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# USAID INDONESIA FORESTRY AND CLIMATE SUPPORT PROJECT

QUARTERLY REPORT (JANUARY–MARCH 2011)

2<sup>nd</sup> Quarter FY 2011

This report was prepared for the United States Agency for  
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# USAID INDONESIA FORESTRY AND CLIMATE SUPPORT PROJECT (USAID IFACS)

SECOND QUARTERLY REPORT (JANUARY-MARCH 2011)

2<sup>nd</sup> Quarterly Report FY 2011

## **DISCLAIMER**

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# ACRONYMS AND ABBREVIATIONS

ALBI	Alliance of Low Carbon Business Indonesia
AMCHAM	The American Chamber of Commerce in Indonesia
APBD	Anggaran dan Pendapatan Belanja Daerah (District's Revenue and Expenditure)
APBI-ICMA	Asosiasi Pertambangan Batubara Indonesia-Indonesian Coal Mining Association
ASMINDO	Asosiasi Mebel & Handicraf Indonesia (Indonesian Furniture & Handicraft Association)
BKPM	Badan Koordinasi Penanaman Modal (Investment Coordinating Board)
CCI	Clinton Climate Change Initiatives
CI	Conservation International
CO	Contracts Office
COC	Chain of Custody
COP	Chief of Party
COTR	Contracting Office Technical Representative
CPO	Crude Palm Oil
EMMP	Environmental Mitigation and Monitoring Plan
FOB	Freight on Board
FSC	Forest Stewardship Council
FSN	Foreign Service National
GAPKI	Gabungan Pengusaha Kelapa Sawit Indonesia (Indonesian Palm Oil Association)
GMP	Grants Manual Plan
GOI	Government of Indonesia
ICRAF	International Centre for Research on Agroforestry
IFC	International Finance Corporation
IMA-API	Indonesian Mining Association-Asosiasi Pertambangan Indonesia
IQC	Indefinite Quantity Contract
ISIC	International Standard Industry Code
ISPO	Indonesian Sustainable Palm Oil
KAP	Knowledge Attitude and Practice
MDF	Medium Density Fibreboard
NGO	Nongovernmental Organization
NTFP	Non-Timber Forest Product
PAD	Pendapatan Asli Daerah (Local Revenue)
PINDO	Partners Indonesia Center for Democracy and Peace
PLACE	Prosperity, Livelihoods, and Conserving Ecosystems (IQC)
PMA	Penanaman Modal Asing (Foreign Direct Investment)

PMDN	Penanaman Modal Dalam Negeri (National Investment)
PMP	Project Monitoring Plan
RAFT	Responsible Asia Forestry and Trade
RHOI	Restorasi Habitat Orangutan Indonesia (Indonesia Orangutan Habitat Restoration )
RSPO	Roundtable on Sustainable Palm Oil
TFF	Tropical Forest Foundation
TOT	Trainer of Trainers
USAID	United States Agency for International Development
USAID IFACS	USAID Indonesia Forestry and Climate Support Project
USFS	United States Forest Service
V&A	Vulnerability and Adaptation

# EXECUTIVE SUMMARY

This is the second quarterly report for the USAID Indonesia Forestry and Climate Support (USAID IFACS) Project. USAID-IFACS is a Task Order under the PLACE IQC implemented by Tetra Tech ARD, with duration of approximately 47 months. The Project is designed to support USAID Indonesia's Country Program Strategy 2009-2014, Objective 2: "Sustainable Management of Natural Resources", Intermediate Result 1 "Improved Management of Forest Ecosystems". More specifically, USAID IFACS seeks to reduce the threats of deforestation and climate change, and help the Government of Indonesia (GOI) conserve the country's tropical forests, wildlife, and ecosystem processes (including carbon sequestration). This report covers the period from January through March 2011, and focuses primarily on technical planning and start-up activities.

Technical activities during this quarter focused on contractual deliverables as outlined in the USAID IFACS task order contract and discreet activities approved in the Mobilization and Quick Start Activity Plan. These were:

- Target Landscape Site Selection, including preliminary instructional capacity assessment;
- Preliminary Coordination with FOREST partners;
- Development, submission, and revision of the first annual Work Plan, including a revised staffing structure;
- Development and submission of the Performance Monitoring Plan (PMP);
- Development and submission of the Environmental Mitigation and Monitoring Plan (EMMP)
- Development, submission, and revision of the Communications Strategy; and
- Staffing up open technical and programmatic positions.

In addition to these technical deliverables, USAID IFACS Team joined USAID introductory field visits to Central Kalimantan, Aceh and West Kalimantan. Those activities followed with USAID IFACS team field visits to further refine site selection and introduce the project to key stakeholders.

Administrative activities focused on establishing the administrative basis for long-term project implementation in support of the technical activities. These were:

- Finalizing local employment and consultant agreements;
- Revising and re-submittal of the Procurement Plan;
- Development and submittal of the Grants Manual Plan (GMP);
- Establishing Personnel and Office Policies and Procedures; and
- Identification of office space.

USAID IFACS has experienced several challenges during this quarter of implementation. The primary challenge has been recruiting qualified Indonesian staff that are within the budgeted amounts for each position. This has been a particular constraint in identifying the Community Development Specialist, Partner Coordinator, and Administrative Officer. In addition, USAID IFACS has experienced slower

progress in starting up due to delays in the office lease falling through at the last minute and meeting approval requirements/standards of proposed staff and contract deliverables.

