

POLICY BRIEF

A Call for Fairness: Reassessing Norway's Result-Based Payment to Achieve Indonesia's FOLU Net Sink 2030



In 2022, Indonesia and Norway signed a result-based payment (RBP) agreement to reduce emissions from the forestry and land use (FOLU) sector. The first payment of \$56 million was made in recognition of Indonesia's REDD+ performance and is managed by the Indonesian Environment Fund (IEF), also known as *Badan Pengelola Dana Lingkungan Hidup* (BPD LH). Subsequently, the IEF drafted an investment plan outlining the structure and governance for disbursing these funds. The investment plan was formalized in the Decree of the Ministry of Environment and Forestry No. 383/2023, dated April 18, 2023.

The use of these funds is directed towards achieving Indonesia's vision of net zero emissions by 2060 or sooner. The government aims for the FOLU sector to achieve net sink by 2030, with an emissions level of minus 140 million tons of CO₂e, as stated in Indonesia's FOLU Net Sink 2030 Operational Plan ("*Renops*") formalized in the Ministerial Decree of the Ministry of Environment and Forestry No. 168/2022. To reach this target, a total of IDR 204 trillion (USD 13.3 billions) is required. Therefore, the funding from Norway only covers a small portion of the needed amount.

The disbursement of the second and third payments, totaling \$100 million, is imminent, necessitating an update to the investment plan. The evaluation of the first payment's fund usage should serve as a reference to enhance the effectiveness, efficiency, and accountability of the fund utilization. Alongside the substantive aspects of the fund allocation, namely the activities chosen to be funded, institutional aspects, corruption prevention, transparency, and overall governance must be considered in refining the fund disbursement system

moving forward. This document is the first of a two-part series and examines the scope of activities under Indonesia's FOLU Net Sink 2030 operational plan "*Renops*" and those funded by the first results-based contribution from Norway.

FOLU Net Sink 2030 Investment Plan: Ensuring a More Balanced Funding Allocation

The investment plan for the disbursement of Norway's first results-based contribution, amounting to USD 56 million, is designed to support the activities outlined in the FOLU Net Sink Operational Plan or *Renops*. Although this amount is relatively small compared to the total funding needed to achieve net sink by 2030, it can serve as a gateway for future funding.

Renops projects that the largest funding requirement is for the development of industrial timber plantations (HTI), amounting to IDR 76.56 trillion or 37% of the total required funding (Indonesia's FOLU Net Sink Operational Plan, 2022). Meanwhile, funding for reducing deforestation and forest degradation on mineral lands constitute 33% and 14% of the total required funding. **This allocation reflects *Renops*' prioritization of developing industrial timber plantations.**

Additionally, *Renops* targets 7.1 million hectares for rehabilitation with rotation, significantly higher than the 2.9 million hectares targeted for rehabilitation without rotation. This is problematic because land rehabilitation with rotation involves cutting down planted trees in the future to meet timber demand, whereas rehabilitation without rotation focuses on conservation.

Questions also arise regarding the direction of Indonesia's FOLU Net Sink 2030 agenda,

as agroforestry is yet to be a priority, as reflected in the Ministry of Environment and Forestry's Work Plan for Carbon Sequestration Improvement for FOLU Net Sink (2022). The portion of social forestry included in the allocation for land rehabilitation without rotation is very small (197 thousand hectares). **This pales in comparison to rehabilitation with rotation, which is the main mode of rehabilitation conducted in industrial forest concessions (Ministry of Environment and Forestry, 2022).**

Regarding how Norway's first phase funding fits into this, the investment plan does not explicitly mention the development of industrial timber plantations. Sixty-three percent (63%) of the fund is allocated for Carbon Sequestration Improvement (Figure 1), which includes afforestation and reforestation, and land and forest restoration through agroforestry (Ministry of Environment and Forestry, 2023). However, the Ministry of Environment and Forestry's Work Plan for Carbon Sequestration Improvement for FOLU Net Sink (2022) states that this component will focus on forest and land rehabilitation with and without rotation. Although not always the case, land rehabilitation with rotation may include development of timber plantation.

Another concern is the meager allocation of funds for biodiversity conservation and peatland ecosystem restoration, which is only 4% and 1%, respectively (Figure 1). These allocations pale in comparison with funding for Carbon Sequestration Improvement, which might include land rehabilitation with rotation.

