FCPF INNOVATIVE FINANCIAL CARBON MECHANISM

Dr. HENRY BASTAMAN

DIRECTOR GENERAL OF FORESTRY AND ENVIRONMENT RESEARCH, DEVELOPMENT AND INNOVATION AGENCY

A PAPER TO BE PRESENTED AT COP-22

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
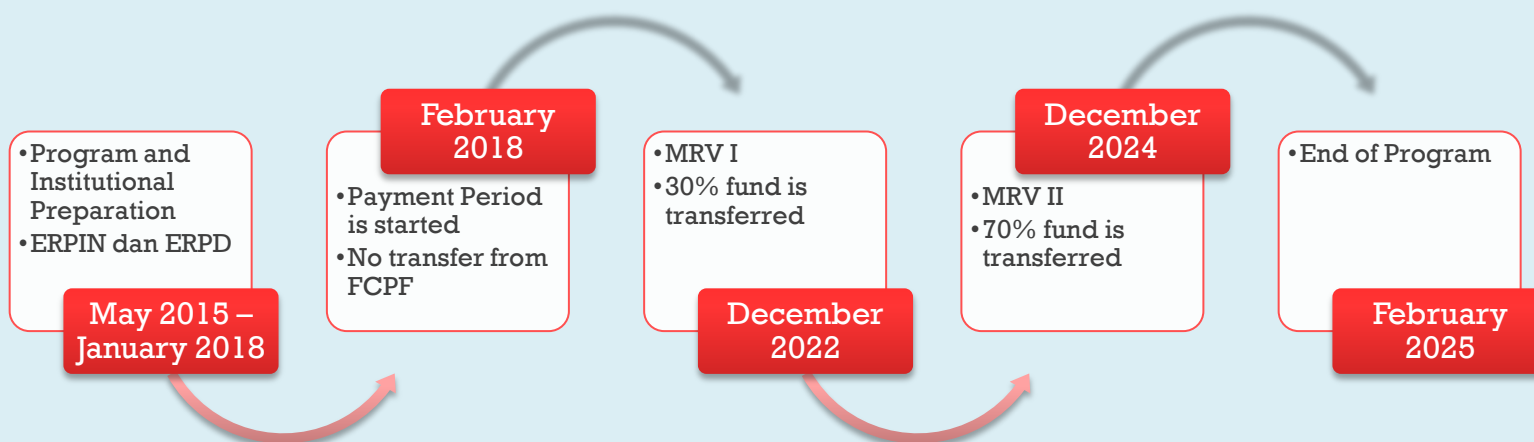- National dan sub national level (filling the gap)

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)

