

The Position and Role of Indigenous Peoples and Local Communities in Carbon Pricing Implementation in Indonesia

Excerpt from the Talk Show "The Role of Forest Communities in Carbon Pricing Implementation"



BACKGROUND

On April 6, 2022, Madani and KKI Warsi held a public discussion entitled "The role of forest communities in carbon pricing implementation." This was a follow-up action from the previous discussion among social forestry activists and CSOs regarding the recently enacted Presidential Regulation No. 98/2021 on Economic Value of Carbon also known as the carbon pricing regulation (NEK). The public discussion held on April 6 aims to:

- Gather information and further identify on the development of carbon pricing derivative regulations (Ministerial Regulation on Economic Value of Carbon - Permen NEK);
- Discuss potential roles and positions of forest communities as subjects in carbon pricing implementation;
- Discuss opportunities and challenges faced by IPLCs on the ground in relation to carbon pricing implementation.

POLICY WINDOWS

- The Ministry of Environment and Forestry is preparing Ministerial Regulation on the Procedure for NDC Attainment and Ministerial Regulation on the Procedure for Carbon Pricing Implementation.
- The Ministry of Finance is preparing a Roadmap for Carbon Tax and Carbon Market.
- The Ministry of Energy and Mineral Resources is preparing a Ministerial Regulation on Carbon Pricing Implementation in the Energy Sector.

PARTICIPANTS

The discussion was open to the public and was attended by 140 participants from a diverse background including social forestry activists, national and regional government agencies, Forest Management Units/KPH, CSOs advocating for indigenous peoples and local community, private sector, students, and even the Prosecutor's Office.

KEY SPEAKERS

- **Agus Rusly** - Ministry of Environment and Forestry, Directorate General on Climate Change - sharing about the mandates in carbon pricing regulation regarding communities;
- **Joko Tri Haryanto** - Ministry of Finance, Fiscal Policy Agency - sharing about carbon tax mechanism;
- **Paul Butarbutar** - Masyarakat Energi Terbarukan Indonesia (METI) and Co-founder Indonesia Research Institute for Decarbonization (IRID) - sharing about carbon trading mechanism for communities
- **Emmy Primadona** - KKI Warsi- sharing about best practices of community payment for ecosystem services and carbon pricing implementation in the social forestry area.

KEY POINTS FROM PRESENTATIONS & DISCUSSION

The primary goal of carbon pricing is to achieve NDC targets.

- The Ministry of Environment and Forestry emphasized that the goal of carbon pricing implementation (NEK) is to achieve NDC targets (29-41%) and to control emissions in development. Any economic value resulting from efforts to achieve NDC is therefore considered a “bonus.”
- On the other hand, in the perspective of the BKF/Ministry of Finance, carbon pricing is a necessity because the State Budget alone cannot fund NDC target achievement.
- According to MoEF, each sector must first reach its unconditional target before carbon trading is allowed (unclear whether this refers to domestic or international trading or both).

Carbon pricing governance recognizes forest communities' role in its implementation, but carbon property rights are claimed by the State with still unclear implications for forest communities. In addition, forest communities still lack the capacity to develop community carbon projects.

- The role of communities in carbon pricing regulation (*Perpres NEK*) is recognized as: i) implementer of climate change mitigation that contributes to emission reductions in NDC sectors or subsectors, ii) implementer of climate change adaptation, iii) implementer of carbon pricing itself (NEK).
 - The regulation specifies that results-based payment can be paid to communities from the national and provincial governments.
 - The regulation allows the government (MoEF) to assist communities in Monitoring, Reporting, and Verification in carbon pricing implementation.
- The MoEF emphasizes the role of forest communities in REDD+ implementation (referring to REDD+ Ministerial Regulation/P70). Results-based payment is one of the four carbon pricing mechanisms set out in *Perpres NEK*.
 - Community groups can carry out REDD+ activities
 - Community organizations, community institutions, and community groups can access REDD+ funding.
 - It is important to note that at this point, the carbon pricing mechanism ready to be accessed by forest communities is still only REDD+ RBP, which can be accessed through BPD LH, as well as through international initiatives at the regional level such as BioCarbonFund in Jambi and FCPF in East Kalimantan.

- Forest communities must undergo these 7 steps to be able to participate in carbon pricing mechanisms:
 - Develop a mitigation action plan through: GHG inventory, formulation and determination of baseline, mitigation targets, and action plan (determination of baseline, target, and action plan by permit issuer),
 - Implement mitigation actions,
 - Conduct monitoring, evaluation, and reporting,
 - Undergo validation and verification by independent validators and verifiers, and
 - Register the results at the National Registry System/SRN
 - Apply for issuance of ERC (Emission Reduction Certificate) - by an independent verifier
 - Apply for funding through REDD+ RBP from BPD LH OR direct carbon trading or through carbon marketplace.
- Communities lack the following capacity to develop carbon projects: formulating mitigation action plan, funding the project implementation, paying for carbon transaction costs (from action plan to verification), network to sell carbon credits, maintaining the sustainability of mitigation actions after payment, including regular monitoring.
- The carbon property rights are controlled by the State. However, questions regarding the certainty of carbon rights attached to tenure rights are still unanswered and they need to be followed up with the competent authorities such as the Director-General of Social Forestry.
- The case of community-based payment for ecosystem services exemplified by KKI-Warsi underlines the importance of legal-formal recognition of community forest management for communities to participate in carbon pricing mechanisms. Questions remain about how communities that are still struggling with their recognition can participate in carbon pricing mechanisms.

