



## REDD+ Update Report

# Environment Fund Management

Presidential Regulation No. 77 Year 2018  
on Environment Fund Management

November 2018

### Summary

- Presidential Regulation No. 77/2018 on Environment Fund Management (*Perpres Pengelolaan Dana Lingkungan Hidup*), enacted on September 18, 2018 is another step towards setting up the REDD+ Funding Instrument, an unfulfilled requirement under Norway-Indonesia Letter of Intent on REDD+ (LoI), which will soon expire in 2020.
- It is an operational regulation of Government Regulation No. 46/2017 on Economic Instrument of the Environment (*PP Instrumen Ekonomi Lingkungan Hidup*) enacted a year before, which regulates economic instruments related to the environment, of which Environment Fund Management is a part. Together, they constitute the umbrella regulations to set up REDD+ Funding Instrument.
- This Perpres 77/2018, however, does not set up the REDD+ Funding Instrument itself, which will be done later through a Ministerial Regulation by the Minister of Finance.
- This Perpres contains the following:
  - Definition, principles, scope and activities under “environment fund management”
  - Categories of environment fund that will be set up, sources of fund and investment instruments
  - A signal to set up a non-echelon organization to manage environment fund using Public Agency Service (BLU) financial pattern.
    - This organization, based on previous information, will be called BPD LH (*Badan Pengelola Dana Lingkungan Hidup*) or Environment Fund Management Agency/Body, under which climate change and REDD+ will become specific window/sub-window.
  - The structure of Steering Committee of such organization, which is headed by the Coordinating Minister of Economic Affairs and involves nine (9) ministries.

Government  
Regulation on  
Economic  
Instruments of  
the Environment  
  
(Nov 2017)



Presidential  
Regulation on  
Environment  
Fund  
Management  
  
(Sept 2018)



Regulation of  
Minister of  
Finance on  
Environment  
Fund  
Management  
Agency

## Issues

- **Scope of the environment fund, why does it shrink?**
  - In PP 46/2017, there are three kinds of environment fund that will be set up and managed, namely: (i) Environment Restoration Guarantee Fund, (ii) Environment Pollution and Damage Handling and Restoration Fund, and (iii) Trust Fund/Conservation Grant. The first will be used to handle emergency situations in business or activity areas (including in concessions), such as forest/ground fire as well as environment restoration after extractive activities (such as reforestation after mining).
  - This fund is very important to be collected since many extractive activities such as mining and development of timber plantation and palm oil plantation have led to massive environment damage, including forest and peat fire, which requires massive fund for restoration.
  - This fund, however, is not a part of the environment fund regulated under this Perpres 77/2018. Why it is left out is puzzling. One possible reason is that the mechanism, amount, and calculation of the Environment Restoration Guarantee Fund are determined by different ministries responsible for the various business activities or because there are already existing examples of the fund such as Reclamation Guarantee Fund for mining activities and Reboisation Fund for forestry concession activities. However, it does not provide sufficient justification of its exclusion. Another possible reason is that this fund might be perceived as creating additional obligations for extractive industries and therefore has not yet been agreed upon by all related ministries although this has been refuted by the government. According to one analysis, PP 46/2017 does not create any new obligations but rather tries to consolidate existing financial obligations.<sup>1</sup> PP 46/2017 does give a mighty long seven years for Environment Restoration Guarantee Fund to be operational.
- **Safeguards**
  - This regulation does not mention any specific issues on environmental or social safeguards that usually become a part of environment-related funds such as the Green Climate Fund, Green Environment Facility, etc. It is possible that safeguards will be referred in the more operational regulations establishing Environment Fund Management Agency and its work mechanisms and procedure. For REDD+, safeguards have already been referred in P.70/2018 on REDD+ Implementation Procedure. However, the scope of activities under the Environment Management Fund is broader than just REDD+ and there must be referral of safeguards for the whole activities, not just REDD+.

## Environment fund management

### Definition

- Environment fund management is a system and mechanisms to fund efforts to protect and manage the environment

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<sup>1</sup> Agus Pambagio, "PP No. 46 Tahun 2017: Untung atau Rugi bagi Publik dan Dunia Usaha, retrieved from <https://kumparan.com/agus-pambagio/pp-no-46-tahun-2017-untung-atau-rugi-bagi-publik-dan-dunia-usaha>

- Under this Perpres, it entails three activities, namely: (i) collection, (ii) development/investment, and (iii) disbursement of funds.

### Principles

- Environment fund management must be: (i) transparent, (ii) efficient, (iii) effective, (iv) proportional, and (v) accountable
- Management of the fund can be based on assignment or contract/agreement. Such contract must include information regarding: (i) identity of related parties, (ii) uses and purposes of the fund, (iii) types of activities that will be implemented, (iv) amount of fund, (v) period of activity implementation, (vi) investment instruments that will be used.

### Collection

As mentioned above, funds what will be collected are limited to two kinds:

- (i) Environment Pollution and Damage Handling and Restoration Fund, and
- (ii) Trust Fund/Conservation Grant

### Development/Investment

- Instruments that can be used to invest the money in the Fund are:
  - (i) banking instruments,
  - (ii) capital market instruments,
  - (iii) other financial instruments according to laws and regulations,
  - Investment for grants/donations is based on agreement/contract

### Disbursement

- Disbursement of money is based on agreement/contract
- Mechanisms for disbursement:
  - Carbon trading
  - Loan
  - Subsidy
  - Grant
  - Other mechanism according to laws and regulations

Details of each fund can be seen in the following Table.

