The Indonesia-Norway REDD+ Agreement: A Glass Half-Full

Frances Seymour, Nancy Birdsall, and William Savedoff

Abstract

Over the last decade, efforts to slow deforestation and climate change merged with new ideas on paying for performance in the context of development aid to culminate in a series of agreements between Norway and tropical forest countries. These experiences hold lessons for international cooperation in reducing greenhouse gas emissions from deforestation and for financial relationships between countries addressing this and other global challenges.

In this paper we set out the origins and trajectory of an agreement signed by Indonesia and Norway in 2010 to reduce greenhouse gas emissions from deforestation and forest degradation, assess the extent to which it can be called a success, and draw some lessons from the experience for other pay-for-performance agreements.

In 2009, Indonesia was the first developing country to announce voluntary targets for reducing greenhouse gas emissions, which would require a significant reduction in emissions from deforestation. Deforestation in Indonesia is driven by a range of economic interests entwined with politically powerful groups. The country's shift toward decentralized democracy and the absence of a strong constituency for addressing climate change have complicated commitments to enact policies aimed at slowing deforestation. Indonesia made a commitment to establish a moratorium on licensing forest exploitation as part of the negotiations with Norway, and also agreed to institutionalize broader policies to deal with emissions from deforestation and degradation by creating a new agency reporting directly to the president.

Though Indonesia's emissions from deforestation continued to rise through at least 2012 (the most recent year for which data is available), we argue that the pay-for-performance agreement has been a success in at least two respects. First, it led to a series of steps that provided visibility to and strengthened at least moderately the hand of those within and outside government who favor controlling deforestation and protecting indigenous rights. Second, by not releasing payments when Indonesia did not perform at reducing deforestation, the agreement represents a successful case of "non-payment for non-performance". It leaves on the table the option for the newly elected government (which took office in late 2014) to take full ownership of the agreement and the challenge, and thus capture the available transfers in the next several years. The glass, in short, is half-full. The modest progress achieved under the agreement so far is fragile, but the agreement's existence sets the stage for the country's new leaders to institutionalize and build on progress up to now.

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Center for Global Development
2055 L Street
Fifth Floor
Washington DC 20036
202-416-4000
www.cgdev.org

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Introduction

Over the last decade, two trends combined in a series of unprecedented agreements between countries. The first trend was the growing recognition that slowing tropical deforestation was critical to any global efforts addressing climate change. The second trend was interest in development aid that would pay for performance rather than finance inputs. Both trends held the promise of solving big problems but initiatives were beset by criticism that initiatives were too small or uncertain to be effective, or would generate unintended consequences harmful to people and the environment.

Yet in 2008, Norway and Brazil combined these two trends by formulating a payment-for-performance agreement to recognize Brazil's progress in reducing greenhouse gas emissions from deforestation in the Amazon. Subsequently, Norway has negotiated and signed similar agreements with other tropical forest countries including Guyana, Indonesia, Peru and Liberia. This policy paper investigates the dynamics of one of these agreements, between Indonesia and Norway, in order to show the ways international payment-for-performance agreements have engaged with domestic politics and to see whether and how such agreements represent a new and more effective model of development cooperation.[i]

In May 2010, the governments of Indonesia and Norway concluded a Letter of Intent on "Cooperation on reducing greenhouse gas emissions from deforestation and forest degradation" (hereafter "the Agreement").[ii] Under the terms of the Agreement, Norway pledged to contribute up to USD1 billion to support Indonesia's REDD+[iii] efforts. Structured in three phases, the Agreement anticipated piloting of performance-based payments for verified emission reductions at the provincial scale by 2012, and at the national level by 2014.

In November 2014, we visited Indonesia as part of a three-country study of payment-for-performance agreements to reduce deforestation to gain insights of relevance to other countries and other sectors.[iv] This policy paper is based on discussions with officials of government and donor agencies, and the staff of NGOs and private companies. Our conclusions are also informed by a background paper written by Indonesian journalists on the political economy of deforestation in Indonesia, with specific reference to the impact of the agreement with Norway.[v] Our visit took place early in the transition to a new administration following the inauguration of a new president in October 2014. The views expressed here are ours alone.

Although the Indonesian agreement with Norway failed to achieve its primary objective of reducing emissions from deforestation, it still provides a number of lessons for future efforts. We found that international payment-for-performance commitments can and do make a difference – in this case by providing visibility and support to domestic actors who favored reductions in deforestation. We also found that payment-for-performance pledges can be perceived as different from aid, fostering trust and mutual support between countries with overlapping interests. And we found that the program has been successful in part by *not* releasing payments when Indonesia did *not* perform at reducing deforestation: a successful case of "non-payment for non-performance". This enhances the credibility of future performance-based agreements, brings attention to the continued high pace of deforestation, and gives Indonesia's new government a clear signal of what is needed for it to be an active partner in addressing the global challenge posed by climate change. The modest progress achieved under the Indonesian-Norwegian agreement so far is fragile, but the Agreement's existence sets the stage for the country's new leaders to institutionalize and build on progress up to now.