➢Data points used are: 1996, 2000, 2003, 2006, 2009, 2011, and 2012

➢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
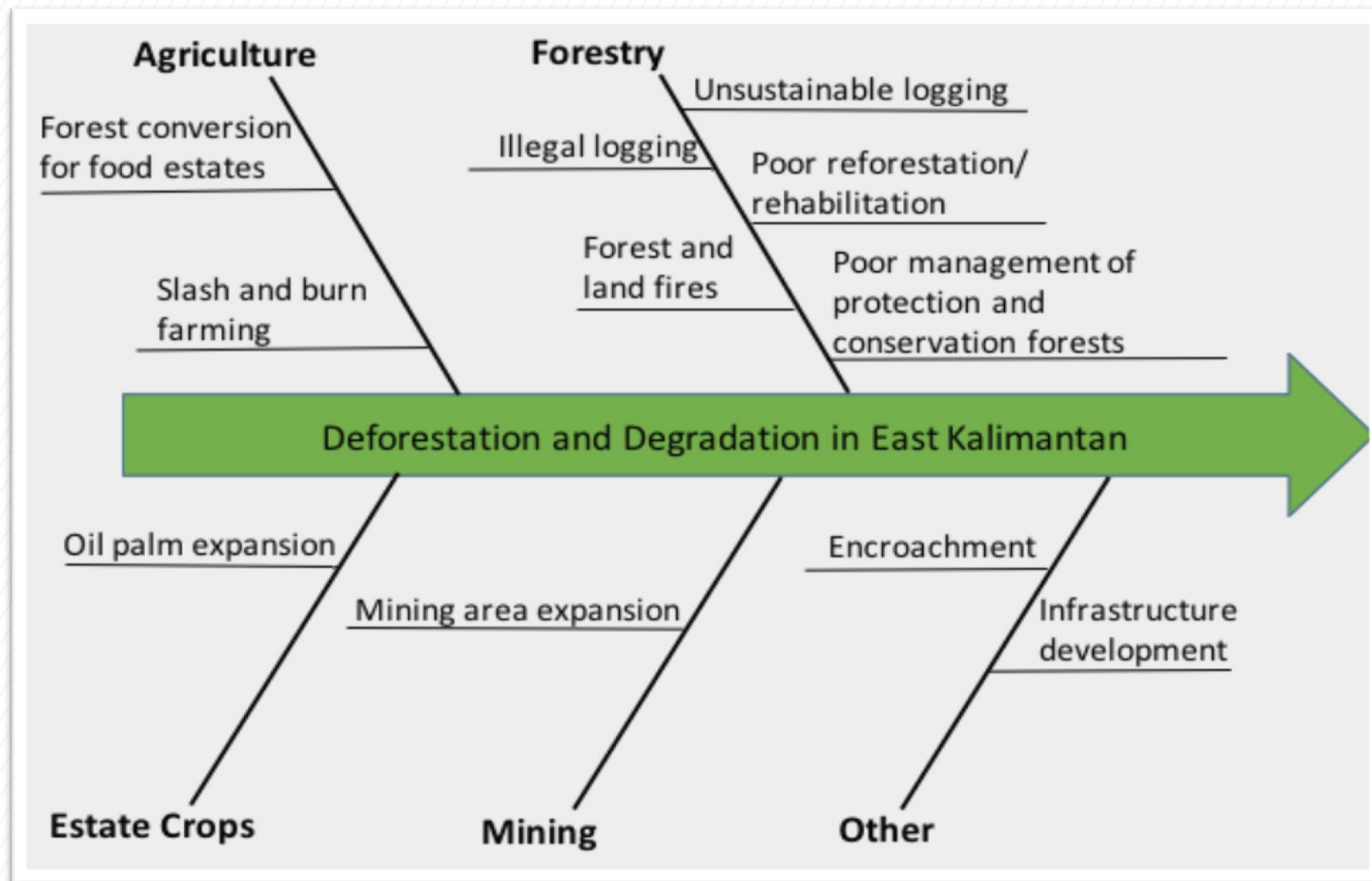

Ave. Deforestation: 98.526 ha

Ave. Degradation: 53.769 ha

Hectares

250.000
200.000
150.000
100.000
50.000
-

1996-2000   2000-2003   2003-2006   2006-2009   2009-2011   2011-2012

■ Deforestation   ■ Degradation

REL for Carbon Fund in East Kalimantan (tCO$_2$e)

