



Jurisdictional Approaches to Reducing Palm Oil Driven Deforestation in Indonesia

**Scoping Study of Design Considerations
and Geographic Priorities**

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Purpose

This report is an Extended Summary of a Scoping Study by Daemeter on the feasibility of applying the Jurisdictional Approach (JA) to eliminating deforestation and promoting wider sustainability in Indonesia's palm oil sector. Recent revisions to the legal framework for land, forest, peat, and plantation management in Indonesia followed a wave of pledges by major companies in the palm oil industry to eliminate deforestation, peat land conversion, and exploitation from their supply chains. These pledges hold potential to transform industry practices faster and more comprehensively than efforts in the past, but recent experience makes clear that corporate ability to implement commitments will require pro-active engagement with government at multiple levels to overcome governance challenges and to promote new models of palm oil development.

The willingness and ability of Indonesia's sub-national government leaders to work with industry and other stakeholders toward deforestation free palm oil will depend largely on how Indonesia's national government pursues its renewed commitment to sustainability. The JA is widely viewed as a promising means to support government action at local levels, by facilitating collaboration among sub-national leaders, palm oil companies, and other stakeholders committed to work toward reducing deforestation and peat conversion. Depending on its mode of implementation, the JA holds tremendous potential to democratize land use planning through greater transparency, accountability and inclusive modes of local decision-making. But what is the Jurisdictional Approach, how does it work, and where should it be pursued?

This Scoping Study addresses these questions. We contribute to a broader understanding of the opportunities and challenges for jurisdictional approaches to palm oil reform, through: defining distinctive features of the JA and its goals; by road mapping a more systematic approach to program design, development, and implementation; by highlighting areas where work is needed to build a more compelling value proposition for local support; and by identifying priority geographies for experimentation in Indonesia. The full report describes (i) the evolving governance, political, and commercial context of palm oil in Indonesia; (ii) the key actors and stakeholders involved in a jurisdictional approach and their incentives for participation; (iii) how a palm oil focused Jurisdictional Program (JP) might be designed and implemented over time; (iv) experience to date implementing JPs and related programs in Indonesia; and (v) candidate geographies for piloting the JA in Indonesia. Here, we summarize the main findings, conclusions and recommendations of the study.

What is a Jurisdictional Approach to Sustainable Palm Oil?

The JA encompasses a range of program types applied at sub-national levels to achieve lasting, jurisdiction wide-improvements to natural resource management. Jurisdictional Programs (JP) are designed to catalyze collaborative action by a group of stakeholders working with local government to institutionalize improved land governance and land use practices. The broad goal of JPs centered on palm oil is to create and formalize a framework of incentives, policies, laws, and practices for (a) reducing palm oil driven deforestation and peat land conversion rates below BAU levels, and eventually to zero, while (b) achieving lasting social and economic co-benefits alongside forest and peat protection goals. JPs designed to achieve these ambitious goals are necessarily complex, because they require multiple stakeholders to work creatively and to collaborate in innovative ways to address difficult issues grounded in law, politics, governance, culture, and business practice.

There are numerous challenges to implementing JPs successfully in Indonesia. These include: weak law enforcement; entrenched politico-business alliances at all levels of government in the palm oil sector; mistrust among key stakeholder groups; and the need to create a more compelling value proposition for local leaders to support JP objectives, which is absolutely crucial for success. The JA is in its infancy, with only a few pilots underway and a need to rapidly accelerate the learning phase. We suggest that while the JA has a promising future, a comprehensive framework of new legal, commercial and financial

incentives, together with stronger law enforcement, is needed to enhance the value proposition for local authorities to pro-actively support program goals.

Changing Context of Palm Oil Development

Recent changes in Indonesian politics, policies and law are shifting rules of the game for land use decision-making. At the same time, growing market demands for sustainable palm oil have altered the incentives of industry leaders to tackle deforestation. Potentially positive outcomes from these changes are constrained by the fact that politicians and government officials strongly support expansion of the palm oil industry because of the economic benefits it brings. Yet, there is growing recognition among some leaders, particularly at the national level, that deforestation from palm oil must be slowed to re-brand Indonesian palm oil and to build a more inclusive rural development model. How aggressively and in what form these goals will be pursued remains an open question.

Early in President Joko Widodo's first term, his commitment to deforestation reduction was unclear, judging from his program priorities and institutional restructuring. More recent policy pronouncements by the President – including tougher law enforcement on fires, establishment of the Peatland Restoration Agency, and an impending moratorium on new palm oil development in forests or peat lands – are all signs that his commitment is clearly strengthening. Yet, our field surveys show that most governors and the vast majority of district heads are either non-committal or opposed to action that could threaten industry expansion. The recent dissolution of the Indonesian Palm Oil Pledge (IPOP), an effort by large palm oil companies to cooperate on overcoming shared challenges to meet no deforestation commitments, exposes a fundamental disagreement between progressive versus status-quo factions of government over what sustainability means in the Indonesian context and who has the right to establish and enforce rules for achieving it. This high profile legal and policy disagreement highlights the need to grow Indonesia's domestic constituency for sustainable palm oil, reinforcing market incentives for change and broadening political pressure for reform.¹



Palm oil governance is legally and institutionally complex, involving multiple bodies of law and government agencies related to land, forests, plantations, spatial planning, environmental management, and regional government. Reform measures to date have been largely piecemeal, without a comprehensive road map for the sector built upon understanding the inter-relationships among relevant bodies of law and regulatory tools for reducing deforestation. Capitalizing on emerging policy opportunities will require concerted effort on multiple fronts, combining research, advocacy, on-the-ground pilots, expanded cooperation with private sector, national level policy dialogue on reform, and scaled up experimentation with sub-national jurisdictional programs.