The Path to the Letter of Intent

National responses to a global challenge. In September 2009 at the G20 Summit in Pittsburgh, Indonesia's then-President Susilo Bambang Yudhoyono announced the first voluntary target set by a developing country to reduce the greenhouse gas emissions that cause climate change. The target was framed in two parts: a reduction of 26 percent compared to business-as-usual relying on domestic resources, and a reduction of 41 percent "with international support"[vi], namely international financing. Because Indonesia's emissions profile is dominated by emissions from land use change, such targets could only be met by dramatically decreasing the rate of deforestation and the rate of conversion of carbon-rich peatlands to agricultural use, mostly to oil palm and fast-growing timber plantations to supply the pulp and paper industry.

President Yudhoyono's decision to set voluntary targets was influenced by two important international events – the UN negotiations on climate change in Bali and announcement of a payment-for-performance agreement between Brazil and Norway to reduce deforestation. In 2007, Indonesia had hosted the UN conference on climate change in Bali. The discussions at this conference highlighted the potential to reduce emissions by reducing deforestation and forest degradation. In Bali, tropical forest countries were encouraged to launch REDD+ "demonstration activities" with the promise that international negotiators would explore mechanisms by which "positive incentives" (that is, international payments) could be mobilized to reward successful efforts.[vii] President Yudhoyono's personal participation in the conference drew his attention and that of other senior officials to the potential this prospective mechanism held for Indonesia.

Norway and Brazil also made announcements at the climate negotiations in Bali that led to the creation of The Amazon Fund. Norway pledged USD2.5 billion over five years for rainforest conservation globally, and Brazil proposed creating a fund that would receive international contributions in return for reduced greenhouse gas emissions from deforestation.[viii] In 2008, Norway agreed to pay into the Amazon Fund up to USD1 billion for continued reductions in Brazil's annual rate of deforestation. The structure of the agreement addressed Brazil's objections to market-based forest offsets.[ix] Thus, the Norway-Brazil agreement served as an important precedent and model for subsequent agreements in Indonesia and elsewhere.

Readiness today, performance payments tomorrow. In May 2010, the Government of Indonesia and the Kingdom of Norway entered into an Agreement through which Norway would provide up to USD1 billion in exchange for reductions in emissions from deforestation. This amount was small in relation to the total annual government budget but was significant in the visibility it brought to Indonesia's potential for leadership in addressing climate change.

In contrast to Brazil, however, Indonesia had not yet put into place policies and institutions necessary to reduce deforestation. Accordingly, the Letter of Intent specified that the Agreement would be implemented in three phases (consistent with guidelines agreed in UN negotiations on REDD+):

- In Phase 1, "Preparation", Indonesia would establish the building blocks for a national REDD+ program, including development of a strategy, capacity for monitoring emissions from deforestation, and a financial mechanism for receiving payments for performance. In addition, Indonesia agreed to create a new agency reporting directly to the President to coordinate REDD+ activities.

- In Phase 2, "Transformation", Indonesia would continue the Phase 1 agenda while implementing new policies such as a two-year moratorium on new forest exploitation licenses, enhanced forest law enforcement, and pilot programs in two provinces to establish mechanisms that would reward performance in reducing deforestation.

- In Phase 3, "Contributions for Verified Emission Reduction", Norway would make annual financial payments for performance against a national reference level, building on experience gained from one or more pilot provinces during Phase 2.

Between the Norwegian and Indonesian parties to the Agreement it was understood that up to USD200 million of the USD1 billion of Norwegian funds could be used for the first two phases, with USD800 million reserved for Phase 3 performance-based payments. Following signature of the Agreement, the Indonesian government set up a REDD+ Task Force in the Office of the President under the leadership of Kuntoro Mangkusubroto, who was then head of the Presidential Delivery Unit.[x] Pending establishment of a new financial mechanism, Norwegian funds were channeled through UNDP.[xi]

Progress through the three phases proved uneven, and advanced more slowly than expected. For example, the moratorium on new licenses – imposed in May 2011 almost five months after it was promised – was narrowly crafted, limiting its potential impact on deforestation.[xii] It took more than three years to establish the new REDD+ Agency, which was not formally created until August 2013. Further delays meant that its head, Heru Prasetyo, was not appointed until December 2013, and a full complement of deputies to oversee its work was not in place until a month before the Presidential elections of July 2014. When we visited in November 2014, staff of the new agency were still struggling to surmount political, legal, and bureaucratic hurdles to making the financial mechanism -- "Financing REDD+ in Indonesia" (FREDDI) – operational.