Benefit sharing mechanism is an important issue for forest communities in relation to Results-Based Payment (non-market mechanism)



- MoEF is currently developing a benefit-sharing mechanism for BioCarbonFund in Jambi and FCPF in East Kalimantan.
- Benefit-sharing is carried out in stages through the central government to regional governments to local communities. The largest benefits will go to areas that have succeeded in reducing emissions, including the people living in those areas.
- Thus, local governments have a key role in calculating carbon credits, coordinating MRV, inventory, and reporting.
- Communities that take care of forests in an area that manages to reduce emissions, as well as migrant communities and communities living in the forest zone may receive benefit-sharing.
- The benefits can be in the form of programs or cash.
- Forest rangers can also receive funding from REDD+ schemes
- The proceeds from the implementation of RBP will be managed by BPDLH as an agency that provides flexible budgeting and fund management options without following the rules of APBN budgeting.

The Government are developing a Carbon Tax Roadmap and will be implemented on July 1, 2022

- The carbon tax mechanism in Indonesia is a form of command and control policy, previously enforced in PP 70/2009 on Energy Conservation (if energy consumption exceeds the applicable limit, a fine will be imposed).
- In Indonesia' carbon pricing regulation, the term used is "carbon levies" instead of carbon tax, which means that gradually, not only taxes but also excise, local taxes, etc. may be developed.
- Meanwhile, there is already Law 7/2021 on the Harmonization of Tax Regulations (HPP), which mandates a carbon tax. So, the first option implemented by the Ministry of Finance is carbon tax. The carbon tax will be effective as of July 2022, originally planned for April 2022 and will first be imposed on coal power plants.
- The carbon tax is only a catalyst to form a carbon trading ecosystem. The carbon tax is only imposed on the excess emissions (cap), not on all the emissions produced.
- The Ministry of Finance is preparing a Carbon Tax Roadmap, which should be in line with the Carbon Market Roadmap.
- The government is also considering whether the forestry sector will apply a Carbon Tax, including which sub-sectors will be imposed. The community-based forestry sector should not be taxed on carbon.



Carbon trading will be implemented once the key sectors and sub-sectors in NDC achieved

- The purpose of Perpres 98/2021 is to achieve NDC while the economic benefits of implementing carbon pricing are seen as a bonus. In addition, the funds obtained are used to support the financing of climate change adaptation and mitigation which can only be supported by 34% of the APBN
- Carbon pricing implementation will depend on the mechanism chosen by each sector, but the selection of the mechanism is still not yet clear and is being consulted in each sector
- Carbon trading can be done through direct trading and through an exchange. The government is developing the framework for Indonesia Carbon Exchange under the authority of the Stock Exchange.
- The trade can come from government auctions or selling/buying SPE carbon credits.





Bujang Raba Landscape (KKI-Warsi) is one of the best practices of community carbon projects in the social forestry area using payment for ecosystem services mechanism. However, questions remain whether this model can continue under Perpres NEK. Perpres NEK mandates compliance of all carbon transactions including those done by communities and the implications for communities should be explored further.

- Social Forestry can support not only the achievement of the NDC target but also can be a part of the implementation of NEK. Case study: Bujang Raba
- Social Forestry has been proven to reduce GHG emissions by reducing deforestation rates in areas assisted by KKI-Warsi. For example: Landscape of Bujang Raba, Lunang, Gunung Selasih, KBKA and Sariak Alahan Tigo.
- One of the ways to achieve this is by enforcing community zoning, green zone as protected zone that must be maintained and preserved and white zone as multilevel utilization zone.
- Community participation in the implementation of the carbon pricing, with a reward scheme for environmental services, has been carried out in Bujang Raba (first Village Forest in 2009) using Plan Vivo standard.
 - The project shows the importance of increasing community capacity, starting from the preparation of work plans to carbon inventories, which can then be given economic value.
- To ensure that the social forestry community can participate in the implementation of the carbon pricing, it is necessary to increase the capacity, funding, mentoring, verification, and monitoring first.
- If the community managing social forestry can benefit from the implementation of the carbon pricing, the economic benefits from this can be reused to finance activities in the field including forest protection.
- The success of the Bujang Raba community benefiting from payment ecosystem services is a good opportunity for forest communities which can be adapted to the typology and local wisdom of each region in another region.

Presentation can be accessed here: <https://bit.ly/MateriDiskusi-NEKMadani>

**Community
Accompaniment of Bujang
Raba Forest Village**

