHANCING CLIMATE CHANGE ACTIONS FOR SUSTAINABLE DEVELOPMENT

MARRAKECH, 10 NOVEMBER 2016
FCPF (Forest Carbon Partnership Facility)

- Global partnership, focus on REDD+
- 2 mechanisms: Readiness mechanism dan Carbon Finance mechanism

**Readiness Mechanism**
- READINESS FUND
  - Capacity Building
  - National dan sub national level (filling the gap)

**Carbon Finance Mechanism**
- CARBON FUND
  - Emission Reduction (payment for emission reduction from verified REDD+ activities)
  - Provincial Level (East Kalimantan)
Carbon Fund Time Line

May 2015 – January 2018
• Program and Institutional Preparation
  • ERPIN dan ERPD

February 2018
• Payment Period is started
  • No transfer from FCPF

December 2022
• MRV I
  • 30% fund is transferred

December 2024
• MRV II
  • 70% fund is transferred

February 2025
• End of Program

ER-PIN : Emission Reductions – Program Idea Note
ER-PD : Emission Reductions – Program Document
ER-PA : Emission Reductions – Payment Agreement
Reference Emissions Level

- Based on a public consultation, Indonesian ER-PIN uses the period of 1998 – 2012 (15 years)
- This calculation is due to some reasons:
  - The methodological approach of carbon fund still allows to have maximum 15 years of baseline
  - To comply with national FREL, as far as possible
  - The longer the period, various phenomena and fluctuations can be captured better including fires
  - As ER-Program under Carbon Fund will not only address carbon emission reduction, but also biodiversity conservation and social improvement, the longer the period can better reflects environmental and social dynamics
The Calculation of Annual Average Rate of Deforestation and Forest Degradation 1998 - 2012

Hectares

Ave. Deforestation: 98,526 ha
Ave. Degradation: 53,769 ha
### REL for Carbon Fund in East Kalimantan (tCO$_2$e)

<table>
<thead>
<tr>
<th>Year/Period</th>
<th>Average Deforestation</th>
<th>Average Forest Degradation</th>
<th>Average Peat Decomposition</th>
<th>Average Peat fire</th>
<th>Average Selective Logging</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 - 2000</td>
<td>79,941,621</td>
<td>3,964,497</td>
<td>3,140,190</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>95,280,358</td>
</tr>
<tr>
<td>2001 - 2003</td>
<td>32,766,216</td>
<td>21,242,270</td>
<td>3,180,843</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>65,423,378</td>
</tr>
<tr>
<td>2004 - 2006</td>
<td>23,098,539</td>
<td>3,995,256</td>
<td>3,229,401</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>38,557,247</td>
</tr>
<tr>
<td>2007 - 2009</td>
<td>22,105,370</td>
<td>1,115,896</td>
<td>3,259,198</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>34,714,513</td>
</tr>
<tr>
<td>2010 - 2011</td>
<td>10,158,720</td>
<td>370,529</td>
<td>3,259,198</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>22,022,497</td>
</tr>
<tr>
<td>2012</td>
<td>35,567,313</td>
<td>232,256</td>
<td>3,259,198</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>47,292,817</td>
</tr>
</tbody>
</table>

**Average Annual Emissions during Reference Period for use as FREL during Accounting Period**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average (2001-2012)</td>
<td>32,119,884</td>
<td>6,283,041</td>
<td>3,219,021</td>
<td>2,734,050</td>
<td>5,500,000</td>
<td>49,855,996</td>
</tr>
</tbody>
</table>

- It estimated that the ER Program can reduce emission by 14% of the REL → 7.4 million tCO$_2$e/year
Drivers of Deforestation and Forest Degradation

- Agriculture
  - Forest conversion for food estates
    - Slash and burn farming

- Forestry
  - Unsustainable logging
    - Illegal logging
  - Poor reforestation/rehabilitation
    - Forest and land fires
    - Poor management of protection and conservation forests

- Oil palm expansion
- Estate Crops

- Mining
  - Mining area expansion

- Mining
- Other

- Encroachment
  - Infrastructure development
Types of ER Activities by Drivers of Deforestation and Forest Degradation

- **Agriculture**
  - Capacity building and supports for land clearing without burning
  - Establishing oil palm plantation in degraded land

- **Estate Crops**

- **Forestry**
  - FMU development
  - Community-based Sustainable forest management
  - Reduced Impact Logging
  - Harmonising spatial planning and forest land use by consensus

- **Minning**
  - Best management practices

- **Others**
  - Supports for alternative livelihoods
  - Establish community-based fire fighter groups
Preliminary Estimation of Cost and Funding for ER Program

<table>
<thead>
<tr>
<th>Sector</th>
<th>Approximate Cost (US$ m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal mining</td>
<td>65.00</td>
</tr>
<tr>
<td>Oil palm estates</td>
<td>65.00</td>
</tr>
<tr>
<td>Forestry</td>
<td>30.00</td>
</tr>
<tr>
<td>Local Communities</td>
<td>80.00</td>
</tr>
<tr>
<td>Fire and peat land</td>
<td>30.00</td>
</tr>
<tr>
<td>Support for KPH</td>
<td>10.00</td>
</tr>
<tr>
<td>Policy support</td>
<td>17.00</td>
</tr>
<tr>
<td>Program development</td>
<td>2.40</td>
</tr>
<tr>
<td>MRV and FGRM Implementation</td>
<td>0.40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>299.80</strong></td>
</tr>
</tbody>
</table>

These figures are calculated based on the estimates used by regional action plan to reduce GHGs in East Kalimantan Province.