The next quarter, 3rd Quarter FY 2011, will see a significant increase in field activities. Once the work plan and corresponding budget modification are finalized and approved, all field staff will be contracted, regional offices established, and activities identified in the proposed work plan will be initiated. This will include a major thrust in building linkages and buy-in with local governments, partners and private sector initiatives.

# RINGKASAN EKSEKUTIF

Laporan ini merupakan laporan triwulan kedua Proyek Bantuan Kehutanan dan Iklim Indonesia yang didukung oleh USAID (USAID IFACS). USAID-IFACS merupakan Task Order di bawah PLACE IQC yang dilaksanakan oleh Tetra Tech ARD dalam jangka waktu lebih kurang 47 bulan. Proyek ini dirancang untuk mendukung Country Program Strategy USAID Indonesia tahun 2009-2014, Sasaran 2: “Pengelolaan Sumber Daya Alam yang Berkelanjutan”, Sasaran Antara 1: Pengelolaan Ekosistem Hutan yang Lebih Baik”. Secara khusus, USAID IFACS berusaha untuk mengurangi ancaman deforestasi dan perubahan iklim, serta membantu Pemerintah Indonesia melindungi hutan tropis, flora dan fauna dan proses ekosistem (termasuk penyerapan karbon). Laporan ini mencakup periode Januari sampai dengan Maret 2011 dan menekankan pada perencanaan teknis dan kegiatan persiapan awal.

Kegiatan teknis selama triwulan ini difokuskan pada hasil-hasil kerja yang telah ditetapkan dan diuraikan dalam gugus tugas dalam kontrak IFACS, dan pada kegiatan diplomatik yang tercantum dalam Rencana Kegiatan Mobilisasi dan Kegiatan Awal. Kegiatan-kegiatan tersebut adalah:

- Pemilihan target lokasi lansekap, termasuk melakukan penilaian awal kapasitas instruksional
- Koordinasi awal dengan mitra-mitra di bidang kehutanan
- Pembuatan, penyampaian dan perubahan Rencana Kerja tahunan yang pertama, termasuk perubahan struktur staff proyek
- Pembuatan dan penyampaian Rencana Pemantauan Kinerja (PMP)
- Pembuatan dan penyampaian Rencana Penanggulangan dan Pemantauan Lingkungan (EMMP)
- Pembuatan, penyampaian dan perubahan Strategi Komunikasi, dan
- Perekrutan staff untuk posisi teknis dan yang berkaitan dengan program.

Selain itu, tim USAID IFACS bergabung dengan delegasi USAID melakukan kunjungan pengenalan lapangan ke provinsi Kalimantan Tengah, Aceh dan Kalimantan Barat. Kegiatan tersebut dilanjutkan dengan kunjungan lapangan tim USAID IFACS ke area kerja yang telah diseleksi dan memperkenalkan proyek ini kepada para pemangku kepentingan utama.

Kegiatan administratif difokuskan pada pembuatan aturan administratif yang menjadi dasar bagi pelaksanaan proyek dalam jangka panjang dan mendukung kegiatan teknis. Kegiatan tersebut adalah:

- Penyelesaian kontrak kerja para staff dan konsultan lokal
- Perubahan dan penyampaian kembali Rencana Pengadaan Barang dan Jasa
- Pembuatan dan penyampaian Rencana Pedoman Hibah (GMP)
- Pembuatan prosedur dan peraturan kantor dan kepegawaian
- Penentuan lokasi kantor

USAID IFACS mengalami berbagai tantangan dalam triwulan ini. Tantangan utama adalah merekrut staf lokal yang memenuhi persyaratan dengan kompensasi yang sesuai anggaran untuk setiap posisi. Hal ini menjadi kendala utama dalam merekrut Community Development Specialist, Partner Coordinator dan Administrative Officer. USAID IFACS juga mengalami kemajuan lambat dalam masa-masa persiapan awal, karena tertundanya kontrak sewa ruangan kantor pada saat terakhir, dan keterlambatan dalam memenuhi persyaratan untuk mendapatkan persetujuan bagi staf yang diajukan dan hasil-hasil kerja yang tercantum dalam kontrak..

Dalam triwulan ketiga tahun fiskal 2011, diharapkan akan terjadi peningkatan kegiatan di lapangan. Setelah rencana kerja dan modifikasi anggaran terkait diselesaikan dan disetujui, seluruh staff di lapangan akan direkrut, kantor daerah akan dibuka, dan kegiatan-kegiatan yang tercantum dalam rencana kerja akan dimulai. Kegiatan ini juga akan mencakup upaya penting dalam menyepakati dan menjalin kerjasama dengan pemerintah daerah, mitra kerja dan sektor swasta.



# 1. INTRODUCTION

## 1.1 Background

Tetra Tech ARD was awarded the Indonesia Forestry and Climate Support (USAID IFACS) Project on November 5, 2010. The USAID IFACS Project is designed to support USAID Indonesia's Country Program Strategy 2009 – 2014, Objective 2: "Sustainable Management of Natural Resources," Intermediate Result 1 "Improved Management of Forest Ecosystems." USAID IFACS seeks to reduce the threats of deforestation and climate change, and help the Government of Indonesia (GOI) conserve the country's tropical forests, wildlife, and ecosystem processes, including carbon sequestration.