¹ See e.g. the *Hutan Itu Indonesia* campaign (<http://hutanitu.id/siapa-kita>), and recent studies on Indonesian consumer awareness on palm oil at <http://daemeter.org>.

Jurisdictional Program Design Options

Palm oil JPs should be designed to meet agreed objectives, and tailored to local needs and opportunities. An effective design requires selecting the right focal points in government, effective convening authorities and proponent(s) to lead program activities, and the right blend of formal and informal institutional structures for implementation. Among sub-national levels of government in Indonesia, provinces and districts hold the greatest legal authority, access to funding, and in some cases technical capacity to support a JP. Compared with districts, provinces tend to have greater technical capacity, a more diverse economic and political landscape, and following recent changes to the decentralization law enjoy greater power to supervise district governments. Even so, districts still hold legal authority to make key land use, licensing and enforcement decisions related to palm oil, and responsibility for most regulatory functions of plantations and mills. We therefore suggest that JPs designed to pursue a nested, multi-level approach for engaging both provincial and district level officials to coordinate policy and actions at both levels will produce the greatest impact.

A JP may be either convened by local government or by a proponent from outside government, such as an NGO, an industry actor, a donor, or some combination of these. The few JPs currently under development in Indonesia are led by non-government proponents, providing initial leadership, program development, technical support, national and international networking, and funding. A government-convened model has the obvious advantage of putting government at the center of the action, in theory facilitating coordination across government programs, procedures and new policies designed to eliminate or reduce deforestation. Disadvantages are that local governments have no financial incentives and weak legal pressure to take a leading role, lack financial and technical resources to do so, and may be less flexible in their approach to program design and implementation than non-government proponents. JPs led by an outside proponent will have more flexibility in program design and access to technical and financial resources, but lack the formal power of government, and could lack credibility in the eyes of some partners. We believe that establishing a Multi-Stakeholder Forum (MSF) of some kind is extremely valuable and could be essential for a proponent to maintain support among a broad constituency of stakeholders, meet civil society expectations of transparency, and provide a credible accountability mechanism. The MSF could vary greatly in terms of formality, purpose, and powers, and could evolve over time during implementation of the JP.

Value Propositions of Key JP Actors and Stakeholders

The JA could provide multiple benefits and rewards for key government and private sector actors, but it also entails significant costs and risk. Each actor must eventually believe that potential benefits to them outweigh the costs and risks, making their overall value proposition (VP) to participate a positive one. The JP value propositions of core actors are affected by external factors such as requirements of law, effectiveness of enforcement, political pressure from above, and market demands, as well as incentives created by the JP itself, such as prestige, political gain, preferential investment or commodity sourcing for the region, faster resolution of spatial planning conflicts, donor funding, or performance based non-tax incentives (e.g., fiscal transfers) from government, bilateral partners or downstream supply chain actors.

District Heads (*Bupati*) face the most complex VP calculation, involving multiple variables including fiscal impacts, administrative costs, possibility of performance-based financial incentives, economic growth implications, satisfaction of multiple constituency groups, personal gain (or that of family or political allies) and political career aspirations. Participating in a JP could raise a leader's national profile and offer some personal legal protection as governance accountability increases. A successful JP could also attract investment from more progressive firms. Realizing these positive effects would depend on being able to objectively



measure and communicate to key audiences the relative performance of jurisdictions. **Provincial Governors** will likely have a more positive JP value proposition than their district heads. Provinces have a much larger land area and more diverse economic base from which to derive development benefits, providing greater flexibility in balancing development against sustainability than individual districts. They also interact more intensively with national or international political actors where the sustainability agenda is more openly discussed and promoted, potentially making them more likely to support JA objectives.

Large Palm Oil and Agribusiness Companies

highly value their brand reputation and would likely see participation in a JP as a very public way to demonstrate their commitment to deforestation free palm oil, although the level of commitment to sustainability and action supporting it varies substantially among firms. The most progressive are likely to perceive a positive VP on the basis of reputation alone, and secondarily in the expectation that if the JP succeeds, it will support their own work on responsible sourcing. Palm oil companies can potentially realize financial benefit in the forms of: (1) facilitated access to preferred markets; (2) reduced costs of compliance with voluntary certification schemes and/or verified deforestation free supply chains; and (3) reduction in cost of government regulatory compliance. The major risks for them would be that participation in the JP would potentially slow their own efforts to clean up their supply chains, in some way delay or complicate the plantation licensing and development process, or expose them to an increase in opportunistic claims from communities and 'conflict entrepreneurs,' a downside risk of higher profile.



Small Firms may be initially distrustful of a JP, fearing it would usher in a tighter regulatory environment that would disadvantage them with respect to large companies. These fears are believed to have motivated some prominent Indonesian businessmen to lobby government for the dissolution of IPOP. To allay these concerns under a JP, both local government and larger companies would need to provide assurances this would not be the case (at least with respect to legal plantations), and pledge technical support and possibly guarantee access to credit or markets for their product. The participation of these groups is important because deforestation eliminated from large company operations could easily be displaced to these less visible producers.



Smallholder oil palm farmers are extremely heterogeneous in their organizational models; the VP they perceive would likely vary accordingly. Some activities under a "farmer friendly" JP would create a positive VP, e.g. support for land registration and formal land title, farmer extension and support programs, and improved access to credit. Conversely, farmer perceptions that JP success could place them at risk of tougher law enforcement, increased likelihood of paying land or income

taxes, and limitations on opening new farms would contribute to a negative VP. **Forest communities** would likely value JP participation if it provided a means for recognition of their land rights more quickly, or to settle land disputes with companies.