No.	Type of Fund	Sources	Purposes	Notes
1.	Environmental Pollution and Damage Handling and Restoration Fund	<ul style="list-style-type: none"> <li>• State Fund (APBN)</li> <li>• Regional State Fund (APBD)</li> <li>• Other legitimate unbinding sources</li> <li>• Taxes</li> <li>• Environmental levies</li> </ul>	<ul style="list-style-type: none"> <li>• To handle/mitigate pollution and environmental damage (for unknown sources/actors)</li> <li>• To restore environmental functions – including restoration and rehabilitation</li> <li>• To guarantee preservation of atmospheric functions (climate change mitigation and adaptation)</li> </ul>	<ul style="list-style-type: none"> <li>• This fund is the responsibility of regional and central government</li> <li>• It can be used by various agencies including BRG</li> </ul>

		Source: PP 46/2017	
2.	Trust Fund/Conservation Grant	<ul style="list-style-type: none"> <li>• Donations</li> <li>• Grants</li> </ul>	<ul style="list-style-type: none"> <li>• Natural resources conservation (protection, preservation, use)</li> <li>• Natural resources reservation</li> <li>• Preservation of atmospheric functions – including climate change mitigation and adaptation, protection of ozone layer, climate change control supporting activities (MRV, safeguards, etc.) and other activities stipulated by Minister of Environment and Forestry</li> </ul> <p>Source: PP 46/2017</p>
			<ul style="list-style-type: none"> <li>• This fund is managed according to agreement between grantor/donators and the government or communities</li> <li>• Most applicable to Lol</li> </ul>

## Establishment of Environment Fund Management Agency

- This Perpres does not establish the Agency itself, but it gives a signal that there will be a non-echelon unit/organization that will carry out the management of environment fund using Public Service Agency financial pattern.
- Such organization will be established by the Minister of Finance
- The organization will appoint a Custodian Bank as trustee
- The whole structure and mechanism of the Agency are not determined by this Perpres, but a Steering Committee structure is stipulated as follows:
  - Head: Coordinating Minister of Economic Affairs
  - Deputy: Minister of Environment and Forestry
  - Secretariat: Ministry of Environment and Forestry (ex-officio)
  - Members
    1. Minister of Finance
    2. Minister of Home Affairs
    3. Minister of Energy and Mineral Resources
    4. Minister of Transportation
    5. Minister of Agriculture
    6. Minister of National Development Planning
    7. Minister of Industry
    8. Minister of Marine and Fishery
      - The Committee can involve other ministries, regional government, and other parties (an entry point of involvement for civil society)
- The Steering Committee's tasks are as follows:
  - Develop general policies of environment fund management
  - Develop technical policies about what to fund, including allocation of assets
  - Conduct evaluation of implementation of technical policies

## Funding Climate Change Mitigation and Adaptation through the Village Fund

Enactment of Regulation of Minister of Village, Development of Underdeveloped Regions, and Transmigration No. 16/2018 on Priority Uses of the Village Fund 2019

- The Village Fund (*Dana Desa*) is State Fund (APBN) allocated specifically for villages. It is transferred through District/City Budget and is prioritized to develop and empower village communities. Each village received an average of 800 million IDR (USD 54,186) in 2017.<sup>2</sup>
- The majority of Village Fund is used for infrastructure developments such as roads, bridges, water pipes, wells, and others. However, with the enactment of Regulation of Minister of Village No. 16/2018 on Priority Use of Village Fund 2019, there is an opportunity to fund climate change mitigation and adaptation activities, including REDD+ and ProKlim, using the Village Fund.
- REDD+
  - The Village Fund can be used to finance REDD+ preparation activities such as:
    - Capacity building for communities and village government about REDD+
    - Development of REDD+ activities planning at the village level
    - Development of community-based information system for REDD+ implementation
  - It can also be used to finance REDD+ activities such as:
    - Sustainable forest management through social forestry (village forest, community forestry, customary forest, community timber plantation)
    - Prevention of forest fire
    - Village Forest patrol
    - Prevention of illegal logging
  - Specific REDD+ activities that can be financed:
    - Land rehabilitation through development of social forestry and sustainable forest management
    - Construction of bore wells/pump wells and management of peatland to prevent forest fire
    - Development of ecotourism as part of social forestry development
    - Reboisement, forest plants enrichment, and agroforestry
    - Nursery of forest plants
    - Peatland water table management and construction
    - Land clearing without burning
    - Infrastructure and equipment for Fire-Aware Community
- Other mitigation activities that can be financed include:
  - Development of waste management facilities
  - Development of renewable energy facilities (micro hydro, wind and solar panel etc., biogas)
- The Village Fund can also be used to finance adaptation activities and specifically refer to ProKlim (Climate Village Program) as joint adaptation-mitigation activities.
- ProKlim specific activities that can be financed include:
  - Development of climate change mitigation and adaptation plan

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<sup>2</sup> Kementerian Keuangan, Buku Saku Dana Desa, 2017, retrieved from <http://www.djpk.kemenkeu.go.id/?p=5562>

- Training of ProKlim community groups
- Explicit inclusion of climate change mitigation and adaptation activities as activities that can be financed by the Village Fund can increase mobilization of resources at the village level for both adaptation and mitigation, which had been hampered by lack of reference in the regulation. However, the actual allocation and use of the Fund is usually subject to village politics and elite discretion.

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## References

Government Regulation No. 46 Year 2017 on Economic Instruments of the Environment

Presidential Regulation No. 77 Year 2018 on Environment Fund Management

Regulation of Minister of Village, Development of Backwards Region, and Transmigration No. 16 Year 2018 on Priority Uses of the Village Fund 2019

Kementerian Keuangan, Buku Saku Dana Desa, November 2017

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