
GOVERNANCE AND MANAGEMENT ARRANGEMENTS

Roles and responsibilities of the project's governance mechanism:

95. The project will be implemented following UNDP's national implementation modality, according to (i) the Revised Basic Agreement for Technical Assistance signed 29 October 1954 between the United Nations, the International Labour Organisation, the Food and Agriculture Organisation of the United Nations, the United Nations Educational, Scientific and Cultural Organisation, the International Civil Aviation Organisation, and the World Health Organisation and the Government of the Republic of Indonesia; (ii) the Standard Agreement on Operational Assistance signed 12 June 1969 between the United Nations, the International Labour Organisation, the Food and Agriculture Organisation of the United Nations, the United Nations Educational, Scientific and Cultural Organisation, the International Civil Aviation Organisation, the World Health Organisation, the International Telecommunication Union, the World Meteorological Organisation, the International Atomic Energy Agency, the Universal Postal Union, the Inter-Governmental Maritime Consultative Organisation and the

¹⁸ The costs of UNDP Country Office and NCE-VF Unit's participation and time are charged to the GCF Agency Fee.

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United Nations Industrial Development Organisation and the Government of the Republic of Indonesia; (iii) the Agreement signed 7 October 1960 between the United Nations Special Fund and the Government of the Republic of Indonesia; and (iv) the Partnership Framework Agreement signed 28 September 2012 between the Government of the Republic of Indonesia and the United Nations Development Programme, defining the its applicable regulations, rules, policies and procedures defining the detailed financial, procurement and implementation plans, and the respective responsibilities of the parties thereto in respect of a funded activity.

96. It will be implemented over a period of 4 years starting from the effectiveness of GCF-UNDP Funded Activity Agreement for REDD+RBP (Annex A).
97. The **Implementing Partner** for this project is the Environmental Fund Management Agency (IEF), under the Ministry of Finance. The Implementing Partner is the entity to which the UNDP Administrator has entrusted the implementation of UNDP assistance specified in this signed project document along with the assumption of full responsibility and accountability for the effective use of UNDP resources and the delivery of outputs, as set forth in this document.
98. The Implementing Partner is responsible for executing this project. Specific tasks include:
- Project planning, coordination, management, monitoring, evaluation, and reporting. This includes providing all required information and data necessary for timely, comprehensive, and evidence-based project reporting, including results and financial data, as necessary. The Implementing Partner will strive to ensure project-level M&E is undertaken by national institutes and is aligned with national systems so that the data used and generated by the project supports national systems.
 - Risk management as outlined in this Project Document.
 - Procurement of goods and services, including human resources.
 - Financial management, including overseeing financial expenditures against project budgets.
 - Approving and signing the multiyear workplan,
 - Approving and signing the combined delivery report at the end of the year; and,
 - Signing the financial report or the funding authorization and certificate of expenditures.

Project stakeholders and target groups:

99. The project will use several mechanisms to engage the target groups in the decision-making process. The first mechanism is through the project board, as the beneficiary representatives will be providing essential directions for the project implementation. The second mechanism is through consultative meetings to discuss key activities that require meaningful participation with targeted groups, which the Project Management Unit will facilitate. The third mechanism will be enabling the IEF to engage targeted groups for performance-based payment fund channeling.

UNDP:

100. UNDP is accountable to the GCF for the implementation of this project. This includes oversight of project execution to ensure that the project is being carried out in accordance with agreed standards and provisions. UNDP is responsible for delivering GCF project cycle management services comprising project approval and start-up, project supervision and oversight, and project completion and evaluation. UNDP is responsible for the Project Assurance role of the Project Board/Steering Committee.

101. The implementation of this project will be closely coordinated with the REDD+ Investment Plan, which combines the RBP approved Projects, and other relevant REDD+ projects support into an integrated programme to support the implementation of the NDC and National REDD+ Strategy.

IEF

Performance-based Payment.