## 1.2 Program Overview

Indonesia is home to some of the most biologically diverse forests in the world. However, deforestation threatens that biodiversity and is a leading contributor to greenhouse gas emissions. As the world's third largest emitter of greenhouse gases, management of Indonesia's forest resources is critical to global attempts to address climate change and the conservation of valuable biodiversity. USAID IFACS, a 47 month initiative, will make a substantial contribution toward achieving the Government of Indonesia's goal of reducing greenhouse gas emission by 26% by the year 2020, by providing compelling incentives and capacity for support for the development and adoption of low emissions development strategies for forest stakeholders in Indonesia.

The program has three closely related technical components. The first component targets improving forest and resource governance by engaging and increasing the capacity of stakeholders—multiple government levels, communities and the private sector in spatial and regional planning, decision making, and conflict resolution in order to create an enabling environment conducive to long-term sustainable growth and biodiversity conservation. The second component focuses on improved management and conservation of forest resources given a changing environment. Activities under this component increase the local capacity and foster sustainable forest management and conservation, especially at the community and landscape levels. Local and regional climate change vulnerability and adaptability assessments are a critical part of determining appropriate management strategies and appropriate technological packages. The third component addresses the socioeconomic incentives and financial resources required to sustain forest under management and conservation. Activities ensure improved livelihoods of local inhabitants, provide long-term financial mechanisms, and establish market linkages for ecosystem services. A fourth component encompasses project management and coordination. Under this component, USAID IFACS helps coordinate USG activities to support Indonesian climate change objectives, including facilitation of the GOI achievement of the Norwegian Letter of Intent on Climate change, the REDD+ National Strategy, MRV (Monitoring, Reporting, and Verifying emissions) and Low Emission Development Strategies. USAID IFACS provides support to a steering committee between USAID and the GOI. The project works in eight target landscape sites covering up to 10,000,000 ha of forest located in Papua, Kalimantan, and Sumatra.

## 1.3 Report Organization

This Quarterly Report, for the period of January through March 2011, presents progress achieved during the second quarter of contract implementation. Given the early stage of the project, and the Work Plan was not approved during this quarter, this report focuses on technical and administrative achievements based on the Mobilization and Quick Activity Plan, with corresponding challenges and an overview of next steps for each.

## 2. TECHNICAL ACHIEVEMENTS

Technical activities during this quarter focus on discrete activities of the Mobilization and Quick Start Activity Plan. For consistency and monitoring purposes, each activity listed in the Plan are included below with an update on each, even though several of them have yet to actually be started, in part because they are dependent on completion of other activities.

### Task I: Staff Recruitment

Tetra Tech ARD is still in the process of hiring all Jakarta-based staff. As mentioned in the executive summary, we have struggled to identify qualified Indonesia staff that are within the budgeted amounts for these positions. In at least some instances it was not possible to identify qualified candidates within these budget constraints, and consequently TT/ARD felt it had no alternative but to put forward candidates that were above budgeted amounts, but for whom TT/ARD felt it could accommodate within the context of the overall budget. This has led to an ongoing dialogue between TT/ARD and USAID on the issue of the cost of qualified candidates, the outcome of which will affect the timing for filling positions listed as TBD below. In other cases, there is an ongoing discussion with USAID to modify the scope of work for selected positions to better meet program staffing requirements. Please find below an update of the current status of the recruitment process:

Technical Staff	Name	Start Date
Institutional Development/Governance Advisor	Arief Wicaksono	1/12/2011
Forestry, Private Sector, SME	Agus Djailani	1/3/2011
Forest, Climate Change, and Biodiversity	Darrell Kitchener	2/24/2011
Community Development Specialist	<i>Not yet filled</i>	
Partner Coordinator	<i>Not yet filled</i>	
Communications and Learning Specialist	Farah Sofa	5/2/2011
Spatial Planning Specialist	Sigit Widodo	12/13/2010
Spatial Planning Advisor	Eka Rianta	2/1/2011
Senior M&E Specialist	Sarjono	1/3/2011
Monitoring and Evaluation Officer	<i>Not yet filled</i>	
Training Specialist	Yoen Nazar	3/28/2011
Grants Specialist	Luciana Barliantari	12/8/2010
Senior IT Software/Programming	Edwin Chaidir	1/3/2011
Junior IT Hardware Specialist	<i>Position revision under review with USAID</i>	
Support Staff	Name	Start Date
Administrative Officer	<i>Not yet filled</i>	
Finance Officer	Wahyu Samudrastuti	1/3/2011
Procurement Officer	<i>Not yet filled</i>	
Admin/Grants Assistant	Lidya Jalius	3/1/2011
Driver	<i>Pending purchase of project vehicle</i>	
Office Assistant	Indri Sulyus	3/30/2011

Regional staff – spatial planner, governance, admin, and driver (please specify)	Not yet filled	
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As indicated in work plan drafts submitted to USAID and in discussions with the COTR, USAID IFACS is proposing to carry out a more direct approach to program implementation at the landscape level. The USAID IFACS project will rely on existing and proposed additional project staff to directly implement additional planned activities, while outsourcing smaller sets of discrete program tasks to partner organizations. This strategy is a refinement of the original program plan that called for outsourcing large blocks of program responsibility at the landscape level, up to the level of program management of entire landscapes. The revised implementation strategy will create better opportunity for integrated program planning and implementation at the landscape level, as well as increase the level of onsite capacity for directly managing program activities. But, the revised strategy will also put a greater level of responsibility on the core team to implement at the regional level, and develop strategies and maintain guidance in all regions from the technical staff in Jakarta. As a result the USAID IFACS has rethought our implementation strategy, and are proposing to create additional positions in Jakarta and the Regional Offices.