New satellite imagery analysis published in November 2013[xiii] revealed that Indonesia's deforestation rate had actually been *increasing* during the period that the Agreement had been in effect, rather than decreasing. Because Indonesia had made no progress in reducing forest-based emissions, no performance-based payments were effected. Norway only released funds earmarked for the "Preparation" and early "Transformation" phases, amounting to less than USD50 million. Without a financial mechanism in place or performance-based payments to capitalize it, there were no prospects of domestic transfers to reward high-performing provinces or districts.

A Challenging Context

The Indonesian political, economic, and institutional context for implementing provisions of the Agreement with Norway is challenging, to say the least.

An economic growth model aligned with business as usual. President Yudhoyono's emission reduction targets were accompanied by another target: for 7 percent annual economic growth. Without fundamental changes in Indonesia's political economy, a portion of that growth would likely be achieved at the expense of forests. A legacy of the "crony capitalism" developed during the Suharto era is a politically strong economic elite that has enriched itself through preferential access to the nation's natural resources, including its forests. Among the key drivers of deforestation are commercial-scale expansion of plantations to produce palm oil and fast-growing timber for the pulp and paper industry.

The moratorium on new forest conversion licenses did not affect the large number of existing permits to convert forests to plantations, leaving momentum in place for continued deforestation for years to come. Tycoons associated with those and other export-oriented commodities such as coal play influential direct and indirect roles in Indonesian politics. According to one respondent, the government's fear of inevitably losing legal challenges by license holders made it infeasible to consider challenging deforestation associated with existing licenses. As one REDD+ proponent put it, "We are fighting with the palm oil kings, and they have a lot of money."

A limited constituency for change. Over the long term, an expanding middle class can be expected to exert increasing pressure for policies supporting more sustainable growth, in terms of demand for cleaner air and water, as well as sensitivity to issues such as biodiversity conservation and climate change. But for now, Indonesia's estimated daily median consumption per person is still below USD3; its middle class (and "rich") probably constitute together less than 10 percent of its entire population.[xiv] (By contrast, about 30 percent of the Brazilian population counted as middle class in the mid-2000s).[xv] Public understanding of global environmental issues is extremely limited. Further, those who benefit from and consume Indonesia's commercially exploited natural resources are mostly concentrated in Java, where they are insulated from the adverse social and environmental impacts of forest destruction. For example, due to prevailing winds, the choking haze that annually closes airports and sends children to the hospital in Sumatra, Kalimantan, and even neighboring Singapore seldom affects Jakarta.

The Agreement with Norway triggered new steps toward reducing deforestation in Indonesia. But the backing from international actors can only be a partial substitute for domestic support. Without domestic political backing, government officials who wanted to reduce deforestation were vulnerable to claims from tycoons that the environmental agenda was being manipulated by foreigners.

A problematic land tenure system. The land tenure system governing Indonesia's forests is an overlapping mosaic of *de jure* claims reflecting traditional customary rights, the Dutch colonial legal system, the 1945 Constitution, forestry and agrarian laws, and concessions. These claims are overlaid by dynamic *de facto* land uses by indigenous and other local communities, recent migrants, and government and corporate actors. Conflicts among various claimants to forest land are widespread, and mechanisms and incentives for conflict resolution are poorly developed. Land disputes, often violent, are allowed to fester for years without resolution.[xvi]

Decentralized, confused and contested land use decision-making. A radical decentralization undertaken in the years following the fall of the Suharto regime in 1998 presents a further challenge. New laws devolved significant authority for plantation-related permitting to the district level, leaving some land use planning functions at the provincial level, and approval of excisions from forest land with the central Ministry of Forestry. A 2014 law on local government moved some authority related to forests and mining from the district to the provincial level. The resulting overlaps in jurisdictional authority has led to confusion, uncertainty, conflict, and increased opportunities for corruption. This makes forest management reform all the more difficult because it requires the alignment of political champions across national, provincial, and district levels.