102. The mechanism with which Output 2 activities will be financed will be a UNDP financial and legal instrument called: Performance-Based Payment Agreement (PBPA). The PBPA is a type of agreement between UNDP and a development partner to provide funding upon the verified achievement of an agreed measurable development result. No advances are provided, rather payments are made only upon the verified achievement of agreed results. This approach gives greater incentive to development partners to achieve results ([UNDP Programme and Operations Policies and Procedures – POPP](#)).
103. In this modality, as payments are made only on delivery of verified results, *“the [development partner] is fully responsible for the achievement of the result(s), and free to use its own approaches, methods, capacities and resources within the parameters stipulated in the project document and performance-based payment agreement. Upon achievement of the result(s), the development partner submits substantive and other reporting required in the agreement to trigger payments”*.
104. The PBPA will be implemented through IEF as implementing partner ²¹. IEF will work closely with MOEF to ensure it meets the requirements in the PBPA. As payments are made only on delivery of verified results, the development partner is fully responsible for the achievement of the result(s), and free to use its own approaches, methods, capacities, and resources. Upon achievement of the result(s), the development partner submits substantive and other reporting required in the agreement to trigger payments.
105. The achievement of specific, pre-agreed results must be validated through performance measures and quality certified by an independent assessor. The assessor provides a neutral, impartial, and independent assessment of whether the agreed development result has been achieved prior to issuing the agreed payment.
106. The overall process and requirements for this PBP agreement are as follow:
- a) Government of Indonesia and UNDP agree on the performance criteria and indicators, targets, and price(s) per unit of result. UNDP operational guidance note for PBPA mentions that “the PBP agreement describes at a minimum:
 - the desired development result expressed in an indicator that can be measured and verified;
 - a mechanism or method how its achievement can be verified; and
 - a corresponding payment [...] paid after the result has been achieved.
 - b) Government of Indonesia and UNDP agree on an independent assessor, who reviews elements from step 1 and defines a validation methodology. The selection of the assessor must be competitive and agreed between UNDP and the development partner benefitting from a performance-based payment. The process is guided by the following criteria:
 - The independent assessor must be an internationally recognized institution of repute, with no commercial relationship with any of the other parties that may impair its objectivity, impartiality, or independence.
 - The institution should have no affiliation to UNDP or the responsible party. [...]
 - c) UNDP engages the independent assessor through a separate agreement. The independent assessor must acknowledge its role in the performance-based payment agreement as a non-party to the agreement. The Tender/terms of reference for the independent assessor are included in annex S.
 - d) A project appraisal committee or project board reviews and approves elements defined in step a & b. Before a project document containing a performance-based payment can be signed, the project appraisal committee or project board must review: (i) The choice of the proposed development partner and the independent assessor; (ii) The formulation of the result, validation method and payment-linked performance indicators submitted by the independent assessor; and (iii) The draft performance-based payment agreement based on the relevant template.

²¹ Following an exception agreed by UNDP to its rules and procedures, which require the PBPA to be signed with a Responsible Party rather than the Implementing Partner.

- e) In consultation with UNDP and the development partner, prior to the signature of the performance-based payment agreement, the independent assessor:
- validates key aspects, of the agreement including: (a) the theory of change explaining how the result(s) are expected to be achieved; (b) the definition of the result(s); (c) objectively verifiable indicators to measure the achievement of the result(s) as well as performance targets against these indicators that will trigger payments; (d) the adequacy of risk management measures, including for compliance with social and environmental standards; and (e) the payment terms linked to the validation of the result(s), which can include: (i) Financial incentives in case the result(s) are achieved early or are surpassed; (ii) Provisions for reduced or graded payments in case the result(s) are partially achieved or incomplete (i.e., 'near miss'); and (iii) Any other incentives and payment conditions related to the quality and sustainability of the result(s)".
 - develops a validation methodology attached to the performance-based payment agreement as an annex.
- f) The Performance-based payment Agreement, in form and substance satisfactory to UNDP and in compliance with UNDP policies and procedures, is signed.