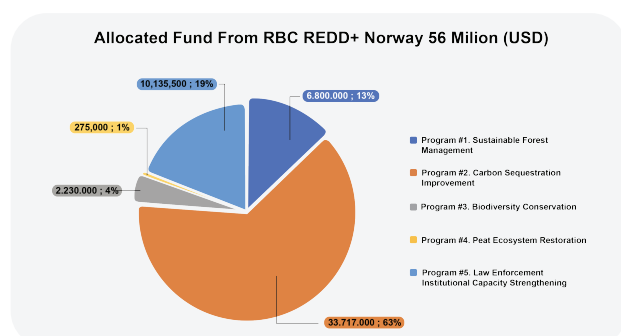
Ensuring that Norway's taxpayers' money does not primarily benefit industrial forest concessions is crucial. In 2021-2022,

Madani recorded that out of 61 thousand hectares of deforestation in permit or concession areas, 20 thousand hectares occurred in industrial forestry permits, also known as Forestry Utilization Business Licenses. Allocating funding for forest concession holders raises questions about accountability and fairness. This also opens up the potential for perverse incentives for concession holders, who should already be obligated to prevent deforestation in their areas.

Although Norway's investment could be allocated to the private sector complying with sustainability standards, records have shown that adhering to sustainability standards is not a top priority of most companies. In 2022, only 10 timber companies in Southeast Asia reported sustainability compliance (CDP, 2023) while Indonesia alone has 671 timber companies (Hatia Putri, 2022). Thus, preventing deforestation in forest and plantation permit areas should primarily be the responsibility of the permit holders.

Norwegian public funds should be allocated to provide the greatest benefit for community-based forest management by prioritizing grassroots communities, not big companies that hold rights for industrial timber plantations. This needs to be clarified and highlighted in the investment plan for the next phases of funding.

Figure 1. The Allocation of Norway's First Phase Result-Based Contribution



Enhancing Support for Indigenous Peoples and Local Communities

Indigenous Peoples and Local Communities (IPLCs) increasingly face challenges from private actors, including industrial forest concessions, encroaching on their living spaces. One of the key mitigation action plans in the FOLU Net Sink Operational Plan (*Renops*) is the development of industrial timber plantations through Multi-Business Forestry Utilization, also known as Multi Usaha Kehutanan (MUK). The Forest Utilization Direction Map (Peta Area Pemanfaatan Hutan/PAPH), covering 23.4 million hectares with more than 14 million hectares of natural forest, indicates that industrial timber plantations under the MUK scheme could continue to be issued. This can lead to further concentration of forest control by large corporations, resulting in the emergence of "carbon barons" replacing "timber barons." Such developments could contradict the government's efforts to address forest ownership inequality through agrarian reform and social forestry initiatives.

The transition from old forestry licenses to the MUK scheme without an effective Free, Prior, and Informed Consent (FPIC) process will also perpetuate conflicts. Data from the Indigenous Territory Registration Agency (Badan Registrasi Wilayah Adat/BRWA, 2024) shows that nearly 3.3 million hectares of logging concessions (PBPH-HA) and 1.65 million hectares of industrial timber plantations (PBPH-HT) are encroaching indigenous territories.

A key action to rectify this situation is accelerating the recognition of IPLCs and their territories. However, funding for this

is very limited. *Renops* only requires funding of IDR 0.96 trillion for social forestry, which is significantly smaller compared to the funding for the development of industrial timber plantations.

Meanwhile, in Norway's investment plan, the position of IPLCs as the main beneficiaries remains weak. The funds directed towards addressing community challenges are very small. Only 13% of the funds is allocated for Sustainable Forest Management, which includes Social Forestry (Figure 1). Moreover, there are no specifically designated funds for IPLCs, indicating a lack of targeted support. Furthermore, IPLCs that can be beneficiaries are only those recognized by village governments and registered in the registration system (Ministry of Environment and Forestry, 2023).

To enhance support for IPLCs, the investment plan must explicitly state that both recognized and unrecognized IPLCs can be beneficiaries. Currently, IPLCs recognition is slow, with the achievement of social forestry at only 6.37 million hectares out of the target of 12.7 million hectares, and the realization of customary forests reaching only 221 thousand hectares (Ministry of Environment and Forestry, 2024). Considering that the recognition of indigenous peoples requires significant costs and lengthy processes—approximately Rp500-700 million and at least three years (Arman, 2023)—Norway's funds to accelerate social forestry and the recognition of indigenous communities, as well as to strengthen their implementation on the ground, must be increased.