Broader governance challenges. More generally, Indonesia's political and economic development continues to be hobbled by weak governance and uneven application of the rule of law. Many government officials collude with private business interests to overlook environmental regulations when issuing permits or ignore violations. A 2014 audit of 17 plantation and timber concessions in the province of Riau found none in compliance with applicable laws and regulations – such as those related to burning and cultivation of deep peat soils.[xvii] Concerns over rampant corruption in the national budget system led to the selection of an international organization (UNDP) as an initial channel for Norwegian funds provided under the Agreement as a way of addressing these fiduciary risks. Furthermore, many laws and policies create perverse incentives. For example, regulations governing oil palm plantations are designed to encourage exploitation by requiring the development of land designated for production within a given time period. Consequently, license holders who voluntarily set aside forest areas with high conservation or carbon value may end up seeing those areas reallocated to others who are more disposed to forest clearance and conversion.

Disappointment about the scale of financing. The Indonesian Agreement with Norway was negotiated at a time when most people were optimistic that international negotiations on climate change would soon succeed in generating many billions of dollars through public and private financing for emission mitigation efforts. The bilateral partnership between Indonesia and Norway was seen as an important bridge to that future.

Prospects for private finance from compliance-driven carbon markets subsequently faded, particularly after limited progress at the UNFCC Copenhagen climate summit in 2009. The global financial crisis and resulting austerity regimes in the major donor countries undid the potential for big public commitments of "green" transfers as well.[xviii] These developments weakened the momentum that had been built in favor of the REDD+ agenda in Indonesia by exposing the limited incentive at the political level of even a USD1 billion pledge; by comparison, cultivation of oil palm, a key driver of deforestation, was generating more than USD16 billion in export revenue in 2010.

The Agreement signed in May 2010 thus was launched into less propitious waters than originally foreseen. Had industrialized countries followed through on generating large-scale finance to reward successful efforts to reduce deforestation, the incentives facing Indonesian political leaders to depart from business-as-usual might have been more compelling.

Significant Progress Built on a Fragile Foundation

Despite this challenging context, the Indonesia-Norway Agreement has prompted some remarkable changes in the political economy of forest management in Indonesia.

- **Heightened national and international visibility.** While Yudhoyono's Pittsburgh announcement and the climate negotiations in Bali had already focused attention on the significance of Indonesia's forests for global climate protection, the Agreement with Norway raised the visibility and credibility of Indonesia's efforts to fight deforestation both in-country and abroad. Domestically, the REDD+ Task Force mobilized the small group of individuals inside and outside government already committed to a reform agenda, and began to broaden interest through outreach to provincial-level officials and partnerships with new constituencies as described below. Internationally, the Agreement opened doors in Washington, Brussels, and Canberra, and provided a vehicle for international engagement at the technical level (e.g., study tours to Brazil) and a platform for President Yudhoyono to cultivate his stature as a global statesman.

- **Increased transparency.** The moratorium included in the Indonesia-Norway Agreement required the development of a national map of forest cover and peatlands and thereby forced the first-ever public disclosure of such data. As a next step, the REDD+ Task Force initiated a national "One Map" process to consolidate spatial data on permitting across sectoral agencies – though the process is not yet embedded in formal regulations. The transparent mapping and disclosure of spatial information has been resisted by many private corporations and bureaucratic offices who prefer the discretion afforded by secrecy. However, companies that have made commitments to get deforestation and peatland conversion out of their supply chains (e.g., those that signed the Indonesian Palm Oil Pledge in September 2014) are now a constituency actively supporting publication of more complete and accurate maps.

- **Increased political space to advance indigenous rights.** After the Agreement was signed and the REDD+ Task Force began to function, Kuntoro encouraged indigenous groups to submit maps of their territories for inclusion in the national mapping effort. Emboldened activists subsequently won a Constitutional Court ruling that opens the door to recognition of indigenous rights to forest land that had previously been claimed by the State and managed by the Ministry of Forestry. Negotiations with Norway also gave indigenous groups an opportunity to engage with government officials and seek to have their interests represented. One respondent highlighted the unprecedented commitment to appoint an indigenous peoples' representative to sit on the board of FREDDI.

- **Enhanced attention to forest-related crime.** The REDD+ Task Force entered into a partnership with the Corruption Eradication Commission as part of a broader focus on corruption in natural resources sectors. A number of investigations have resulted in successful prosecutions of forest-related crime.

- **A challenge to business-as-usual at the Ministry of Forestry.** In the decades prior to the advent of REDD+, the power of the Ministry of Forestry was formidable and largely unchallenged. While also presiding over conservation and plantation development activities, its main function was to facilitate exploitation of lands under its authority. The Ministry was notorious for corrupt practices including issuing licenses and enforcement failures to benefit politically connected elites.[xix] By establishing an independent body reporting directly to the president on a strategy to reduce deforestation, the Indonesia-Norway Agreement supported a direct and unprecedented challenge to the hegemony of the Ministry of Forestry.