Disbursements are made from UNDP to IEF, based on the achievement of one or more results verified by the independent assessor (including safeguards). During the implementation of the project, based on the agreed methodology, the independent assessor will verify the achievement of milestones and targets reported by the responsible party to validate that agreed levels of quantity, quality and sustainability were delivered. The target of verification will cover various entities at national and subnational level involved in the implementation of the priority programmes involved in the achievement of the PBP Agreement. This includes the various Directorates in KLHK (such as Social Forestry, FMU, KSDAE, Climate Change, etc) as well as their technical units/extension offices at the sub-national level, such as the FMUs, and the related provincial (sub-national) authorities. Taking into consideration the recommendations of the independent assessor, UNDP will inform IEF and the Project Board of its decision with respect to the payments.

107. Along with UNDP, IEF PMU will recruit the third party to conduct the environmental and social impact assessment or its equivalent of the two main activities under the PBP. The assessment will produce an Environmental and Social Management Plan (ESMP) and required mitigation actions. As mandated by GCF, these will be submitted to GCF before making any disbursements under the PBPA. In case the PBPA is signed before this assessment has been undertaken, the PBPA will have to be updated in order to ensure that it includes all necessary safeguards requirements before an assessment is undertaken by the independent assessor and PBPs transferred by UNDP to the development partner.

Execution, Monitoring and reporting

108. MOEF will carry out the activities necessary to comply with the milestones established in the previous section, and which are set out below, as well as compliance with social and environmental safeguards, in accordance with the guidelines set out by jointly by UNDP and IEF.

109. MOEF reports to IEF on the implementation of the milestones described. The PMU will consolidate this information and report this information by uploading it to the bpdlh.id website. A diagram summarizing this process is presented.

PBP modality - Structure

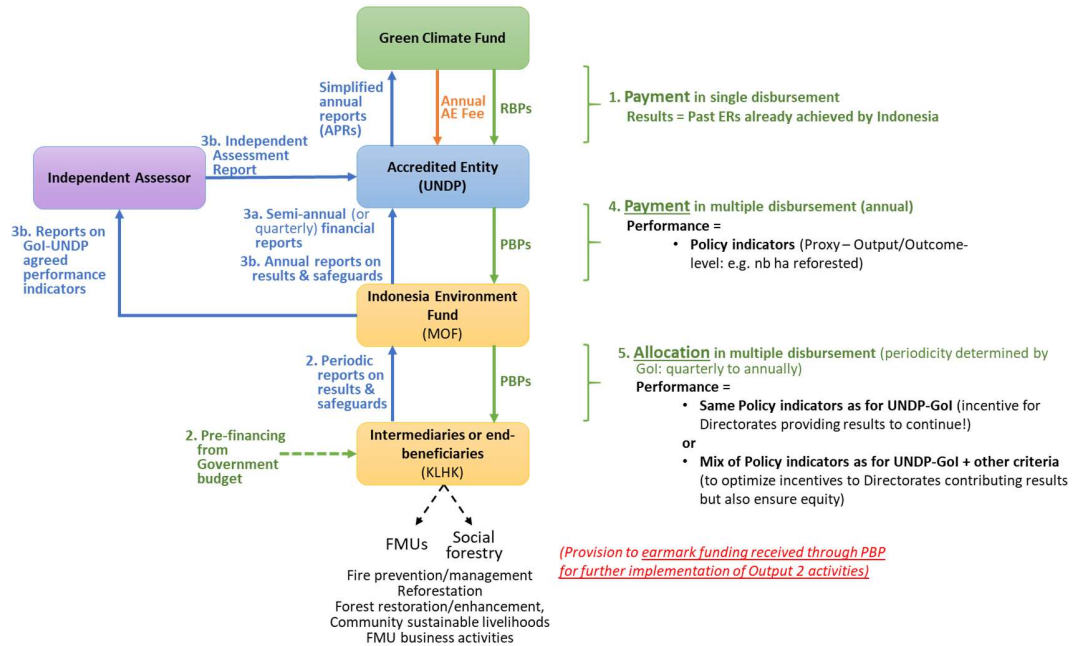


Figure 2: illustrates how the performance-based payment agreement will operate in Indonesia