Addressing Inequality in Eastern Indonesia and Sectoral Approaches

The FOLU Net Sink Operational Plan (Renops) identifies intervention areas based on the Location Priority Index (Indeks Prioritas Lokasi/IPL). High-priority areas (IPL 7-9) are the main focus of programs and activities. However, to meet the FOLU Net Sink target, expanding into medium-priority areas (IPL 5-6) is necessary. High-priority areas are concentrated in Sumatra and Kalimantan, while medium-priority areas are found in Sumatra, Kalimantan, Papua, Sulawesi, Maluku, and Nusa Tenggara.

Regions such as Papua, Maluku, and Sulawesi have vast natural forests that are especially vulnerable to deforestation due to extensive mining activities. Additionally, many of these natural forests are not yet protected by policies, making them highly susceptible to deforestation. Therefore, special interventions and increased funding for these regions are essential to achieve the net sink target.

Besides addressing regional disparities, sectoral management issues also need attention. The FOLU Net Sink is managed by the FOLU Operation and Collaboration Center (FOLU COLL), which coordinates operations among ministries and agencies (Intan, 2022). However, the current FOLU Net Sink 2030 Working Team consists solely of work units under the Ministry of Environment and Forestry (MoEF), excluding other ministries and agencies.

Efforts to prevent deforestation outside the forest zone must also involve local governments and other ministries, such as the Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN)

and the Ministry of Agriculture. At least 159 Plantation Land Use Titles (Hak Guna Usaha/HGU) still contain natural forests with high to very high risks (IPL 8-9), most of which are intended to be designated as protection areas. To achieve the FOLU Net Sink target, it is crucial to establish and implement clear deforestation prevention policies in these areas, supported by strong cooperation and coordination across multiple agencies and stakeholders.

Recommendations:

- 1 Both the FOLU Net Sink operational plan and the upcoming results-based contribution investment plans need to prioritize activities aimed at preserving the remaining natural forests through conservation actions, deforestation and forest degradation prevention, and peatland ecosystems restoration.
- 2 The development of industrial forest plantations should not receive a disproportionately large percentage of funding. There should be greater transparency regarding the types of activities included in this category both within the FOLU Net Sink operational plan and the upcoming investment plans.
- 3 The government needs to halt the issuance of Forestry Utilization Business Licenses for logging and industrial timber plantations in natural forest areas, and prioritize the recognition of IPLCs territories, including the 28.2 million hectares of indigenous territories mapped by the Indigenous Territory Registration Agency.
- 4 A new FPIC process must be conducted during the transition of forestry business licenses to multi-business forestry licenses, including for carbon business.
- 5 The upcoming investment plans should maintain the benefit-sharing scheme for the private sector in the form of programs and prevent direct compensation for permit holders to avoid perverse incentives.
- 6 The upcoming investment plans need to allocate a minimum dedicated funding for indigenous peoples and local communities who contribute to forest protection and conservation.
- 7 The upcoming investment plans need to ensure the inclusion of IPLCs who have not received formal recognition as beneficiaries by explicitly mentioning them in the investment plan.
- 8 The upcoming investment plans need to include special interventions and allocate larger funds for natural forest areas in Papua, Maluku, and Sulawesi regions threatened by deforestation.
- 9 The government needs to clarify policy instruments for preventing deforestation outside the forest zone, including within oil palm plantation permits.
- 10 The government needs to strengthen the involvement of relevant ministries and agencies to prevent deforestation and degradation of natural forests in permit areas not under the auspices of the Ministry of Environment and Forestry, such as within oil palm plantation permits.

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Manusia dan Alam untuk Indonesia Berkelanjutan (MADANI Berkelanjutan) is a non-profit organization that works to address the climate crisis through research and advocacy. Established in 2016, MADANI Berkelanjutan strives to achieve balanced development in Indonesia, encompassing economic, ecological, and social aspects. We formulate and promote innovative solutions for the climate crisis by bridging collaborations among various stakeholders. Currently, our work focuses on issues pertaining to forests and climate, sustainable development at the regional level, sustainable commodities, and biofuels.

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