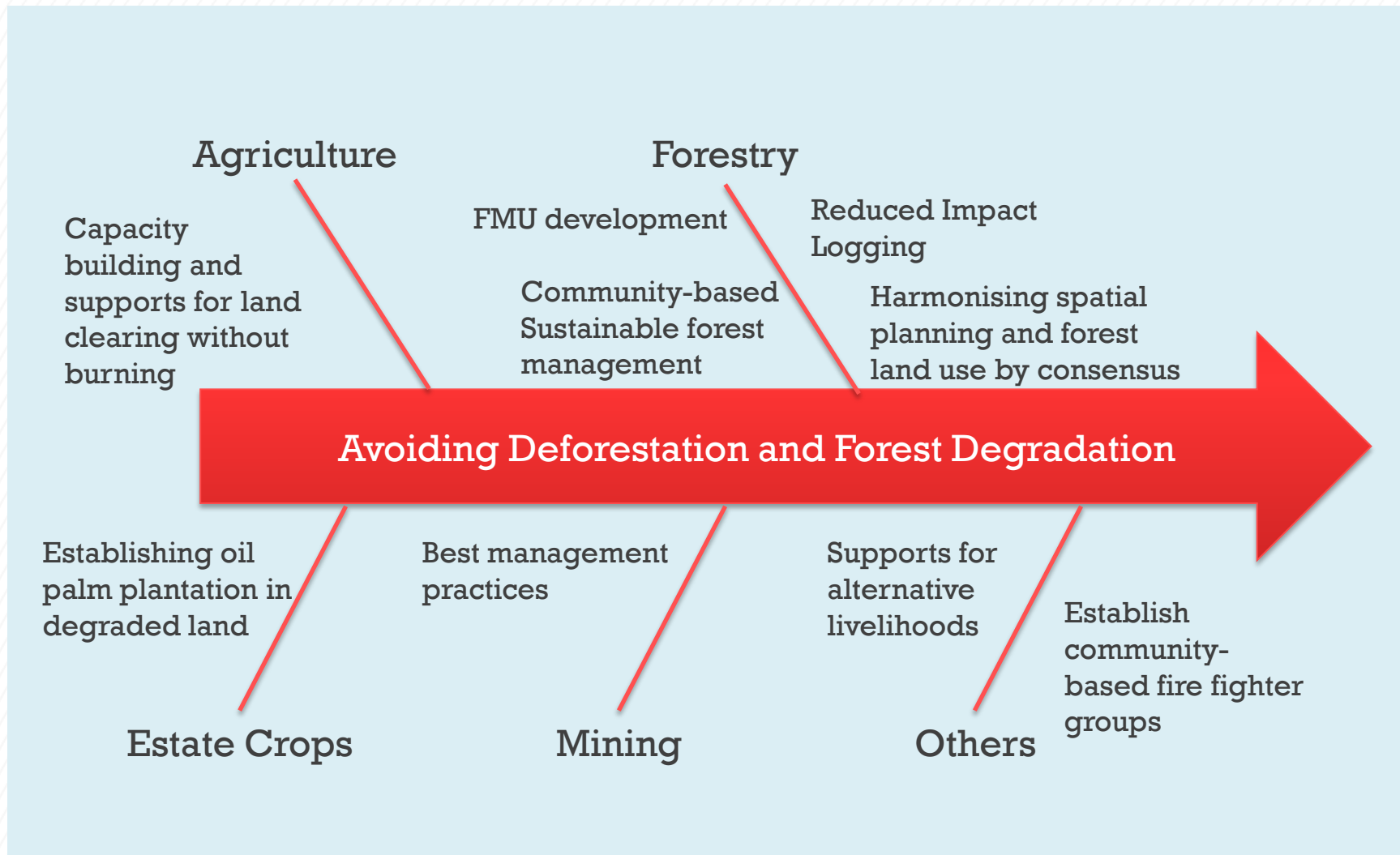| Year/Period	Average Deforestation	Average Forest Degradation	Average Peat Decomposition	Average Peat fire	Average Selective Logging	Total
1998 - 2000	79,941,621	3,964,497	3,140,190	2,734,050	5,500,000	95,280,358
2001 - 2003	32,766,216	21,242,270	3,180,843	2,734,050	5,500,000	65,423,378
2004 - 2006	23,098,539	3,995,256	3,229,401	2,734,050	5,500,000	38,557,247
2007 - 2009	22,105,370	1,115,896	3,259,198	2,734,050	5,500,000	34,714,513
2010 - 2011	10,158,720	370,529	3,259,198	2,734,050	5,500,000	22,022,497
2012	35,567,313	232,256	3,259,198	2,734,050	5,500,000	47,292,817
Average Annual Emissions during Reference Period for use as FREL during Accounting Period						
Average (1998-2012)	35,307,999	6,128,471	3,213,766	2,734,050	5,500,000	52,884,287
Average (2001-2012)	32,119,884	6,283,041	3,219,021	2,734,050	5,500,000	49,855,996

➢ 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

Types of ER Activities by Drivers of Deforestation and Forest Degradation

Agriculture

Forestry

Capacity building and supports for land clearing without burning

FMU development

Reduced Impact Logging

Community-based Sustainable forest management

Harmonising spatial planning and forest land use by consensus

Avoiding Deforestation and Forest Degradation

Establishing oil palm plantation in degraded land

Best management practices

Supports for alternative livelihoods

Establish community-based fire fighter groups

Estate Crops

Mining

Others

Preliminary Estimation of Cost and Funding for ER Program

Sector	Approximate Cost (US$ m)
Coal mining	65.00
Oil palm estates	65.00
Forestry	30.00
Local Communities	80.00
Fire and peat land	30.00
Support for KPH	10.00
Policy support	17.00
Program development	2.40
MRV and FGRM Implementation	0.40
Total	**299.80**

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

Source	Funding (US$ M)
FCPF Readiness Funding (grants)	2.5
Berau Forest Carbon Partnership (grants)	50
Kutai Barat and Mahakam Ulu (grants)	80
Funding from program partners in other districts	tbd during program design
Total Sources	**132.5**