Jurisdictional Program Development Process

JA program development will take different forms in different places. Here, we propose a three-phase process for JP design, development and implementation to organize and sequence complex workflows into more tractable pieces. The process we envisage would be incremental, building stakeholder support over time, and tied to achievement of milestones within agreed time limits.

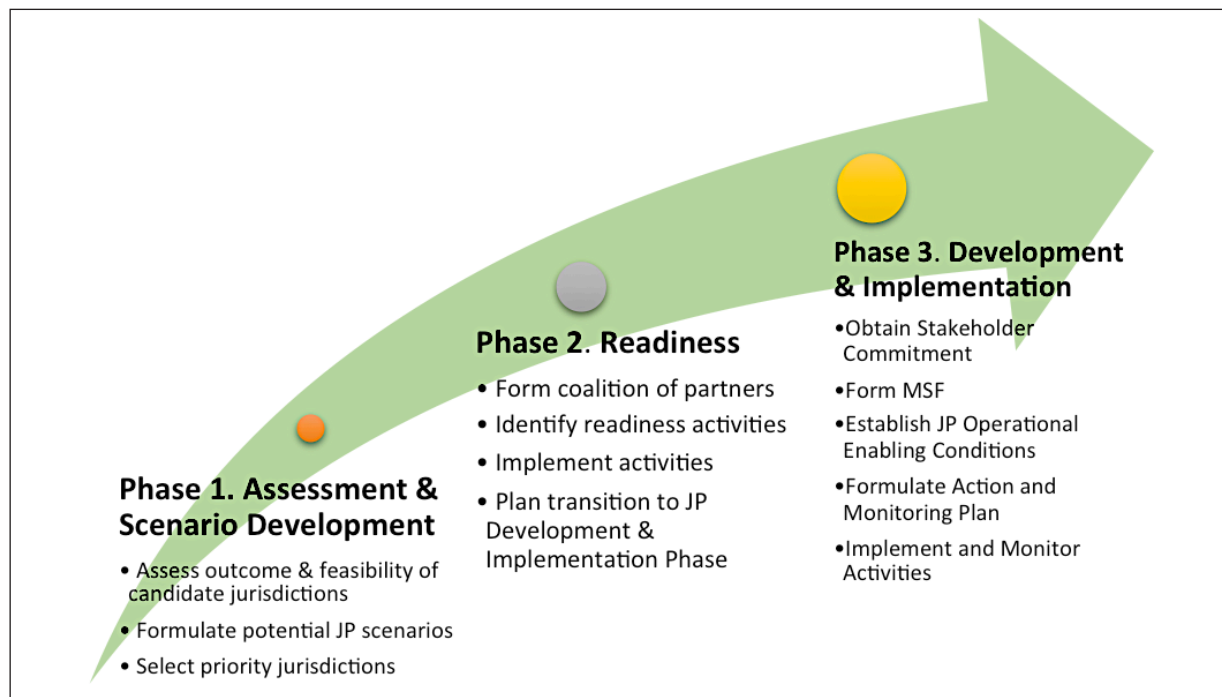


Figure 1. Proposed three phase approach to JA selection, planning, and implementation.

Phase 1 - Jurisdictional Assessment and Scenario Development. In this phase the project proponent would assess opportunities and challenges for JP development in candidate jurisdictions, including consideration of: (a) forest and peat land at risk; (b) current status and future trends of the palm oil industry; (c) governance and political economy of land use; (d) scope for developing *preconditions* and *enabling conditions* for JP success; and (e) alternative scenarios for JP development. Certain Preconditions must be met for a JP to take root and succeed, so the feasibility of achieving this should be examined during the Assessment phase. Preconditions include: a sufficient level of mutual understanding and trust for core actors to work together effectively; one or more multi-stakeholder initiatives around which JP activities can be organized; a sufficiently strong value proposition for key actors in government and industry to make and fulfill initial commitments; and sufficient near and medium term funding. Alongside preconditions, Enabling Conditions are needed for a JP to be effective. These include: a forest cover monitoring system; approved Forest Zone boundaries; political will and capacity to implement and/or revise the spatial plan; substantial presence of one or more large companies with progressive supply chain commitments; and a public-facing land governance reporting system. The assessment phase should also develop ‘scenarios’ for building the JP in a candidate jurisdiction, defined as entry points for commencing initial activities that over time can be broadened to involve more stakeholders and wider program scope. For convenience, scenarios can be divided into three types: (i) building on existing NGO programs; (ii) supporting initial action by one or more companies pursuing supply chain programs; or (iii) working with local government to support existing priority programs relevant to a JP, such as recognition of customary land rights, fire prevention, license reviews or improved forest management. The goal of the Assessment phase is to make a decision of where to invest based on the forest and peat protection ‘rewards’ if a JP were successful versus the feasibility of building the pre-conditions and enabling conditions required for success.