110. The choice of this PBPA is based on the following objectives:

- **Ensure country leadership** by providing more flexibility to the Government of Indonesia in the way it provides the desired results;
- **Ensure cost-efficiency** by making optimal use of existing government structures, avoiding or keeping the duplications of structures and functions to the minimum, while ensuring that UNDP can fulfill its role of Accredited Entity adequately, in line with GCF and UNDP standards (incl. safeguards and gender);
- **Enable faster disbursements from UNDP to Indonesia** than a conventional upfront payment modality would allow, depending on the government's capacity to provide the agreed results, verified through an Independent Assessor, without compromising the quality of implementation (incl. safeguards) and the intended use of proceeds.

Project organisation structure:

111. The project organization structure is as follows:

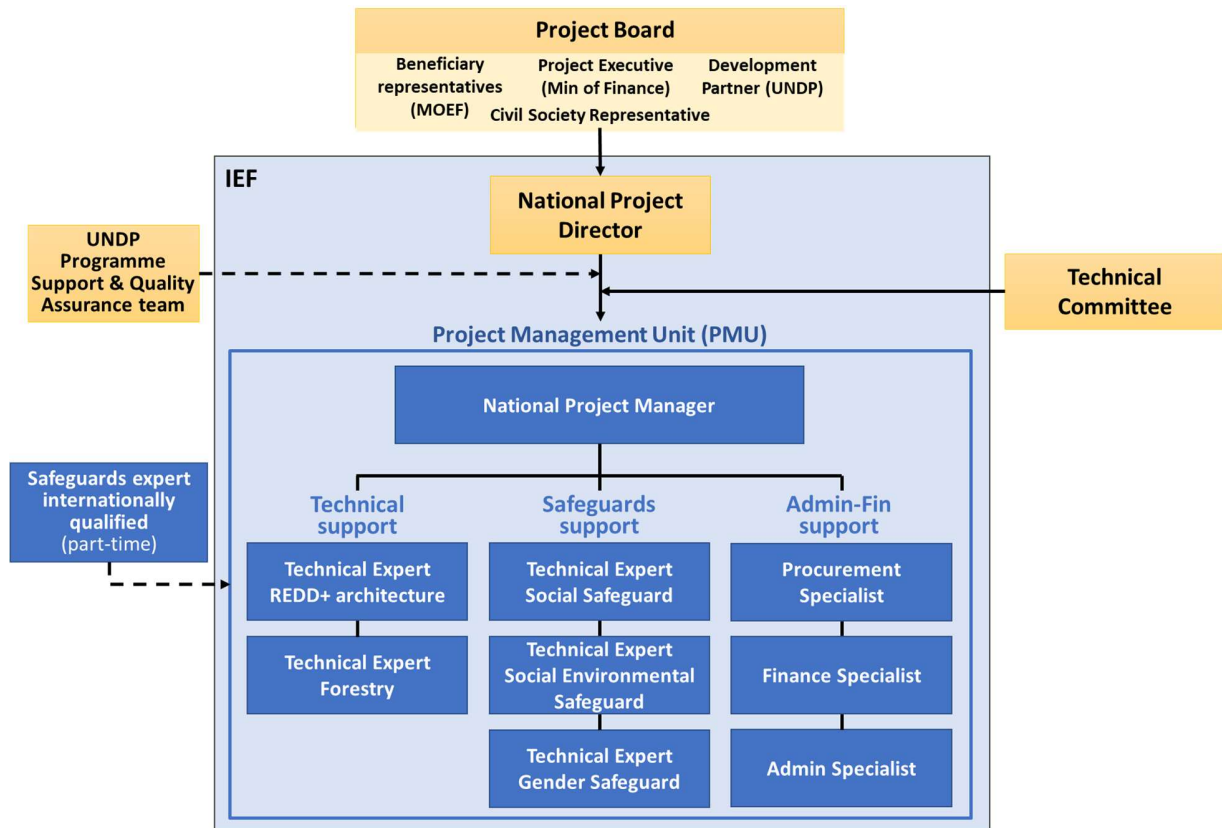


Figure 3: Project organisation structure

112. **Project Board:** The Project Board is responsible for taking corrective action as needed to ensure the project achieves the desired results. In order to ensure UNDP’s ultimate accountability, Project Board decisions should be made in accordance with standards that shall ensure management for development results, best value money, fairness, integrity, transparency and effective international competition.

113. In case consensus cannot be reached within the Board, the UNDP Resident Representative (or their designate) will mediate to find consensus and, if this cannot be found, will take the final decision to ensure project implementation is not unduly delayed.

114. Specific responsibilities of the Project Board include:

- Provide overall guidance and direction to the project, ensuring it remains within any specified constraints;
- Address project issues as raised by the project manager;
- Provide guidance on new project risks, and agree on possible mitigation and management actions to address specific risks;
- Agree on project manager’s tolerances as required, within the parameters set by NCE-VF, and provide direction and advice for exceptional situations when the project manager’s tolerances are exceeded;
- Advise on major and minor amendments to the project within the parameters set by NCE-VF;
- Ensure coordination between various donor and government-funded projects and programmes;
- Ensure coordination with various government agencies and their participation in project activities;
- Review the project progress, assess performance, and appraise the Annual Work Plan for the following year;
- Appraise the annual project implementation report, including the quality assessment rating report;
- Ensure commitment of human resources to support project implementation, arbitrating any issues within the project;

- Review combined delivery reports prior to certification by the implementing partner;
- Provide direction and recommendations to ensure that the agreed deliverables are produced satisfactorily according to plans;