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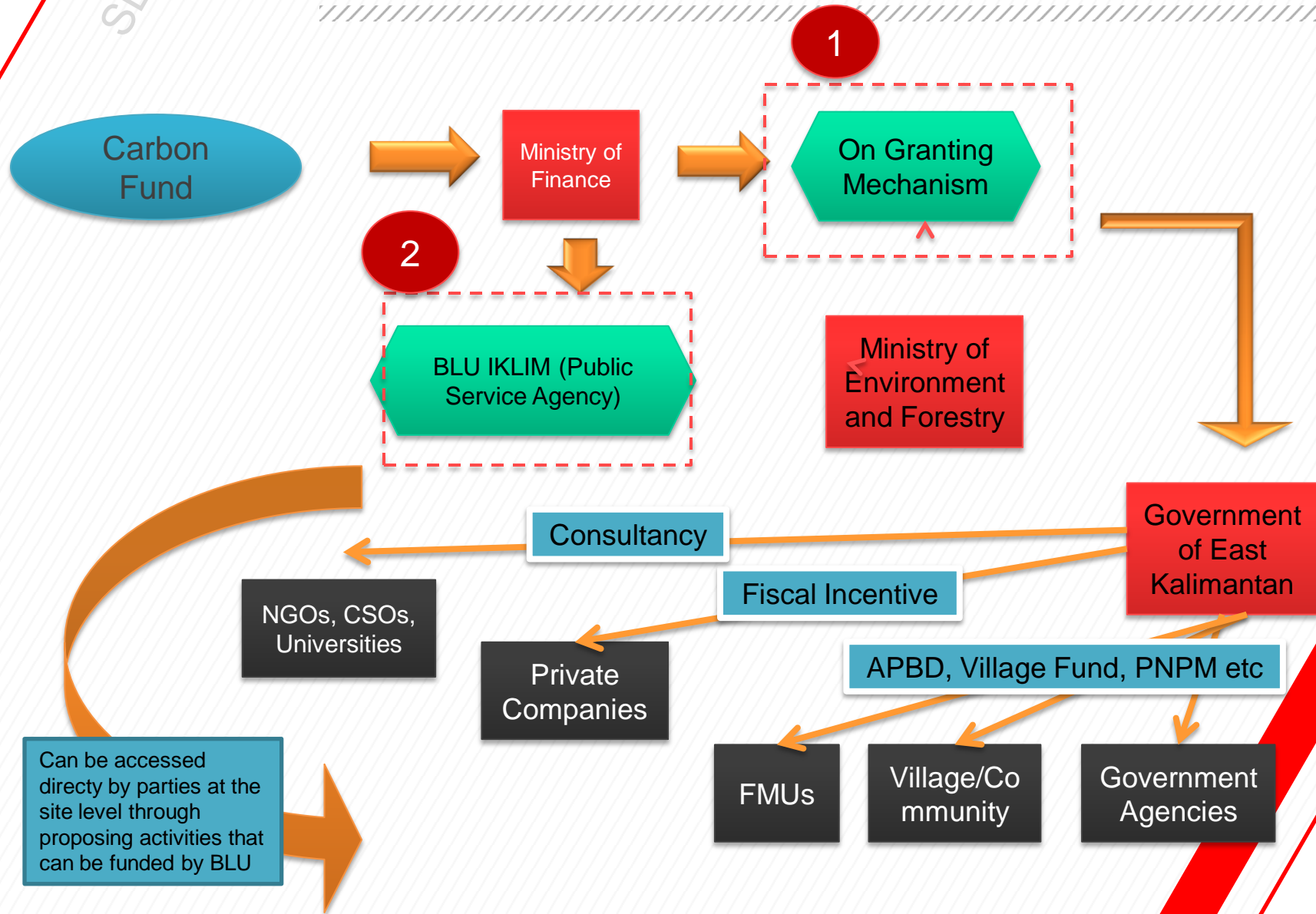
Two innovative Financial Mechanisms:

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 thourgh in-cash, but in-kind mechanism (eg. 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:

Forestry

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

Agriculture

ER Actions	Actors	Source of Investment	Incentives
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