The Jakarta Office will require greater management capacity to ensure technical coordination and smooth operations in Jakarta and the regional offices. To address these needs we propose to create the Technical Coordinator position, who will supervise the Jakarta based technical unit and assure coordination and adequate support of the unit with the 4 regional offices; create the Operations Manager position, who will directly supervise all program financial management, contracting, human resources, logistics, information technology, and administrative support; and develop a Best Management Practices (BMP) Unit to work with concessionaires to improve their understanding and application of BMPs in existing forest concessions.

On the Regional Level USAID IFACS proposes to establish four regional offices, rather than two, to cover eight proposed landscapes. The additional office creates an opportunity for greater consistency program management, with each regional office responsible for the implementation of program activities in *two* landscapes, including the *home* landscape where the regional office is located, as well as an *associate* landscape. Tetra Tech ARD originally budgeted for four regional staff members in each field office, Spatial Planner, Governance Officer, Administrative Officer, and Driver. The small staffing structure, and limited field offices, was based on the assumption that we would be working closely with partner organizations that would provide the majority of the technical expertise and office space. With a shift to a more direct implementation strategy, USAID IFACS proposes to add staff directly, including Regional Managers, Landscape Coordinators, Private Sector/Trade and Finance Officers, Community Development and Outreach Officers, and Forest and Conservation Officers, to carry out many of the activities.

These proposed changes have been reflected in a budget modification that is currently under discussion with USAID.

**Task 2: Undertake Target Landscape Site Selection**

TT/ARD’s consultant Dr. Jim Schweithelm worked with the USAID IFACS team to draft the Site Selection report, which was submitted to USAID on January 19, 2011. The eight landscapes proposed were a refinement of the eight landscapes initially recommend to the project by USAID, and presented by USAID IFACS to stakeholders during the USAID IFACS Kick-Off Workshop held on November 26, 2010. Over the intervening months the USAID IFACS team worked with the USAID IFACS COTR to refine the selection of target landscapes to optimize project logistics and meet contract requirements. USAID IFACS will revise the Target Site Selection report next quarter to present our proposed final target landscapes.

### Task 3: Private sector Networking and SME Potential Assessment

#### A. Macro Investment Data

During this period USAID IFACS secured 2010 Macro Investment statics for 24 sectors disaggregated by domestic and foreign investors from National Coordinating Agency on Investment (BKPM). The number and value of investments in specific regions, is a good indicator of ‘attractiveness’ of a region in accepting the private sector as partner in local economic development. The following is a summary of consolidated statistics for the four target provinces for USAID IFACS program:

Province	National Investment (PMDN)		Foreign Investment (PMA)	
	2010		2010	
	# Projects	Value – IDR Billion	# Projects	Value – IDR Billion
NAD – Aceh	5	41	14	41
West Kalimantan	43	1,172	50	1,534
Central Kalimantan	34	3,508	61	4,919
Papua	7	178	17	2,966

Source: Investment Coordinating Board (BKPM)

Among the target landscapes for USAID IFACS, Aceh shows the lowest level of investment in 2010. There are primarily two ways to support economic growth for a region: through increased private sector investment and government expenditure. Having failed to attract private investment, most District Governments in Aceh do not have enough funds allocated (from APBD) for local development. Up to 75% of the district’s budget was spent to pay for bureaucrats’ salaries and expenses, leaving only 25% for development. Unable to fund operations from local revenue stream (PAD); mass media reported that 10 Districts in Aceh, including Aceh Tenggara, are technically bankrupt. (KOMPAS, 26 Maret, 2011)

As a preliminary finding, the provincial government of Aceh (post Tsunami) failed to improve prosperity of its population through economic growth. Attracting private sector investment should be the priority of provincial and district governments through improved governance and USAID IFACS has a good opportunity to play a supporting role here. While both Aceh Selatan and Tenggara district governments expressed their interests to collaborate with USAID IFACS program, further confirmation is required to ensure the district government would be able to allocate parallel funding for relevant activities.

In contrast, two provinces in Kalimantan, West and Central, received healthy injections of private sector national and international investments. Central Kalimantan ranked sixth, nationally in attracting both national and foreign investments in 2010. The indicative sectors for investment are in mining, oil palm, forestry-industrial plantation and food. These investments create more pressure and threats to the forest, peat lands and biodiversity, and provide a wider range of private sector companies that USAID IFACS can collaborate with. The USAID IFACS Best Management Practice (BMP) Unit will play a large role in assisting forestry, mining and oil palm companies to adopt more sustainable practices.

In Papua the value of foreign investments in 2010 was much larger than national investment. Most of the private investments identified to date support the logging industry. Additionally, the GOI has planned to develop huge rice estates in Papua in the near future. Further work is being done to identify the industry sectors for all target provinces, using International Standard Industry Code (ISIC) Revision 4, used by BKPM for their database.