- Address project-level grievances;
- Approve the project Inception, Interim Evaluation and Terminal Evaluation reports and corresponding management responses;
- Review the final project report package during an end-of-project review meeting to discuss lesson learned and opportunities for scaling up;
- Reviews (unless already done by the project approval committee) the continuing relevance of the project activities and review progress made within the annual work plans and tolerances;
- Discusses and makes recommendations as specified in the performance-based payments agreement, provided however that UNDP shall maintain the final decision on the implementation of the PBP Agreement;
- After UNDP taking into consideration the recommendations of the independent assessor, is informed by UNDP of its decision with respect to the performance-based payments.

115. The composition of the Project Board must include the following roles:

- Project Executive:** The Executive is an individual who represents ownership of the project and chairs the Project Board. The Executive is normally the national counterpart for nationally implemented projects. The Project Executive is **IEF**.
- Beneficiary Representative(s):** Individuals or groups representing the interests of those who will ultimately benefit from the project. Their primary function within the board is to ensure the realization of project results from the perspective of project beneficiaries. Often civil society representative(s) can fulfil this role. The Beneficiary representative is **the Ministry of Environment and Forestry**.
- Development Partner(s):** Individuals or groups representing the interests of the parties concerned that provide funding and/or technical expertise to the project. The Development Partner is **UNDP**.
- Civil Society Representative:** This representative will possess knowledge and practical experience on social forestry and forest management units which are necessary to represent the views and aspirations of the civil society with the objective of maximizing their social, climate and environmental benefits. S/he may represent, but is also not limited to, environmental groups, local and indigenous communities. This representative must be able to disseminate and solicit feedback from a network of key CSOs to ensure a balanced representation of this stakeholder group at the Policy Board.
- Project Assurance:** UNDP performs the quality assurance role and supports the Project Board and Project Management Unit by carrying out objective and independent project oversight and monitoring functions. This role ensures appropriate project management milestones are managed and completed. The Project Board cannot delegate any of its quality assurance responsibilities to the Project Manager. UNDP provides a three – tier oversight services involving the UNDP Country Offices and UNDP at regional and headquarters levels. Project assurance is totally independent of the Project Management function.