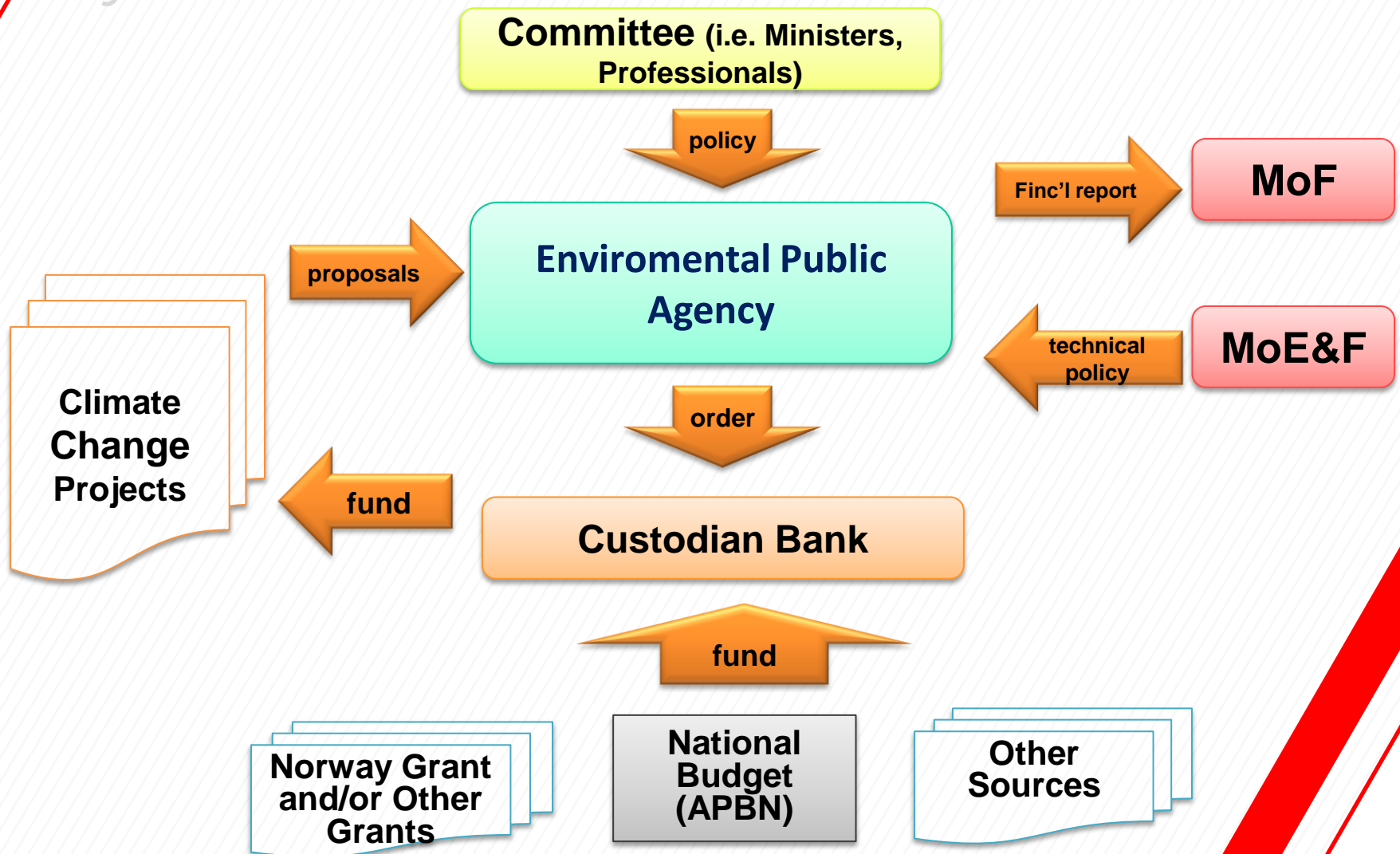| ER Actions	Actors	Source of Investment	Incentives
Establishing oil palm plantation in degraded land	Companies	• Private Fund for productivity intensification with less extension through forest conversion.	• Tax holiday for a certain time (property tax and income tax) • Market development (district/provincial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

Mining

| ER Actions	Actors	Source of Investment	Incentives
Best management practices with taking into account HCV management	Companies	• Private	• Tax holiday for a certain time (property tax and income tax) • Reducing reclamation fee