## **B. Export Trends**

The project also obtained data regarding export development in forestry, mining and oil palm products as trend indicators and drivers of local economy. The 2002-2008 data showed that traditionally strong forest based product exports (e.g., wood flooring, plywood, MDF, and wood furniture) were relatively stagnant, while chemical pulp and finished paper product exports increased. By the end of 2008 pulp and paper exports were 60% of the total forest product exports. Coal exports and crude palm oil (CPO) exports also increased dramatically between 2005 and 2010. Taken together, these trends suggest a strong international ‘market pull’ for both coal and CPO, which appears to be driving the expansion of coal mining operations in East Kalimantan and now going into Central Kalimantan. Oil palm estates continue to expand in Sumatra, including Aceh. For pulp and paper, expansion of fast growing wood plantations, such as *Acacia mangium*, *Gmelina aborea* and *Eucalyptus sp.* is concentrated more in Riau and some parts of South Kalimantan.

The world’s demand for coal and CPO is increasing. The average FOB price for coal from Indonesia went up steadily from USD 34 per ton in 2005 to USD 63 per ton in 2010. As for CPO, the average FOB price more than doubled from USD 347/ton in 2005 to USD 810/ton in 2010. Attracted to high returns, investments by national and international private sector entities in coal mining, oil palm and industrial fast growing wood plantation in Indonesia will continue to grow. Central Kalimantan will be the hotbed of both coal mining and oil palm private sector activities.

## **C. Private Sector Identification & Data Collection**

Using published data from the Ministry of Forestry, Tropical Forest Foundation (TFF), USAID-Responsible Asia Forest Trade (RAFT), The Nature Conservancy (TNC) and Forest Stewardship Council’s (FSC) list of certified operations, a preliminary list of private sector companies in all four target provinces is being prepared. The GIS Specialist is working to confirm their locations in the landscapes. There is very little progress in forest management certification in Indonesia. From 2009 to 2011, only nine forest concessions, with a total of 850,569 hectares, were FSC certified. There has not been a new forest concession certified in Indonesia in the last 2 years. On the positive side, for 2011, there are 156 Chain of Custody (COC) certified companies in Indonesia. USAID IFACS, working with other partners, such as TFF and USAID RAFT, will help some of the concessions in the target districts prepare for forest management certification. Linkage to the international market for certified products, such as plywood, processed wood products such as flooring, moldings and furniture need to be further developed as incentive for concessions who are adopting Sustainable Forest Management (SFM) practices.

For the oil palm sector, 199 companies, members of the Indonesia Oil Palm Producers (GAPKI), are identified. However, the addresses listed are mostly office locations, not the actual location of the estates in the four target provinces. The raw data will be checked against membership status in Roundtable on Sustainable Palm Oil (RSPO) and also against the Indonesian Sustainable Palm Oil (ISPO) register.

PT Suka Jaya Makmur/Alas Kusuma Group and PT Indo Sawit Kekal in West Kalimantan have been identified as potential private sector companies for collaboration with USAID IFACS. HCVF assessments were already completed for the two companies during the previous USAID funded OCSP program. Austindo is another private sector company interested in collaborating with USAID IFACS. It has a 16,000 ha site near Ketapang, West Kalimantan, approved by local government for oil palm estate. Just recently, Austindo agreed to leave 5,000 ha of the site undisturbed, eventually to be managed by Flora and Fauna International (FFI) as conservation area.

Identification of the mining operations the target provinces is ongoing. Data will be collected from two groups of mining associations, Indonesia Coal Mining Association (APBI-ICMA) and Indonesian Mining Association (IMA-API). A new forum has been launched under the **Alliance of Low Carbon Business Indonesia** (ALBI, [www.albi-id.com](http://www.albi-id.com)). ALBI membership listing will be used as cross reference; so far it

includes financial institutions, carbon finance, airlines, foundations, NGOs and some big industries such as CARGILL and APRIL.

#### **D. SME and Alternative Livelihood Activities in Forestry**

As noted earlier, production and exports of solid wood furniture have stagnated since 2002, averaging about USD 1 billion per year. The Furniture Maker Association (ASMINDO) estimated that up to 40% of SME furniture producers have closed down in the last few years for lack of wood supply. Decreasing supply and increasing price of natural forest and plantation woods have been the main problem for the furniture sector. Consequently, some producers have begun to use railroad ties, old houses, utility poles and disassembled piers as alternative wood for furniture production. Some factories in Indonesia are COC certified under FSC, however, the volume of recycled wood category is too small to be a significant solution for the furniture industry as a whole.

Based on a 2006 International Finance Corporation (IFC) study on community sawmills, there is a significant potential for wood left from logging operation as an alternative source. About 40% of wood from logging operation (in Indonesia) is actually left on the forest floor to rot. This include logs too small under regulation, broken/split logs, branches, hollow logs and trunk-roots. Working with logging operations, a SME/community saw mill can be set up close to the logging area/block. Waste from plywood/mill operation can also be utilized to make furniture components. Community saw mills have the opportunity to pull and process the various 'waste' wood logs and cut them into useful timber sizes for home construction and furniture. USAID IFACS anticipates exploring opportunities with concessionaires to collaborate on developing legal and alternative livelihoods for the community. Market linkage work, to supply component sized timbers to SME furniture makers in Java, is a prerequisite for a successful pilot.