Phase 2 – Readiness. We argue that a Readiness phase is necessary to build the foundation for a successful JP. This is because: (i) current willingness of most local political leaders to support JPs is inadequate; (ii) most industry commitments are defined to prioritize their own supply chains, not wider jurisdictions; (iii) getting multiple stakeholders to work collaboratively to address complex issues is challenging and takes time to build trust; and (iv) technical and governance tools to support improved land allocation and regulation are lacking and must be built over time. A proponent would work with *core partners* and *supporting actors* to address these issues by initiating activities aimed at building the *preconditions* and *enabling conditions* for a successful program. This would be pursued alongside near term actions to reduce deforestation and peat conversion. One of the most difficult decisions during current and future JP trials will be when and how to transition from Readiness Phase activities to more structured JP development and implementation. In theory, the transition should only begin when preconditions and enabling conditions are in place or well on their way to becoming so. Proponents should place an initial time limit on the Readiness Phase of a pilot (e.g. three years) at which point a decision would be made either to: (i) proceed with transition to JP development and implementation; (ii) postpone the transition for a specified period to allow more time for meeting preconditions; (iii) decline transitioning to a formal JP but continue supporting successful readiness activities; or (iv) terminate the pilot due to insufficient commitment or progress.

Phase 3 - Development and Implementation. Once the Readiness phase is completed, we suggest three-stage approach to a Development & Implementation phase: (i) establishment, (ii) development, and (iii) implementation. Transitioning from one sub-stage to the next is envisaged to require a higher level of commitment and support from stakeholders, proponents, and donors – and an increasing VP associated with it. Advancement would require setting and meeting critical milestones of JP success, predicated on growth in the VP for participants to justify the additional commitment and associated costs and risks of an expanded program. The Program Establishment Stage of this phase is focused on commitment and organization. Core actors must make firm commitments to the JP and consensus must be reached on the JP purpose, vision, goals, structure, and leadership. A Multi-Stakeholder Forum (MSF) of some sort could be established or local government could manage the program under legal and financial incentives that might exist in the future. The Program Development Stage is focused on establishing enabling conditions for JP operations and developing an Action and Monitoring Plan for activities. Operational enabling conditions include: (i) securing operational and incentive funding for the plan period; (ii) forming an Implementation Group to provide technical support and manage implementation; (iii) capacity building for government and other actors; and (iv) developing capacity to access and use legal and other governance tools to guide reforms. Developing an Action Plan and reaching agreement on exactly what the JP will do, how it will do it, and who will be responsible are the key tasks of this phase. The Program Implementation Stage is when the Action Plan is implemented and progress is monitored and reported. Maintaining momentum would require some combination of: (i) a strong and growing VP for government actors; (ii) monitoring by a third party (e.g. provincial or central government, or parties delivering payment for performance); (iii) increasing market demands; and (iv) substantive civil society participation.

JP Success – a nuanced view. Initiatives to establish a JP will meet with varying degrees of success; many (possibly most) will reach intermediate levels of development but not achieve full JP functionality, with all of the enabling and operational conditions in place. This is because the JA is still experimental, but even partial success at establishing a JP could provide (a) design insights to be applied elsewhere, (b) progress towards governance reform in the jurisdiction, and (c) concrete results toward reducing deforestation. Key to ensuring some level of success is that proponents (and donors supporting them) must adopt a ‘no regrets’ mindset based on identifying thresholds of performance at specified intervals, and maintaining a willingness to withdraw or modify support when benefits no longer justify costs. Performance milestones, indicators, and timelines should be communicated to stakeholders during the Readiness Phase, so that everyone understands the program vision is long term but ongoing support will be conditional. Ideally, this would include explanation of how and when funding decisions will be made, what is expected of participants in terms of performance, and likely rewards for meeting milestones.

Current Jurisdictional and Landscape Programs in Indonesia

We assessed a handful of established and early stage JPs in Indonesia, and a larger selection of landscape programs through proponent interviews, review of available literature, and insights gained from feasibility assessments on the ground in candidate priority jurisdictions (see below). We distilled from this the following implementation challenges on the ground, and lessons learned to date.

JP Implementation Challenges. Foremost among challenges are:

- The absence of strong central government deforestation reduction laws and enforcement;²
- Weak incentives for long-term buy-in from government political leaders;
- Limited means to prevent displacement of avoided palm oil deforestation to other sectors, until a cross-sectoral approach is pursued;
- Unproven commitment by palm oil traders and downstream supply chain actors to preferential sourcing or investment in jurisdictions that successfully reduce deforestation;
- Securing funding and incentives to cover opportunity and management costs for ‘convertible’ forests and peat lands allocated instead to protection;
- Building transparent, robust, accepted systems of forest, peat, fires and license monitoring;
- Current lack of a system to assess and publicize jurisdiction wide land management performance;
- Maintaining continuity of political and industry commitment through changes in political leadership, national economic cycles, and palm oil market fluctuations;
- Overcoming ODA funding restrictions, including inflexible program design; and
- Developing strategies to capitalize on legal rights of indigenous communities over forests.

Lessons Learned. We distilled the following early lessons learned:

- Proponents should build a JP flexibly from the ground up, focusing on activities designed to meet preconditions, to establish enabling conditions, and to take advantage of emerging opportunities at local, regional and national levels.
- Proponents and donors should have a ‘no-regrets’ mindset, with flexible expectations of program success, withdrawing support if milestones are not met and/or stakeholder buy-in is not obtained or weakens.
- Formulate (and grow) the value proposition for participants over time through on-going assessment of what matters to key actors. The JP’s local staff must understand the local political landscape, make insightful VP assessments and identify opportunities and challenges for meeting them. JP partners should build partnerships with central government, donors and private sector actors to deliver elements of a VP tailored to local expectations.
- Local buy-in to reform oriented JPs would be greatly improved by changes in national level policy that mandate deforestation reduction and peat land protection, especially where combined with national and/or international funding mechanisms to reward success.

² Note this is changing with establishment of the Peatland Restoration Agency (BRG) and anticipated new regulations for operationalizing President Jokowi’s recent policy commitments on deforestation.