Others

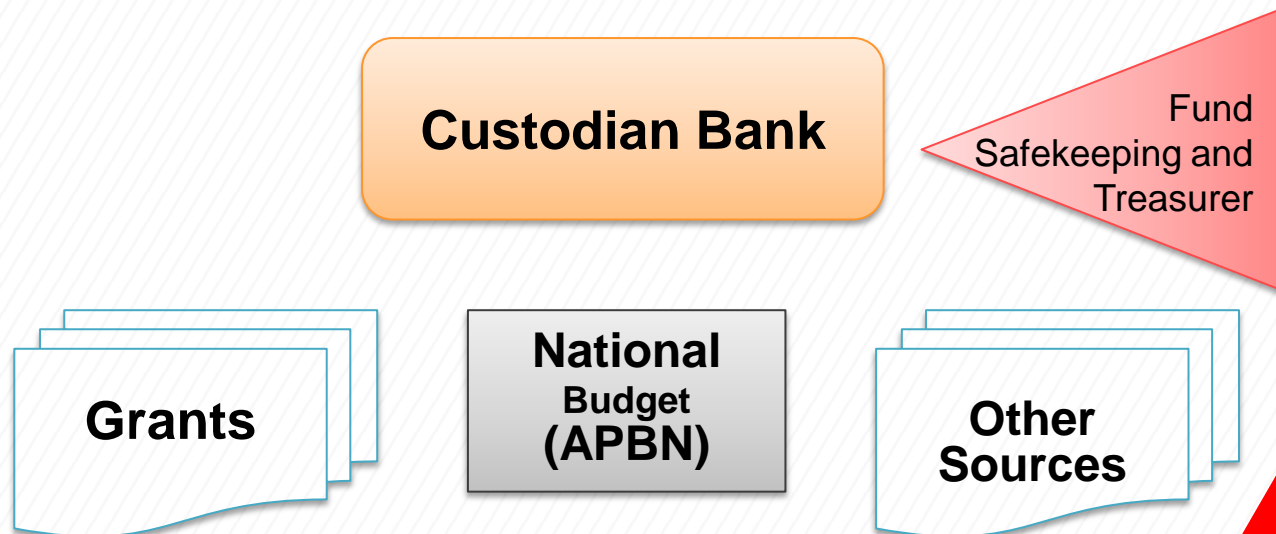| ER Actions	Actors	Source of Investment	Incentives
Establishing oil palm plantation in degraded land	Companies	• Private Fund for productivity intensification with less extension through forest conversion.	• Tax holiday for a certain time (property tax and income tax) • Market development (district/provincial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

BLU IKLIM (Public Service Agency)

Committee (i.e. Ministers, Professionals)

↓ policy

Enviromental Public Agency

proposals →

Finc'l report → **MoF**

← technical policy **MoE&F**

← proposals

Climate Change Projects

← fund

↓ order

Custodian Bank

↑ fund

Norway Grant and/or Other Grants

National Budget (APBN)

Other Sources

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

COMMITTEE

Fund Management

Enviromental Public Agency
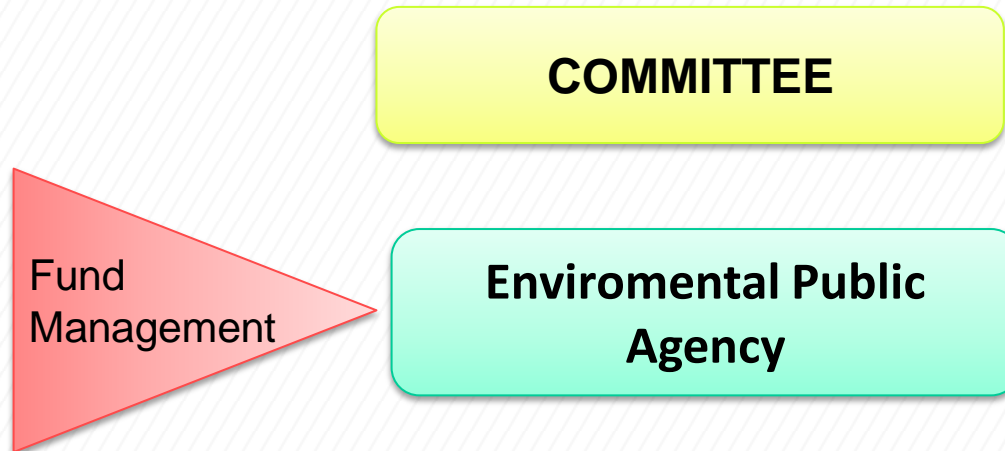
BLU and custodian are two separate bodies with different principals

Custodian Bank

Fund Safekeeping and Treasurer

Grants

National Budget (APBN)

Other Sources

Quasi Government of Financial Management (BLU PD Lingkungan)

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