#### **E. Tropical Salvage Timber in Katingan, Central Kalimantan**

Salvaged wood is another category of wood identified as sustainable source for furniture makers. Recently a Bali-based private firm, Tropical Salvage Timber (TST), visited Katingan district where they conducted a preliminary survey on the potential of recovering sunken logs from the river. Survey findings suggest there is a sufficient volume of logs to recover to justify setting up an operation there. For the first phase, TST will send the salvaged wood to Jepara, Central Java, for processing and furniture production. In a second phase, TST plans to add local value in Katingan by investing in a local saw mill facility and developing a training center for furniture production. The plan is to recruit trainers or mentors for furniture making from Central Java. TST has established market linkages to the United States, and most recently with COSTCO. There is potential for the USAID IFACS program to support the capacity building activity component, such as Training of Trainers (TOT).

#### **F. SME Potential Assessment**

The SME Potential Assessment work will be conducted when the final selection of the sites or districts for USAID IFACS is completed. The names and location of all private sectors in all target landscapes are being collected for forestry, mining and oil palm industry. Priority will first be given to those concessions already working with the Tropical Forest Foundation (TFF) and Responsible Asia Forest Trade, and USAID IFACS will work to identify additional suitable natural resource concessionaires or businesses, who while not working with TFF have a 'green' business agenda and a commitment to apply Best Management Practices for conservation of natural resources in their concessions (USAID-RAFT Trade magazines such as AgroFarm, InfoSawit, Media-Perkebunan and AgroAsia have been useful sources of information on some oil palm operations. For mining, there are several industry associations to be contacted, such as APBI-ICMA, IMA-API, to get profiles of their members. Further information from the Ministry of Energy and Minerals (ESDM) will be collected.

SME data and activities will be collected through the local offices of BAPPEDA and DISPERINDAGKOP (combined Offices of Ministry of Industry, Trade and Cooperatives-SME). Direct contact has already been

made during visits to Aceh Selatan and Aceh Tenggara. However, in addition to data provided through Departments, more work must be done on identifying ‘informal SMEs’ in every target district. Only 40% of SMEs are officially registered in Indonesia; the remaining 60% do not have licenses and tax identification number. The Short Term SME Potential Assessment will also be assigned with identifying informal SMEs in each site

### **G. Private Sector/Climate Change Networks**

During this quarter the USAID IFACS project established contacts and networks with the following organizations:

- PT Rimba Makmur Utama (RMU), a private sector company developing a carbon project in Katingan district;
- Contacts made during the Clinton Climate Institute (CCI) REDD Workshop at CIFOR, in Bogor, include: World Resources Institutes (WRI), World Agroforestry Centre (ICRAF), Daemeter Consulting, Starling Resources and Restorasi Habitat Orangutan Indonesia (RHOI);
- An introductory contact was made with Head of BAPPEDA of Central Kalimantan province, Ir. Humala Pontas, MSc;
- Another contact and presenter on East Kalimantan’s Low Carbon Growth strategy was Dr. Deddy Hadriyanto, Center for Climate Change Studies, Mulawarman University. He suggested several companies located in East Kalimantan for collaboration. These include CARGILL, SINAR MAS, ASIAN AGRI, INDIKA and Rajawali Group;
- AMCHAM INDONESIA was contacted in March 04, 2011; and
- Mr. David Finneren, Corporate Citizenship Chairman, is interested in working with green investors for the members, as well for his own company’s Sustainability Initiatives.

### **Task 4: USAID IFACS Awareness Raising**

USAID IFACS staff together with USAID personnel conducted three site visits to Central Kalimantan, West Kalimantan and Aceh, to introduce the project to provincial governments where the project anticipates working. In West Kalimantan the team also visited Ketapang District and met with district government staff, as it is anticipated that Ketapang District will be the primary district in the project’s target landscape in West Kalimantan. USAID conducted an additional visit to Papua province during the USAID IFACS work planning and consequently USAID IFACS project representatives were unavailable to join. These visits solidified USAID’s commitment to work in these four provinces. The provincial level visits followed by two additional site visits, to Central Kalimantan, Katingan and Pulang Pisau Districts, and to Aceh, Selatan and Aceh Tenggara districts, where project staff visited the district governments of the target landscapes to introduce the project.

Also during this quarter USAID IFACS staff joined USAID to meet with representatives of the National Council on Climate Change (DNPI), REDD+ Task Force at the President Special Unit in Development Oversight and Monitoring (UKP4), and the Ministry of Forestry’s Secretary General and the Secretary Director General of Forest Protection and Nature Conservation to introduce the USAID IFACS project, its program objectives, and discuss mechanisms for partnership and cooperation.

### **Task 5: Develop Methodology for Preliminary Capacity Assessment at Site**

Tetra Tech ARD subcontracted *Partners Indonesia Center for Democracy and Peace* (PINDO) in December 2010 originally to assess the districts with candidate target landscapes, determine their capacity

and interest in the project as well as the socioeconomic, political, and civil society conditions that might affect the feasibility of working in these districts. PINDO's work should generate both a report addressing basic demographic and socioeconomic information for each district, including major forms of livelihoods and commercial activity, compiled from secondary sources, and a second report which provides more detailed information on a smaller set of primary sites emphasized in the contract, and will be comprised of a series of fact sheets. This subcontract is overdue, but is expected to conclude in April 2011.