<table>
<thead>
<tr>
<th>Source</th>
<th>Funding (US$ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCPF Readiness Funding (grants)</td>
<td>2.5</td>
</tr>
<tr>
<td>Berau Forest Carbon Partnership (grants)</td>
<td>50</td>
</tr>
<tr>
<td>Kutai Barat and Mahakam Ulu (grants)</td>
<td>80</td>
</tr>
<tr>
<td>Funding from program partners in other districts</td>
<td>tbd during program design</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>132.5</strong></td>
</tr>
</tbody>
</table>

The gap between external funding and estimated costs of the program will be filled by government budget and the participation of private sector.
Two innovative Financial Mechanisms:

On-Granting Mechanism

- Financial system using provincial government mechanism in both receiving and financial distribution based on existing Act 28/2009 on Regional tax and retribution fee.
- Revenue subject to tax, whereas its distribution cannot be carried out through in-cash, but in-kind mechanism (e.g. Programs).

Public Service Agency

- The government institution established to provide service to public in the form of goods and/or services which are sold without considering profit orientation and carried out based on the principles of efficiency and productivity.
- This agency enables to manage financial cash-flow which can be invested and distributed to key stakeholders involved based on benefit sharing.
Benefit Sharing Mechanism:

1. On Granting Mechanism
   - Ministry of Environment and Forestry
   - BLU IKLIM (Public Service Agency)

2. Consultancy
   - NGOs, CSOs, Universities
   - Private Companies
   - Fiscal Incentive
   - APBD, Village Fund, PNPM etc
   - FMUs
   - Village/Community
   - Government Agencies

Carbon Fund

Can be accessed directly by parties at the site level through proposing activities that can be funded by BLU.
## Forestry

<table>
<thead>
<tr>
<th>ER Actions</th>
<th>Actors</th>
<th>Source of Investment</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Impact Logging</td>
<td>Companies</td>
<td>• Private Funding</td>
<td>• Tax holiday for a certain time (PBB and PPh)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Reducing DR and PSDH</td>
</tr>
<tr>
<td>Harmonising spatial planning and forest land use by consensus</td>
<td>Provincial Government</td>
<td>• Provincial Government Budget</td>
<td>• Payment from Carbon Fund</td>
</tr>
<tr>
<td>FMU development</td>
<td>Provincial Government</td>
<td>• Fund from central government in the form of assistantship (Act 23/2014)</td>
<td>• Payment from Carbon Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provincial Government Budget</td>
<td></td>
</tr>
<tr>
<td>Community-based Sustainable forest management</td>
<td>Provincial Government / FMU</td>
<td>• Provincial Government Budget • Village Fund</td>
<td>• Payment from Carbon Fund</td>
</tr>
</tbody>
</table>
### Agriculture

<table>
<thead>
<tr>
<th>ER Actions</th>
<th>Actors</th>
<th>Source of Investment</th>
<th>Incentives</th>
</tr>
</thead>
</table>
| Capacity building and supports for land clearing without burning | Farmers/communities, companies       | • Fund from provincial/district governments prepared for land clearing technology without burning.  
• Village Fund | • Payment from Carbon Fund  
• Public private partnership → CSR from companies. |

### Estate Crops

<table>
<thead>
<tr>
<th>ER Actions</th>
<th>Actors</th>
<th>Source of Investment</th>
<th>Incentives</th>
</tr>
</thead>
</table>
| Establishing oil palm plantation in degraded land | Companies | • Private Fund for productivity intensification with less extension through forest conversion. | • Tax holiday for a certain time (property tax and income tax)  
• Market development (district/provincial government) |
### Mining

<table>
<thead>
<tr>
<th>ER Actions</th>
<th>Actors</th>
<th>Source of Investment</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best management practices with taking into account HCV management</td>
<td>Companies</td>
<td>• Private</td>
<td>• Tax holiday for a certain time (property tax and income tax)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Reducing reclamation fee</td>
</tr>
</tbody>
</table>

### Others

<table>
<thead>
<tr>
<th>ER Actions</th>
<th>Actors</th>
<th>Source of Investment</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing oil palm plantation in degraded land</td>
<td>Companies</td>
<td>• Private Fund for productivity intensification with less extension through forest conversion.</td>
<td>• Tax holiday for a certain time (property tax and income tax)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Market development (district/provincial government)</td>
</tr>
</tbody>
</table>
Committee (i.e. Ministers, Professionals)

Enviromental Public Agency

Custodian Bank

- Climate Change Projects
- National Budget (APBN)
- Other Sources
- Norway Grant and/or Other Grants

MoF
- Finc’l report

MoE&F
- technical policy

Policy

Order

Funds

Proposals
The underpinning principle is that there is a clear separation between core business activity of fund management and treasurer/custodianship function.

BLU and custodian are two separate bodies with different principals.

COMMITTEE

Environmental Public Agency

Custodian Bank

Fund Safekeeping and Treasurer

Grants

National Budget (APBN)

Other Sources
Functions of fund management:

- **Revenue Generation/Fund Collection:**
  - eg: Manage collection of grant through Custodian Bank or Bank
  - Manage contract between donor and BLU
  - Manage contract between BLU and Custodian bank

- **Asset Accumulation/Fund Management:**
  - eg: Daily supervision of a fund’s asset investments
  - Manage investment fund portfolio
  - Arrange fund transfer procedures

- **Spending, Financing and Investment/Fund Mobilization:**
  - eg: Manage project proposal in accordance with the grant policy
  - Spending, financing and investing according to contracts
  - Report any project financing to donor and MOF
THANK YOU

www.forda-mof.org