Project extensions:

116. The NCE-VF Executive Coordinator must approve all project extension requests. Note that all extensions incur costs and the GCF project budget cannot be increased. A single extension may be granted on an exceptional basis and only if the following conditions are met: one extension only for a project for a maximum of six months; the project management costs during the extension period must remain within the originally approved amount, and any increase in PMC costs will be covered by non-GCF resources; the UNDP Country Office oversight costs during the extension period must be covered by non-GCF resources.

117. **Project Manager:** The Project Manager has the authority to run the project on a day-to-day basis on behalf of the Project Board within the constraints laid down by the Board. The Project Manager is responsible for day-to-day management and decision-making for the project
118. The Implementing Partner appoints the Project Manager, who should be different from the Implementing Partner's representative in the Project Board.
119. The Project Manager function will end when the final project terminal evaluation report and other documentation required by the GCF and UNDP has been completed and submitted to UNDP. The Project Manager is responsible for day-to-day management and decision-making for the project within the Annual Work Plan approved by the Project Board and reviewed by UNDP. The Project Manager's prime responsibility is to ensure that the project produces the results specified in the project document, to the required standard of quality and within the specified constraints of time and cost. The annual work plan is prepared by the Project Manager and reviewed and approved by Project Board. However, the UNDP Nature, Climate and Energy (NCE) Team, as part of its quality assurance role, provides the final approval. The Project Manager is also responsible for managing and monitoring the project risks initially identified, and for submitting new risks to the project board for consideration and decision on possible actions if required, and for updating the status of these risks by maintaining the project risks log according to the NIM Guidelines.

National Project Director (NPD):

120. The National Project Director (NPD) will be an under Director of IEF of the Ministry of Finance and will be responsible at the highest level for providing guidance on the management and technical feasibility of the project and ensuring its implementation leads to the achievement of project's results. The NPD will be responsible for orienting and advising the Project Manager on Government policy and priorities. The NPD will be supported by the IEF's Technical Committees and, will review coherence of the intervention, including results, risks, planning and procurement processes. The NPD will sign and approve procurement of services and goods corresponding to the project and will delegate to the Project Manager following the procedures of the Standard Operation Procedures (SOPs¹⁴⁴) of project. The Combined Delivery Report (CDR) will be approved on a quarterly basis and signed by the NPD. The inventory will be also signed by the NPD.

Project Technical Committees:

121. Technical Committees will be arranged when there is a need of technical inputs and coordination with the project's components and other REDD+ initiatives. The aim is to provide technical support to the Project Board, Project National Director, Project Technical Experts and Project Manager for decision making. The Technical Committees will be chaired by relevant directorate in the DG Climate Change, MoEF and may include as relevant focal points from sectorial authorities, CSOs, academia, indigenous, local community, and women groups, private sector, etc.

The Project Management Unit (PMU)

122. The Project Management Unit (PMU), under supervision of IEF and UNDP, will run the project on a day-to-day basis within the constraints laid down by the Project Board. The PMU will be coordinated by a **Project Manager** (see figure 3).