### **Task 6: Climate Change Vulnerability and Adaptation Analysis**

The design of the Vulnerability and Adaptation (V&A) workshops was modified in February to emphasize a focus on determining the likely impacts of climate change in each of the Project target landscapes and possible mitigation and adaptation responses by local people. The scenarios for forests, agriculture and environmental services will be central to the workshop. To this end, the project has developed a draft terms of reference to engage a local firm, to review existing global and Indonesian Climate Change information, run existing models and interpolate likely Climate Change trends in each of the landscapes as basic information for each workshop. The workshops will use this information to identify likely mitigation and adaptation responses that are considered feasible by the three sectors: local governments, civil society and the private sector. At the completion of each V&A workshop a report will be prepared detailing the nature of Climate Change, probable adaptation and mitigation scenarios in diverse Indonesian landscapes for forests, agriculture and environmental services, and feasible adaptation and mitigation responses.

V&A workshops are planned in the following five sites, with the first scheduled for June 15, 2011: Sabulussalam in Aceh, Ketapang in West Kalimantan, Palangkaraya in Central Kalimantan, and Jayapura and Timika, in Papua.

### **Task 7: Preliminary Coordination with USAID Partners**

The USAID IFACS project has worked closely with the US Forest Service to collaborate on eight separate, but integrated, activities that are included in the USAID IFACS work plan. These activities will support:

- Training, workshops, FGDs in landscape forest conservation and Climate Change mitigation & adaptation to stakeholders; and
- A pilot study by USFS to improve local decision making and spatial planning at one selected IFACS site.

Discussions are in progress to develop several of these activities. For example, to conduct Strategic Environmental Assessments that are now a legal requirement when developing spatial plans (law UU26/2007). This will also include activities related to fire risk assessments and fire risk management and gaining assistance in the planning and conduct of the proposed CC V&A workshops. Two meetings are proposed for April 2011 to decide details, point persons and schedules for this collaboration.

### **Task 8: Establish USAID IFACS Spatial Database**

The project moved quickly to assemble a comprehensive spatial database covering anticipated project sites in Aceh, North Sumatra, West Kalimantan, Central Kalimantan, East Kalimantan, and Papua. The availability of spatial data from previous USAID funded projects, especially the Orangutan Conservation Services Program (OCSPP) and the Environmental Services Program (ESP), has contributed significantly to our collection. The USAID IFACS' database has already been instrumental in screening candidate landscapes to evaluate their relevance to the USAID IFACS program objectives. The data base includes both vector and raster formats of the spatial data. The spatial database is currently stored in a local drive on site in the project office. In time the project will convert the data into a geo-database format so that it can

better be manipulated and managed using ArcGIS software. The ArcGIS software was included in the Procurement Plan that is currently pending USAID approval.

### **Tasks 9 & 10: Baseline Data Collection Needs and Process Task**

The first draft of the PMP was submitted to USAID on 25 March 2011. As of that time, USAID IFACS anticipated measuring project performance against 30 indicators, generated specifically to measure progress against the project's 29 require results (including both overall and component-specific results). However per review, the PMP will require further revision, and the number and nature of the indicators will change. Nonetheless, the USAID IFACS has recently sound understanding of the nature and scope of the baseline data that is required. Some of the baseline data will be obtained through existing sources, especially the national, provincial, and district governments. The project has already collected basic data sets from the Ministry of Forestry, but has yet to begin obtaining data from provincial and district government counterparts. For other indicators, the project will need to generate its own data directly via Knowledge, Attitudes, and Practices (KAP) surveys. The USAID IFACS project will hire one or more subcontractors to carry out the KAP survey, and is currently in the process of developing the Scope of Work. The KAP surveys will be conducted next quarter, as will the rest of the baseline data set.

### **Task 11: Rapid Assessment of Partner Priority Needs & Rapid Mobilization**

USAID IFACS has conducted site visits for rapid assessment in target landscapes of Aceh, West Kalimantan and Central Kalimantan, to identify potential partners, assess district government interest and degree of commitment to participate in program implementation. USAID IFACS also canvassed potential candidate staff for regional/landscape offices during these visits. Until the final field staffing structure is approved, the project assigned Jakarta staff with Acting Regional Manager roles to facilitate mobilization for each of the regional programs: Sigit Widodo for Aceh; Darrell Kitchener for West Kalimantan; Eka Rianta for Central Kalimantan; and Arief Wicaksono for Papua.

### **Task 12: Develop USAID IFACS Initial Communications Strategy**

Tetra Tech ARD engaged the support of consultants Tim Jessup and Yanti Gunadi to finalize the Communications Strategy. The first draft of the Communications Strategy was submitted to USAID on February 16, 2011 and after three revisions was approved on April 15, 2011. The revisions responded to COTR input and placed greater attention on behavior change communication and direct outreach through SMS messaging, emails and social networking, reducing the emphasis on national campaigns and newspapers as originally proposed.

### **Task 13: Develop Work Plan**

Short Term consultant, Jim Schweithelm, was mobilized to Jakarta to work with the USAID IFACS implementation team on the first annual work plan. The Work Plan was submitted to the COTR on February 25, 2011. Between submission and the writing of this report, three sets of comments have been received from the COTR and subsequent drafts submitted based on the comments. The latest version of the Work Plan was submitted to the COTR on April 15, 2011 and is pending USAID approval or additional comments.

### **Task 14: Develop Performance Monitoring Plan (PMP)**

Jeff Saussier carried out a short term consultancy to work with USAID IFACS staff to develop the PMP in later February to coincide with finalization of the Work Plan. The draft PMP was submitted March 24<sup>th</sup>.

The COTR reviewed the draft and gave feedback on March 31, citing areas for improvement. A subsequent meeting was held among USAID IFACS staff and the COTR to better understand pending issues and staff are currently in the process of finalizing the PMP.