These and other achievements related to the Indonesia-Norway Agreement are an important foundation for future progress toward forest conservation objectives, but a fragile one. Most of the bricks in the REDD+ edifice built by President Yudhoyono are in the form of Presidential Instructions which makes them vulnerable to changes at the top. Indeed, the new president decided to merge the REDD+ Agency into a newly created Ministry of Environment and Forestry in early 2015. Initiatives such as the One Map process and institutions such as FREDDI are not yet formalized, nor are increased law enforcement efforts institutionalized. The REDD+ agenda rests on a narrow political base in Indonesia, and cannot succeed separately from major governance reforms in forestry and the wider economy. Hence a cloud of uncertainty about the future – which started with the presidential campaigns in early 2014 – continues to hover over Indonesia's REDD+ agenda.

Lessons, Dilemmas, and Insights

International payment-for-performance commitments do make a difference for domestic action. The prospects of substantial REDD+ funding, the precedent of Norway's offer to Brazil, and ongoing negotiations with Norway focused the attention of President Yudhoyono, his top advisers, and ministerial-level officials on forests in a new way. They saw the possibility of significant funding and an international agreement as new political capital that was useful in domestic and international spheres. For example, Indonesia's hosting of the UNFCCC negotiations in Bali in 2007 forced the Minister of Forestry to learn about REDD+ and the role of forests in climate change for the first time.

The president's subsequent decision to pursue a large agreement comparable to Brazil's (rather than accept Norway's initial suggestion that Indonesia compete for a lower level of funding through a multilateral initiative) led him to authorize including a moratorium on new forest concessions in the negotiations with the Norwegians.[xx] Once written into the Agreement, the president's top advisors had greater leverage with line ministries for important reforms such as the disclosure of spatial data needed to compile the Indicative Moratorium Map, and prospectively to implement the One Map initiative. Advocates of indigenous rights were encouraged by the political space opened by the Agreement and the head of the REDD+ Task Force, and subsequently obtained a favorable landmark Constitutional Court decision. Had the prospects of international funding been more certain, more progress might have occurred.

A payment-for-performance pledge can be perceived as different from aid. Indonesia grew rapidly in the first decade of the 2000s, following its democratic transition. By the time the Agreement with Norway was signed, Indonesia had recovered from the economic trauma of the late 1990s Asian financial crisis with its imposition of IMF and other reforms. The government had diminishing need and tolerance for the international aid and official finance community. Although Norway's pledge in fact is allocated from Norway's overseas development assistance (ODA) budget, it is perceived by Indonesian government officials and NGOs involved with the Agreement as different from aid, and as a departure from previous models of cooperation. Indonesian officials closely associated with the Agreement viewed the USD800 million reserved by Norway for performance-based payments favorably because it respected Indonesian autonomy by leaving to them the decisions about how to implement it. By contrast, a similarly sized compact with the United States Millennium Challenge Corporation (MCC) was criticized for getting bogged down in endless back-and-forth with Washington on project design. One former official who valued Indonesia's autonomy and flexibility under the Letter of Intent said of the Norwegian pledge, "We're not using the money. We're just using it to kick the butts to get things going."

This kind of agreement provides a good basis for fostering trust and mutual support. The partnership between Norway and Indonesia quickly grew into one of trust following the signing of the Letter of Intent, with principals in Oslo and Jakarta in frequent, mutually supportive communication. The Agreement fostered a relationship characterized by two-way support for constituency-building: the Indonesian side encouraged the Norwegian Ambassador to engage with NGOs and the private sector, and Indonesian proponents were invited to Norway speak directly with the press, other ministries, and Parliamentarians concerned about slow disbursement. Said one, "Our cooperation is so good that we are playing a kind of total football".

The impact of a large commitment that is not realized diminishes over time. While Norway's large commitment initially generated enthusiasm and action, its impact diminished with time. The excitement over the "charismatic number"[xxi] of the USD1billion pledge was at first significant, and served as a bracing shock to the political economy of Indonesia's forest management system. But momentum ebbed as REDD+ proponents became mired in legal and bureaucratic details (e.g., those necessary to set up FREDDI), deadlines were missed, and months dragged into years without the progress necessary to release performance payments. By the time of our visit in November 2014, some REDD+ supporters were frustrated that more had not been achieved during Yudhoyono's Presidency and were concerned over the encroachment of business-as-usual donor practices, which some respondents attributed to the influence of UNDP and Norad. The commercial and other interests that favor the status quo were presumably increasingly confident that achievements through the Agreement could be reversed under a new president.