Cost-effectiveness and efficiency

123. The project promotes cooperation and complementarity with other projects such as REDD+ Norway RBP, World Bank Technical Support to IEF, World Bank FCPF and Bio Carbon Fund, which are being implemented, thus promoting synergy between them.
124. The project design and budget take advantage of the IEF and the MoEF operation, most of the products that the project generates through the activities under output 1 and output 2, correspond to the continuity or depth of the actions that REDD+ Investment plan has developed or will develop until the end of its operation, which

makes the Project cost-effective, since it does not require investing in the initial development of the different actions, taking advantage the knowledge acquired from the staff, as well as the lessons learned that ex REDD+ Agency's and DG Climate Change have generated.

125. The project will also promote the adoption of deforestation-free and environmentally responsible product supply practices by the social forestry Enterprise, creating market access and price differentiation for the consolidation initiatives of producer groups sought with component 2. An example of this is the application of digital marketing and traceability in products marketing, which allows the traceability of the products until the name of the farmer that grew it is known.

126. UNDP, as an accredited entity of the GCF, will ensure transparency and appropriate use of allocated resources, according to the approved document, using multi-year and annual planning tools defined under the project governance structure. Furthermore, IEF has the legal and institutional framework to ensure accountability and transparency in managing results-based funds, subject to planning and complementarity with the co-financing mobilized for this initiative, generating savings, optimizing resources and creating synergies for sustainable forest management.

127. On the other hand, an economic evaluation was carried out based on the estimation of the benefits and economic costs of the project. The economic desirability of the investments was determined by computing the EIRR and NPV and comparing the EIRR with the assumed 10% discount rate. Discounted fund flows period is assumed to be 15 years to be conservative and based on stream of income without additional operating and maintenance cost from the project. This 15-year term is considered relevant to the project, which seeks a significant and lasting change in current land use patterns as part of long-term low-emission development planning. The most relevant benefits are: i) biodiversity; ii) regulation of water resources; iii) provision of Non-Timber Forest Products (NTFP); iv) improvement of governance systems for natural resources; v) support for maintaining ancestral culture/identity; and vi) contribution to socioeconomic development and poverty reduction. In this context, the project identified two economic benefits that have been quantified for economic evaluation: (a) GHG reduction (direct benefit), and (b) Poverty and inequality reduction (co-benefits). The carbon benefit of the project has been shown to be significant even at a carbon price of \$5 and a presentation of the IRR and NPV is not done here. Also given the nature of this project this estimation is not necessary. However, an economic analysis capturing only the social forestry aspect of the project shows significant benefit to the people of Indonesia. Given the above estimates, the net present value of the project is about \$107.25 million using a 10% discount rate, with an internal rate of return of 33%. This is assuming all the cost of the project only has a co-benefit from social forestry by increasing income of the communities. We should note that there are other benefits not fully estimated in this proposal because the location of the investment is not fully known yet. These co-benefits include (a) Hydrological regulation (co-benefits); (b) Biodiversity (co-benefits). These two benefits have been shown to have significant benefits. The implication of ignoring these additional benefits is that the estimates of the economic IRR and NPV will be the lower bound and provide conservative estimates of the value of the project. More details can be found in Annex XIIIa of the Economic Evaluation document of the funding proposal

Learning and knowledge-sharing:

128. Results from the project will be disseminated within and beyond the project intervention zone through existing information-sharing networks and forums in coordination with the NDC and REDD+ National Strategy. The project will identify and participate, as relevant and appropriate, in scientific, policy-based and/or any other networks, which may be of benefit to project implementation though lessons learned. The project will identify, analyse and share lessons- learned that might be beneficial in the design and implementation of similar future projects. There will also be a two-way flow of information between this project and other projects/programmes of a similar focus.

Communications and Visibility Requirements:

129. The project will comply with UNDP's, IEF, MoEF and GCF Branding Guidelines. Amongst other requirements, these guidelines describe when and how the UNDP and the logos of donors to UNDP projects are used. In order to accord proper acknowledgement to the GCF for providing funding, a GCF logo will appear on all relevant project publications, including, among others, project hardware and equipment purchased with GCF funds. Any citation on publications stemming from the project will also accord proper acknowledgment to the GCF.