Candidate Priorities for Jurisdictional Programs

As part of the Scoping Study we conducted a jurisdiction feasibility assessment to identify candidate jurisdictions for JP experimentation (Figure 2). We developed a simple analytical approach to assess jurisdictions against feasibility criteria. The criteria emphasized: (i) deforestation trends; (ii) forest and peatlands at risk of conversion; (iii) palm oil sector characteristics; (iv) indicators of local governance, local politics, and local stakeholders; and (v) considerations related to JP entry points and opportunities for broadening the program over time. We developed recommendations about where and how to undertake JP readiness activities in priority provinces and districts, and identified areas where more information would be needed to make programming decisions. Data were collected and analyzed through a combination of fieldwork, interviews, focal group discussions, literature review, media research and diverse secondary and primary data sources. As a basis for developing a biophysical profile of each province, we measured forest and peatland extent, recent land use change dynamics, palm oil trends and projected conversion risk using primary and secondary data sources. We developed a simple framework and supporting indices for comparing the magnitude of forest/peat at risk and the importance of oil palm as a driver of loss. Comparisons were made among provinces, and then among districts within a selection of priority provinces.

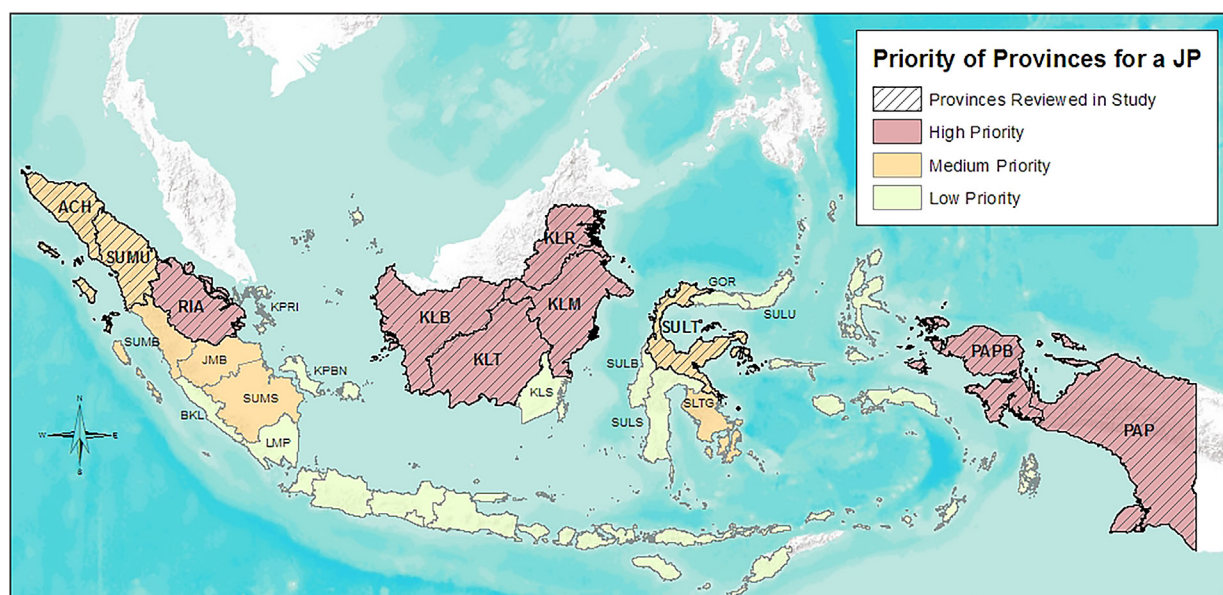


Figure 2. Palm oil producing provinces in Indonesia with >10,000 ha of planted oil palm. Provinces shaded red were considered highest priority for consideration of JP feasibility. These include Riau, West, Central, North and East Kalimantan, as well as Papua and West Papua. Provinces shaded orange are considered medium priority, and include Aceh, North Sumatra, West Sumatra, Jambi, South Sumatra, Central Sulawesi and Southeast Sulawesi. The ten provinces that received more in-depth assessment in the study are denoted by cross-hatching. These include all seven of the High Priority provinces and three Medium Priority provinces.

Key findings include:

- Oil palm is well established in 23 provinces (>10,000 ha planted area). More than 50% is concentrated in three provinces – Riau, North Sumatra and Central Kalimantan – with substantial areas planted in West and East Kalimantan, South Sumatra and Jambi, where oil palm expansion rates are also high
- Remaining forest is concentrated in six large provinces – Papua and West Papua; and East, West, Central and North Kalimantan. Substantial areas of forest are also present in Riau, Jambi, Central Sulawesi and Aceh, among others.
- Peatlands are concentrated in many of the same provinces where remaining forest is highest – Riau; West, Central and East Kalimantan; and Papua. South Sumatra and Central Sulawesi also

support extensive peat lands. More than 50% of Indonesia's peatlands have been deforested, with remaining forested peat concentrated in Papua and West Papua; West and Central Kalimantan; and Riau.

- Recent deforestation is highest (and often accelerating) in the same provinces where remaining forest is largest. Spatial planning, deforestation trends and oil palm expansion dynamics suggest future risk of forest loss and/or peat conversion is highest in many of the same provinces where remaining forest is greatest (including forested peat lands).