The payment-for-performance agreement has made it easier for the funder to be patient. In the case of the Agreement with Indonesia, the payment-for-performance design has reduced the temptation funders usually face to micromanage the inputs necessary to achieve hoped-for results and pressure to spend on a pre-defined schedule. Norway is one of the few countries that has so far shown willingness to pledge large amounts of such "patient capital" to international goals. Indonesia was and still is a setting where patience is necessary since the basic architecture of policies and institutions required to reduce deforestation and receive performance-based payments was not and is not yet in place. Structuring the Agreement as a phased program, with some upfront funding for preparatory work, made sense and was not in itself a cause of delay. Indeed, coupling funding for the preparatory phase with the prospect of USD800 million in performance-based funding in the "out" years may well have accelerated the pace of change compared to what would have happened without such a linkage.

At the same time, patience on the part of a funder can be problematic. At some point, the lack of progress (and resulting lack of disbursements) is discouraging, and has probably had a negative net effect on constituency-building in Indonesia as well as in Norway. Both provincial governors in Indonesia and Parliamentarians in Norway have begun to wonder if the money will ever flow. It is possible that more tangible incentives to adhere to the timelines mentioned in the Letter of Intent might have accelerated progress and established a firmer institutional footing for forest conservation policies before the change in government.

President Yudhoyono had a reputation for aversion to conflict, and for dithering over contentious decisions, so perhaps the prospect of losing access to the funds pledged for performance if not accessed by a certain deadline would have been salutary. One participant reflected that "we could have used more pressure from Norway on the Ministry of Finance" to speed up establishment of FREDDI.

Ultimately, Indonesians are presumably in a better position than outsiders to gauge the limits of political tolerance for the pace of change, and insisting on firmer deadlines might have alienated the Indonesians without making any real difference. Experience with programs in the 1990s suggests that were the Norwegians to have acted on their impatience by resorting to "conditionality" with specific deadlines, they would have risked undermining the small but energetic, committed and growing constituency for REDD+ in Indonesia that is now in a position to make progress with support (if that comes) from the new president and his ministers. According to one proponent of reform, the role of the international community should be "to both praise and give pressure – in that order".

Institutional choice involves difficult trade-offs. Early analysts of national-level REDD+ initiatives recognized the key dilemma of institutional choice, i.e., "whether to create wholly new institutions to manage it or to use existing ones… Creating new institutions takes time and can be politically difficult, while using existing institutions risks business-as-usual mindsets and practices".[xxii] It's a case of "damned if you do, damned if you don't".

The experience of Indonesia's REDD+ Agency certainly illustrates the dilemma. Locating leadership of the REDD+ agenda within the President's Office sent an important signal of a challenge to business-as-usual. But of the five milestones to be achieved during Phase 1 of the Agreement, establishment of an independent agency proved the most difficult, experienced the longest delay, and is the one that has already been reversed.

On the one hand, placement of the REDD+ Task Force and subsequent Agency directly under the President's Office enabled early progress on initiatives related to transparency, indigenous rights, and corruption that almost certainly would not have been forthcoming under the leadership of the Ministry of Forestry. On the other hand, the leadership of the REDD+ Task Force and successor Agency had trouble gaining acceptance by other government entities who pointed to their limited mandate and lack of authority. Other ministries – not least the Ministry of Forestry -- consistently challenged and frequently undermined efforts to fulfill the president's public commitment to reduce deforestation ("stabbed in the back," according to one person interviewed).

Among observers not directly involved in the struggle for institutional primacy to lead the fight against deforestation, we encountered a surprising degree of skepticism toward the REDD+ Agency. At the time of our visit, it appeared to be the element most vulnerable to reversal under a new administration. It was officially folded into the Ministry of Environment and Forestry (itself the result of a merger of two ministries) in January 2015.

Leadership must come from the top, and help create broader support: A striking omission from our discussions in Indonesia was any mention of a broader public constituency for reducing deforestation. Despite efforts to do so, proponents of REDD+ have not yet succeeded in convincing the broader public that conserving forests is in the country's own interest. Support for forest conservation has been limited to a narrow base of domestic and internationally affiliated NGOs, academics, and private sector entrepreneurs anticipating the creation of a forest carbon market, and does not extend to parties represented in Parliament or across the bureaucracy.[xxiii] Recent corporate commitments from a few major commodity producers to stop deforestation could create an important new constituency for reform but would only marginally expand this political base. Without broader political pressure from civil society groups and voters, political leadership at a high level is required to push reforms necessary to reduce deforestation and to help create and build a forest constituency to continue to support reduction over the long run.

Perhaps ironically then, in light of the broad governance reforms necessary to achieve the objectives of the Norway-Indonesia Agreement, the fate of the REDD+ agenda rests in the hands of a few individuals. One former official's view is that it comes down to two people: the new president and the new Minister of Environment and Forestry.