### **Task 15: Develop Environmental Mitigation and Monitoring Plan (EMMP)**

The EMMP was also submitted on March 24<sup>th</sup>. Comments were received from the COTR on April 3<sup>rd</sup> and are being incorporated into the final draft at this time.

## **3. ADMINISTRATIVE ADVANCES**

Tetra Tech ARD is underway in establishing the administrative basis for USAID IFACS. During this reporting period, a number of administrative milestones were achieved.

### **Task 16: Develop Grants Manual**

Tetra Tech ARD's Home Office Senior Grants Manager tailored the standard grants manual to best meet the needs of USAID IFACS project, and submitted the GMP to USAID on February 2, 2011. The GMP underwent three revisions, per comments by the COTR and the Acquisition Specialist. The third version of the GMP was submitted on April 5, 2011, and is currently pending USAID approval.

### **Task 17: Establish Office Space**

An office space was identified and a letter of intent was signed with the landlord in early February. A floor plan was developed, the project solicited bids for the contract to fit out the office space, and a contractor was selected to build out the new space in time for occupancy by 1 April. Unfortunately, the landlord encountered financial difficulties and decided to sell this office space, and consequently withdrew from the agreement in early March. The project identified and signed lease to secure a new office space located on the 12th floor of the GKBI Building on Sudirman Road. The USAID IFACS project will continue to operate out of a temporary office space on the 39th floor of this same building until this space is renovated.

### **Task 18: Develop Procurement Plan**

The Procurement Plan has gone through a number of iterations as detailed below.

- 1<sup>st</sup> Procurement Plan submitted January 5, 2011
- Comments received January 26, 2011
- 2<sup>nd</sup> Procurement Plan submitted February 8, 2011
- John Nittler and Chelsea Keyser meet with Craig Smith and Carey Yeager on February 14, 2011 to discuss the revision and finalization of the Procurement Plan. Per USAID instruction the 3<sup>rd</sup> Procurement Plan was submitted on February 14, 2011.
- Additional comments received on March 11, 2011
- 4<sup>th</sup> revised Procurement Plan was submitted on March 11, 2011
- Additional comments received on March 21, 2011
- 5<sup>th</sup> revised Procurement Plan was submitted on March 23, 2011, and is pending USAID approval or additional comments.

There have been a number of challenges encountered by the project as a result of the delay in the approval of the procurement plan. One example of this involves the project computer equipment. Much of the computer equipment required by the project has been inherited from USAID earlier project, OCSP. Unfortunately, the computers had been stored improperly prior to the commencement of USAID IFACS, resulting in damage to the hard disks on several of the machines. Also, many of them are quite old and have either slow processors or inadequate RAM to operate current, industry standard software. The procurement plan has a request to upgrade this equipment, but it has not yet been approved. The project is authorized to purchase the computers at their approved budgeted amount. USAID IFACS project did not procure the approved equipment at the project outstart, and later had to procure the computers in the United States, because comparable computers in Indonesia were above the budgeted costs. We have encountered more than one month delays in clearing the computers through customs, because we do not yet have tax clearance on equipment. Visiting staff from ARD/Vermont have been able to hand carry some of the units, which are now in use, but the remainder of the staff have either had to make do with substandard equipment or personally owned equipment.

#### **Task 19: Develop Subcontract Agreements**

This task will be initiated once subcontract scope of works are identified.

## **4. ACTIVITIES PROPOSED FOR QUARTER 3**

The next quarter, 3rd Quarter FY 2011, will see a significant increase in field activities. Once the work plan and corresponding budget modification is finalized and approved, all field staff will be contracted and activities identified in the proposed work plan will be initiated. Included among these are:

- Secure legitimate basis for USAID IFACS works in Aceh, West Kalimantan, Central Kalimantan and Papua through agreements between USAID IFACS and the provincial governments; USAID IFACS already has a legitimate basis through USAID Indonesia's Assistance Agreement with MenkoKesra. Additional MOUs should not be signed with the provincial government based on instruction from MenkoKesra. Consequently, the agreements requested by local governments from USAID IFACS and signed will be of lesser gravitas than MoUs and titled 'Letter of Collaboration'.
- Recruit the 4 Regional Managers and staff.
- Complete all staffing in Jakarta.
- Establish Regional Offices.
- Implementation of the Vulnerability and Adaptation (V&A) Workshops.
- Carry out the Knowledge Attitudes and Practice (KAP) studies in Target Landscapes.
- Collaborate with the US Forest service (USFS) in trainings on ecosystem carbon assessments in peat swamps.
- With USFS, conduct an investigation of the legal and ecological requirements of the Spatial Planning Law UU 26/2007 as it relates to the preparation of *Kajian Lingkungan Hidup strategis* (KLHS) for both spatial and development plans.

- Facilitate a USFS multi-disciplinary team to develop a protocol for KLHS beginning in Katapang, West Kalimantan.
- Begin training courses to selected government and other sectors in approaches to spatial planning; particularly those related the use of integrated spatial planning principles.
- Complete baseline data collection in Aceh and Kalimantan target landscapes.
- Select potential partners in target landscapes, conduct due diligence on their capacity to implement specific activities and write contract agreements for these works.
- Select businesses, including concessions (natural forest, industrial plantations, oil palm, and mining) in each target landscape for collaboration to attain Best Management Practices.
- Move into the Long Term Offices Space and complete all procurement.

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