Taking into account extent of forest and peat, land use change dynamics, and features of the oil palm sector, we classified Indonesia's 23 palm oil producing provinces into three priority levels:

Higher Priority	Medium Priority	Lower Priority
Riau Central Kalimantan West Kalimantan East Kalimantan North Kalimantan Papua West Papua	Aceh Jambi North Sumatra South Sumatra West Sumatra Central Sulawesi Southeast Sulawesi	South Kalimantan West Sulawesi South Sulawesi North Sulawesi Gorontalo Bengkulu Lampung Bangka Islands Riau Islands

We then grouped the 14 High and Medium priority provinces into three tiers, taking into account biophysical considerations; preliminary indicators of social/political feasibility and other engagement opportunities; and difficulty of programming (Figure 3).

Tier 1 provinces are at high risk for deforestation and peat conversion by oil palm, and were deemed amenable to partnership in one or more ways. They include Riau and West, Central, and East Kalimantan.

Tier 2 provinces have somewhat lower risks of deforestation or peat conversion and/or perceived amenability to JP partnerships. They include North Kalimantan; North, South & West Sumatra; Jambi; Central & Southeast Sulawesi.

Tier 3 provinces are rated high risk from a biophysical point of view, but present unique social, political and governance challenges that require special consideration for tailoring program approaches. These include Papua, West Papua, and Aceh.

We conducted more in-depth studies for 10 of these 14 provinces to assess feasibility for JP intervention at provincial or district levels and identified possible entry points and scenarios for building JPs. Short profiles of the 10 provinces are provided in Annex A of the Scoping Study full report. An example for Riau province is included in Annex 1 of this Summary.

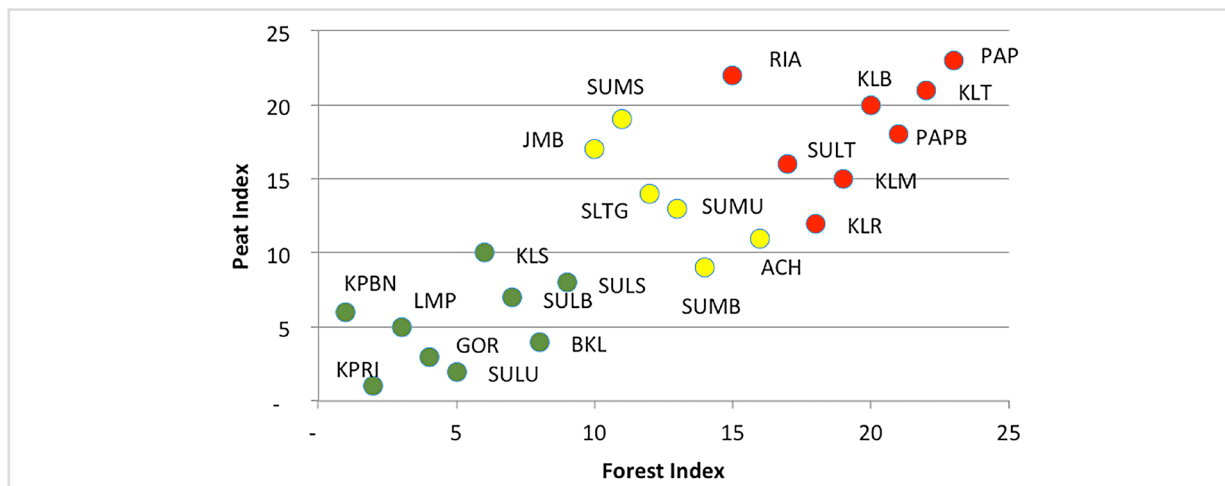


Figure 3. Scatter plot of deforestation and peat risk indices across the 23 palm oil producing provinces in the study. Provinces are ranked based on deforestation risk (x axis) and peat conversion risk (y axis) and classified into three risk categories (high = red, medium = yellow, low = green). Highest risk for potential environmental impacts of oil palm are East, West, Central and North Kalimantan; Riau; Central Sulawesi; and Papua and West Papua.

Study Conclusions and Priorities

We end with conclusions of the feasibility study, and recommended priorities for future work:

- Three ingredients are needed for JP success: (1) positive rewards (incentives); (2) effective sticks (enforcement, declining investment or embarrassment); and (3) broad based buy-in from diverse actors ready and willing to cooperate to leverage individual actions and together create momentum for change.
- We found limited evidence of support among local political leaders for measures that would significantly change BAU practices in the palm oil sector to reduce deforestation. In general, governors and district heads (apart from a few progressive leaders) have limited knowledge of emerging industry sustainability efforts or new legal provisions designed to improve governance in the sector. Most leaders view such efforts with indifference or see them as threatening to the political and economic status quo.
- Our discussions with experts inside and outside government lead us to believe it's unlikely that genuine support from a political leader for a comprehensive JP could be obtained solely by offering extra-governmental financial incentives (such as through REDD+ or improved access to markets). Such incentives would probably not be large enough or sufficiently dependable over time to outweigh political and other benefits generated by current palm oil driven economic development models. Formal legal carrots and sticks, backed by transparent accountability mechanisms and enforcement, would be needed to augment such incentives.
- Despite challenges, we believe there is significant potential for progress through creative engagement at sub national levels. Yet, we consider it unlikely that a fully functional JP can be achieved in Indonesia until such time that a balanced and compelling value proposition moves local political leaders to make meaningful commitments and act on them.
- Until financial and legal incentives are put into place that create a compelling value proposition for local government leaders, JAs to palm oil deforestation must necessarily rely on catalyzing, coordinating, and supporting activities by industry, NGO and local community actors who already have a positive VP for deforestation reduction, and where feasible, supporting local governments to implement governance improvements. Market forces and associated industry supply chain commitments, as well as increasingly progressive national policies and programs on matters such as fire prevention and customary land rights, provide new opportunities for

collaborative action. President Jokowi's recent commitments to forest and peat land protection, and expected moratorium on new licenses, are further positive signs.