Are Payments for Performance in Indonesia's Future?

In the last four years, Indonesia has made important progress toward a future with less deforestation, but it is still far from that goal. In the context of international REDD+ negotiations, President Yudhoyono took up the challenge and set the first voluntary commitments by any developing country to reduce greenhouse gas emissions. With promises of large international payments and a partnership with Norway, Indonesia challenged the Ministry of Forestry's exclusive hold on forestry policies, began to acknowledge indigenous rights to forest land, and initiated disclosure of the spatial data that is critical for enforcing laws and exposing corruption. But Indonesia did not move quickly enough or energetically enough to establish and enforce the laws, regulations and procedures necessary to slow the rate of deforestation, or to institutionalize the reforms initiated to do so.

Moreover, the limited progress Indonesia has made is fragile, relying on Presidential Instructions implemented by presidential appointees and supported by a narrow political base. Continuing progress will therefore depend upon the trajectory of domestic political processes, continuing offers of support from international actors, and actions by the new president to institutionalize these gains, enforce existing environmental laws, and promote policies and new laws that are consistent with sustainability.

Indonesia's slow progress should not be an excuse for potential public and private funders to hesitate on entering into similar payment-for-performance agreements with other tropical forest countries, as Indonesia can be characterized as a successful case of "non-payment for non-performance". The risk of "wasting" money is by definition minimal to zero in these agreements and the potential for triggering and accelerating policies and programs to reduce deforestation – that tropical forest countries necessarily have to lead themselves – is substantial. More money on the table, if linked to actual performance, can make a bigger difference even if it doesn't disburse quickly. And in light of the international community's failure to meet Indonesia's expectations for larger and more certain finance for its mitigation efforts, the experience could also be characterized as "non-performance for non-payment".

In sum, although it has so far failed to achieve its primary objective of reducing emissions from deforestation, the Indonesia-Norway Agreement has been successful in at least two ways. First, it has contributed to important changes and introduced new facts into the domestic political sphere, including the expectations for transparency kindled by the "One Map" initiative, and the further empowerment of constituencies fighting for recognition of indigenous rights. Second, it did *not* release payments when Indonesia did *not* perform at reducing deforestation. This assures that future performance-based agreements will be credible in both donor and recipient countries, exposes Indonesia's failure to achieve progress both internationally and domestically, and provides a continuing opportunity for Indonesia's newly elected government to pick up the baton and move forward.

[i] The potential of such cooperation to support domestic performance-based transfers is an important issue, but is beyond the scope of this paper.

[ii] Letter of Intent between the government of the Kingdom of Norway and the Government of the Republic of Indonesia on "Cooperation on reducing greenhouse gas emissions from deforestation and forest degradation," https://www.regjeringen.no/globalassets/upload/smk/vedlegg/2010/indonesia_avtale.pdf.

[iii] REDD+ is shorthand for "Reducing Emissions from Deforestation and forest Degradation, and the Role of Conservation, Sustainable Management of Forests and Enhancement of Forest Carbon Stocks". It is used as a label for efforts to reduce forest-based emissions at national, sub-national, and project scales, as well as the mechanism negotiated under the United Nations Framework Convention on Climate Change through which industrialized countries provide performance-based finance to developing countries for achieving that objective.

[iv] N. Birdsall, W. Savedoff, and F. Seymour, "The Brazil-Norway Agreement with Performance-Based Payments for Forest Conservation: Successes, Challenges, and Lessons," CGD Brief, Center for Global Development, Washington DC, 2014; N. Birdsall and J. Busch, "Assessing Performance-Based Payments for Forest Conservation: Six Successes, Four Worries, and Six Possibilities to Explore of the Guyana-Norway Agreement," CGD Note, Center for Global Development, Washington DC, 2014.

[v] M. Dharmasaputra and A. Wahyudi, "The Impact of Payment-for-Performance Finance on Political Economy of Deforestation in Indonesia," CGD background paper, Center for Global Development, Washington DC, 2014.

[vi] D. Fogarty, "Indonesia CO2 pledge to help climate talks-greens," Reuters, September 29, 2009, http://www.reuters.com/article/2009/09/29/idUSSP495601.

[vii] "Report of the Conference of the Parties on its thirteenth session," held in Bali from 3 to 15 December 2007. http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf

[viii] For descriptions of the parallel domestic political processes that led up to these announcements, see "NGOs as Climate Policy Entrepreneurs: The Surprising Story of NICFI and Norwegian Leadership in REDD+ Financing," CGD Working Paper 389, by E. Hermansen and S. Kasa (2014); "The Political Economy of Deforestation in Brazil and Payment-for-Performance Finance," CGD background paper by S. Abranches (2014).

[ix] N. Birdsall, W. Savedoff, and F. Seymour, "The Brazil-Norway Agreement with Performance-Based Payments for Forest Conservation: Successes, Challenges, and Lessons," CGD Brief, Center for Global Development, Washington DC, 2014.

[x] The Presidential Delivery Unit (UKP4) was established by President Yudhoyono to assist him in the oversight and control of government functions in order to facilitate the work program of his cabinet and ensure achievement of targets.

[xi] Indonesia had prevailed over the objections of Norwegian aid agency (Norad) officials in the negotiations on the financial mechanism, namely that the Agreement specified that an "internationally reputable organization" (potentially a public or private bank based in Indonesia) could receive and manage Norwegian transfers rather than an "international organization". See A. Purnomo, *Protecting Indonesia's Forests: Pros-Cons Policy of Moratorium on Forests and Peatlands*. Jakarta: KPG (Kepustakaan Populer Gramedia), 2012. Kuntoro decided to channel Norwegian funds for the first phase through the UNDP until the new financial mechanism was established in order to minimize corruption risks and any perception of such risks.

[xii] See D. Murdiyarso et al, "Indonesia's forest moratorium: A stepping stone to better forest governance?" Working Paper #76, Bogor: Center for International Forestry Research, 2011; and J. Busch et al, "Reductions in emissions from deforestation from Indonesia's moratorium on new oil palm, timber, and logging concessions," PNAS Online Early Edition for the week of Jan 19-Jan 23, 2015.

[xiii]See M.C. Hansen, et al., 2013, "High-Resolution Global Maps of 21st-Century Forest Cover Change," Science 342:850-853.

[xiv] The source for median daily consumption per person is the World Bank's PovCal data base. We updated the 2010 survey-based median to 2015 to reflect economic growth since 2010 by assuming no change in the distribution of consumption expenditure from 2010. The estimate of the size of the middle class is based on the assumption that USD10 per person daily consumption expenditure is the minimum for a person to be "income-secure" (N. Birdsall et al., "The Strugglers:

The New Poor in Latin America?" Working Paper 337, Center for Global Development, Washington DC, 2013); the proportion would be less than 2 percent on the basis of the 2010 survey data and only 4 percent with updating. Other researchers and institutions give much higher figures for Indonesia's middle class by including people who are still impoverished by most standards. For example, the Asian Development Bank reports that 57 percent of Indonesians are in the middle class based on people whose per capita expenditure is more than USD2 and less than USD20 per day (Asian Development Bank, 2010, "The Rise of Asia's Middle Class", in Key Indicators for Asia and the Pacific 2010, Manila).

[xv] F. H. G. Ferreira et al, "Economic Mobility and the Rise of the Latin American Middle Class," Washington, DC: World Bank, 2013.

[xvi] See S. Jones, "Mesuji: Anatomy of an Indonesian Land Conflict," IPAC Report No. 1, 2013, and "Indigenous Rights vs Agrarian Reform in Indonesia: A case study from Jambi," IPAC Report No. 9, 2014.

[xvii] http://news.mongabay.com/2014/1014-lbell-riau-audit.html

[xviii] In Copenhagen in late 2009, rich countries committed to increasing transfers for climate mitigation and adaptation in developing countries to USD100 billion per year by 2020, without specifying the amount for forest conservation nor the shares which would come from private markets and publicly financed "aid." By 2012, the fast-track pledge of USD30 billion between 2010 and 2012, i.e., USD10 billion per year, was reported as largely achieved, but almost entirely in the form of traditional transfers from donors' Official Development Assistance budgets.

[xix] The recently appointed Minister of the newly created Ministry of Environment and Forests has delegated permitting authority to the central Investment Coordinating Board (BKPM), which has been widely interpreted as a move to minimize opportunities for corruption within the Ministry.

[xx] A. Purnomo, *Protecting Indonesia's Forests: Pros-Cons Policy of Moratorium on Forests and Peatlands*. Jakarta: KPG (Kepustakaan Populer Gramedia), 2012.

[xxi] See "Real-Time Evaluation of Norway's International Forest and Climate Initiative" commissioned by Norad and prepared by LTS International, 2014, http://www.norad.no/en/tools-and-publications/publications/evaluations/publication?key=415169.

[xxii] F. Seymour and A. Angelsen, "Summary and conclusions: REDD wine in old wineskins?" In Arild Angelsen, et al (eds.) *Realizing REDD+: National strategy and policy options*, CIFOR 2009.

[xxiii] See C. Luttrell et al, "The Political Context for REDD+ in Indonesia: Constituencies for Change," *Environmental Science and Policy* 35, 2014, 67-75.