- The initial objective of catalyzing on-going activities should be viewed in the context of our definition of a fully functioning JP that requires government support and active involvement, with the ultimate goal of institutionalizing change within law and practice.
- We believe that in the Indonesian context, a MSF of some kind is extremely valuable, and perhaps indispensable. It would be nearly impossible for the proponent to maintain support among a broad constituency of stakeholders, meet civil society expectations of transparency, and provide an accountability mechanism without the active involvement of relevant groups in some type of multi-stakeholder body. We do not assert that a formal MSF with decision-making and management authority is required for JP success, or even desirable in all situations, but some form will be required.
- A country program designed to experiment with JA to transformation should support a variety of readiness activities in multiple jurisdictions because different approaches will be more suited to specific contexts, and because a diversified portfolio of approaches will be more likely to provide some early successes to guide programming and build momentum.
- It is vital to continue to advocate for improved incentives from the national government for provincial and district governments to undertake deforestation reduction and peatland protection. This could include fiscal incentives for deforestation reduction, national regulations requiring deforestation reduction, and improved law enforcement for illegal activities leading to deforestation, especially use of fire.

Priorities

- Riau, West Kalimantan, East Kalimantan, and possibly Central Kalimantan are highest priority for JP readiness activities, given the risk and feasibility profiles of these provinces.
- In Riau, fire prevention could be a focal point for developing a JP. A palm oil supply-shed based approach could be considered in Riau North Sumatra and parts of West Kalimantan, given scale of the oil palm sector and the mix of supply chain actors. Supporting implementation of a provincial sustainable plantations by-law is a good approach to consider in Central, East and West Kalimantan (Ketapang district) and Central Sulawesi.
- JPs can be initiated at either the provincial or district levels, and are likely to be most effective when engagement at both levels is coordinated. Given governance arrangements, district level engagement is where success or failure will be achieved, and should be pursued using multiple entry points such as supporting corporate supply chain programs, forest monitoring and enforcement, conflict resolution, social forestry, capacity building, fire prevention, smallholder empowerment, or mapping of indigenous lands. Discussing options with district leaders and other stakeholders is vital to inform which of these or others are most suitable.
- Local elections were held in hundreds of districts in December 2015, and still more are taking place this December 2016. Further study is needed to determine where election winners are open to collaboration on deforestation reduction, and to assess changes in the local political economy of land use arising from the 2015 elections and those happening this year.
- Forest and peat land monitoring and land tenure mapping are key JP enabling conditions, and will be vital tools for creating pressure for change and rewarding progress. Systems for doing so should be assessed, designed, piloted and improved as a matter of priority.
- Assess possibilities for undertaking JAs in collaboration with companies that have made sustainability pledges by identifying their priority geographies; willingness to work along or with other companies to support a JP; and priorities for tailoring readiness activities that support supply chain commitments, address governance weaknesses, and protect livelihoods.

Annex 1. Profile Of Riau Province

Riau is top priority in our study. It has the largest area of planted oil palm of any province (2.4 million ha), including 1.3 million ha of smallholder farmers. It has significant areas of forest (>600,000 ha) and peat (>1.8 million ha) zoned for agriculture and at risk of conversion. Riau had the country's highest deforestation rate during 2009-2013 (700,000 ha), partly linked to the province's contested spatial plan. Riau has a high concentration of former IPOP members (and other zero deforestation companies) in the province, with a commitment to cooperate on strengthening land governance. It also has an active, well networked civil society, and is coming under growing national pressure to take firm action against fires and other forms of illegal development.

Riau is by far Indonesia's largest producer of CPO and derivatives. Oil palm is well established in nearly all districts of the province, and over half the production base is reported to be managed by smallholders. Most major producers, including all of the largest, vertically integrated players, have operations in Riau. All six former IPOP members have a significant upstream footprint in the province, and most districts host more than 10 CPO mills (several have more than 20) owned directly by former IPOP members or linked to their supply chains.

In considering a JP for Riau, four districts emerged as higher priorities. Bengkalis, Indragiri Hilir, Pelalawan and Rokan Hilir support larger areas of forest (300-500,000 ha) and peat (550,000 to 1M ha); experienced among the highest rates of recent deforestation; and have the largest areas of forest and/or peat zoned for conversion to agriculture. The districts also have large areas of deforested land zoned as state forest unavailable for agriculture (totaling c 1.5M ha). All four districts have established oil palm industries with >200,000 ha of planted oil palm. Siak and Indragiri Hulu as merit consideration.

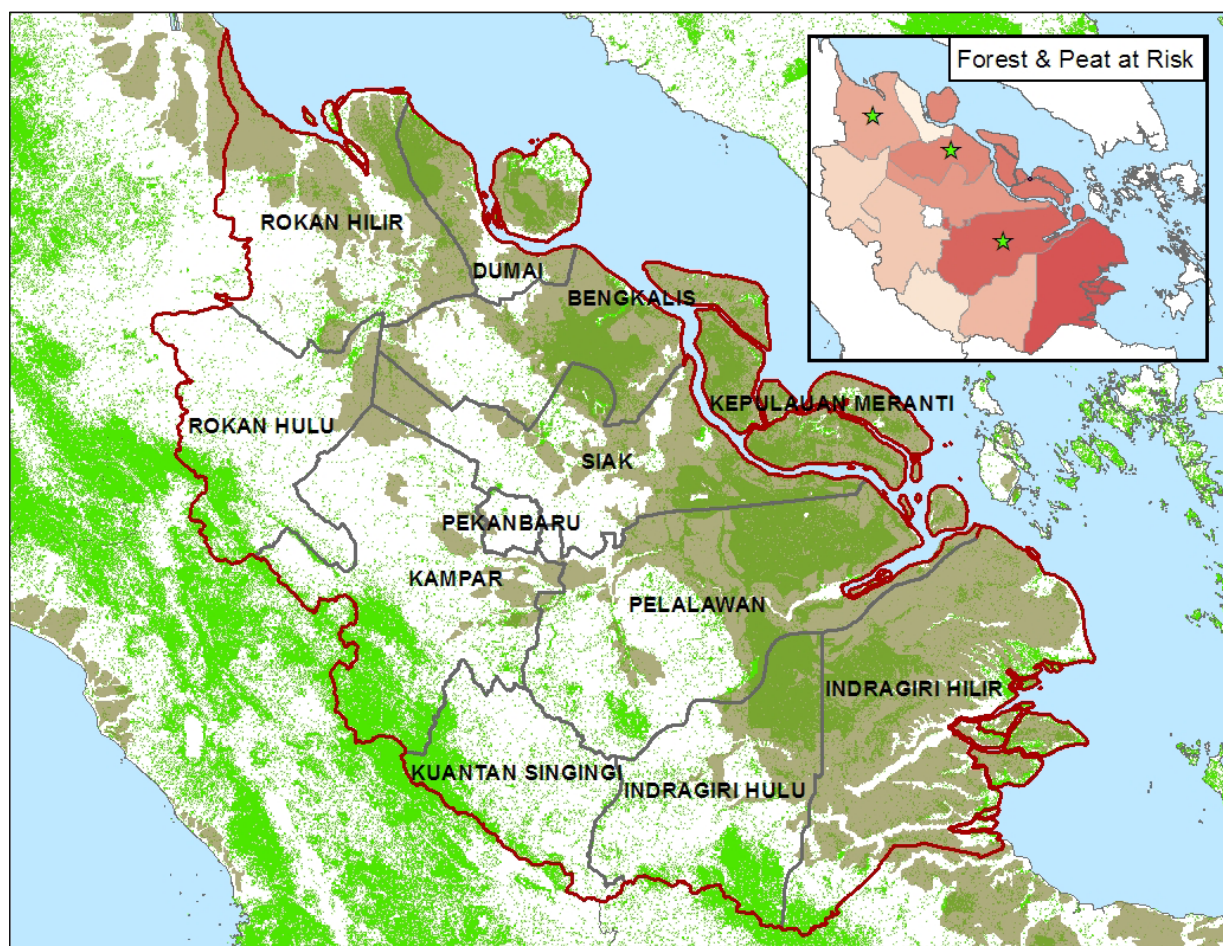
		Forest & Peat	
		Total size, Risk of conversion, Recent deforestation	
		Low	High
Oil Palm & Governance	More	Kampar Kuantan Singingi	Bengkalis Indragiri Hilir Pelalawan Rokan Hilir
	Less	Dumai Kepulauan Meranti Rokan Hulu	Indragiri Hulu Siak

District Prioritization for Riau

Indragiri Hilir (Inhil) is a district of immediate concern that could hold great potential. It supports c. 25% of threatened forest and more than one-third of threatened peat province wide. It has an established plantation infrastructure that could expand rapidly into available areas, but Inhil district government has indicated a willingness to support sustainability initiatives and promote alternative crops (e.g. coconut). The term for the *Bupati* does not end until 2018, and he can run for re-election, offering a chance for long-term engagement. In addition, adjacent Indragiri Hulu warrants attention as a potential priority together with Inhil, as the plantation base in these two districts form part of the same peatland hydrological unit, with substantial forested areas remaining.

At least three scenarios offer entry points for building out a JP in Riau. A supply shed approach seems necessary for progressive companies to secure deforestation free supply chains at reasonable cost, and could be an effective entry point for collaboration with diverse stakeholder groups. All six former IPOP members have significant upstream and downstream operations, and have already identified Riau as a priority for cooperative action to support improved land governance. Many districts would offer suitable locations, but a combined Inhil plus Inhil district approach could be especially interesting given alleged plans for a new refinery in the area, an approachable *Bupati* in Inhil, and the large areas of forest and peat at risk in both districts.

A second possible entry point is to work collaboratively with provincial government and one or more districts to support implementation of Riau government's multi-faceted KARHUTLA initiative to address fires. KARHUTLA offers a ready platform for working constructively with government on land governance, monitoring and enforcement programs that over time could be expanded in scope to include other priority components of a successful JP on palm oil. A third scenario would be to work with former IPOP members and local NGO partners in select geographies on a strategy to address legality and deforestation risk of smallholder production. Companies with operations in a region or supply shed targeted for the program could provide technical and material assistance, local NGOs can help engage with farmers, and local government could provide assistance with mapping, land registration and subsequent monitoring.



Distribution of forest and peat in Riau province, Indonesia. Remaining forest totals 2.8M ha, the majority of this on peat (1.7M ha). Nearly two-thirds of Riau's 4.7M ha of peat have been deforested, with the largest blocks of remaining forest mainly in Bengkalis, Pelalawan, Inhil and Inhul districts. Inset depicts relative size (ha) of forest and peat at risk of conversion from spatial planning. Inhil and Pelalawan are highest risk (darkest red). Inset highlights districts with largest areas of deforested land in the Forest Zone that could potentially be rezoned for agriculture. Pelalawan, Rokan Hilir and Bengkalis are highest for this parameter (green star).

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