

INTERNATIONAL TROPICAL TIMBER ORGANIZATION

ITTO

PROJECT PROPOSAL

TITLE:	ENHANCING LEGAL AND SUSTAINABLE SUPPLY CHAIN IN THE WOOD INDUSTRY TO STIMULATE GOOD FORESTRY GOVERNANCE
SERIAL NUMBER:	PD 943/25 (I)
COMMITTEE:	FOREST INDUSTRY
SUBMITTED BY:	GOVERNMENT OF INDONESIA
ORIGINAL LANGUAGE:	ENGLISH

SUMMARY:

The wood industry plays a role as one of the economic drivers of forest communities in various regions of Indonesia. This potential of wood industries is considered in the vast forests in Indonesia as a source of wood production as well as population growth in Indonesia and the world. With these potentials, the wood industry is projected to support the economy of the community, regions, and countries and reduce pressure on the forest, particularly the natural production forest. The performance of the wood industry can be improved with an incentive supported by a broader market of Indonesian wood products to increase land cover in natural forests, and plantations forest managed by private and forest communities.

Based on data collected by ITTO PD 928/22 Rev.1 (I), the development of the wood industry market faces several challenges, particularly related to supply chain, market development; low performance of sustainable forest management; policy incentives to support the development of natural production forest; big data integration among sectors. The project findings recommend intensive development in broadening the market both the domestic and global markets as well as enhancing a legal and sustainable supply chain as part of the Indonesian Legality and Sustainability Verification System (*Sistem Verifikasi Legalitas Kelestarian* - SVLK).

The project focuses on stimulating good forestry governance by enhancing the legal and sustainable supply chain. Therefore, the proposed project aims to reduce pressure on the forest area supported by good forest and wood industry governance. Finally, stimulating the supporting environment to implement legal and sustainable supply chains and increasing the capacity of the wood industry in the domestic and global markets can prevent over-exploitation and become an enabling condition for better supervision of sustainable forest management and development of the wood industry. By enhancement of the wood industry performance through the implementation of this proposed project, sustainable forest management and a legal and sustainable supply chain will promote forestry governance, law enforcement, and traceability.

EXECUTING AGENCY	:	DIRECTORATE OF FOREST PRODUCT PROCESSING AND MARKETING, DIRECTORATE GENERAL OF SUSTAINABLE FOREST MANAGEMENT, MINISTRY OF FORESTRY REPUBLIC OF INDONESIA	
DURATION	:	12 MONTHS (MARCH 2025 – FEBRUARY 2026)	
PROPOSED BUDGET AND OTHER FUNDING SOURCES:	:	SOURCE	CONTRIBUTION IN US\$
		ITTO	225,000
		GOI	11,600
		TOTAL	236.600

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Project Brief

As mentioned in the ITTC-60 Yokohama, the global market for wood products has recently stagnated, as has happened in the Indonesian processed wood market worldwide. This condition requires focused efforts including the capacity of human resources in wood industries to broaden the market and data support related to the supply chain in wood industries using timber from legal and sustainable sources. It also requires the capacity of wood industries, particularly SMEs (Small and Medium Enterprises) to strengthen its penetration in the global market. The broader global and domestic market of wood products in upstream sector markets will accelerate the timber producers' enthusiasm to replant in their forest areas and enrich the natural production forest.

At present, the government is having challenges of limited financial resources and personnel in developing the market and supply chain of the wood industry. At the same time, the upstream and downstream of the forestry industry sectors are also disable to provide the proper resources and organize actions to tackle this problem. Thus, immediate action from other resources is required

The project's specific objective is to reduce pressure on the North Sumatra Forest area due to illegal activity by stimulating good forest governance through enhanced legal and sustainable supply chains in wood industries. It can be achieved by implementing two outputs: 1) Stimulated implementation of legal and sustainable supply chains of the wood industry to support forest governance, and 2) Increased capacity of the wood industry in the domestic and global markets that cover activities. The outputs will be delivered by fully implementing four planned project activities consisting of: 1) to conduct the study of the legal and sustainable supply chain of the wood industry, 2) to develop an integrated platform for the legal and sustainable supply chain of the wood industry, 3). to increase the capacity of SME wood industries in domestic and global markets, and, 4) to disseminate the progress of the legal and sustainable supply chain of the wood industry.

Achievement of the specific objective at project completion will be assessed using three indicators, namely:

- A study on the supply chain of the wood industry completed
- 2 information systems of the wood industry and its market are integrated
- 9 trainings on capacity building in the wood industry are conducted

In general, the primary beneficiaries of the project are the wood industry including the government as the regulator, forest and wood industry associations, community forestry, community as consumers, and the research institution; also, the economy and society as a whole. Aside from delivering defined outputs, the wood industry will be strengthened through the increased capacity of the wood industry business holders to fortify its position in expanding domestic and global markets. The wide market of wood products is expected to trigger timber plantation developers in both the natural forest and plantation forest in the forest area and private forest to build the forest and forest business sustainably and reduce the potency of any illegal activity in particular in the forest area with no forest utilization license on it.

The project will be implemented using a participatory, collaborative approach. Planned activities will be executed in close consultation, cooperation, and collaboration with competent partners, as appropriate. Expertise and experience shall be the primary criteria for selecting partners to work with. Healthy communication between the project and the stakeholders will be established and maintained throughout the project duration, given their support in implementing the project activities.

To sustain the yielder project's results an exit strategy should be carefully developed towards the end of the project. The strategy should be built on three basic elements, namely: i) what project activities need to be continued after project completion; ii) which institution(s) are responsible for implementing selected activities; and iii) the source of funds to finance implementation of the activities.

The key assumptions made for a successful implementation of the project are supportive forestry business association (APHI), wood industry and FIAs (ISWA, APKINDO, ASMINDO, HIMKI, ILWA), independent assessment and verification institution (LPVI), supportive MoF and related government institutions both the central and local governments, universities, and corporative community as the timber farmer and the potential market of wood products. If any assumption does not hold, the achievement of the project may be compromised due to materialized potential risk. Hence, it is critical to identify and implement the relevant and appropriate risk-mitigating measures from the project setting.

The proposed project budget is US\$236,574 in total, comprising contributions of the ITTO US\$224,974, respectively. Out of the ITTO's contribution, US\$48,051 (21,9%) is used to pay project personnel, with an allocation for capital items of US\$ 24,000 (2,4%).

List of Abbreviations and Acronyms

APHI	Indonesian Forest Entrepreneurs Association
APKINDO	Indonesia Wood Panel Association
ASMINDO	Indonesian Furniture Industry & Handicraft Association
DG SFM	Directorate General of Sustainable Forest Management
DSA	Daily Subsistence Allowance
EA	Executing Agency
FS	Field Supervisor
FGD	Focus Group Discussion
FIA	Forestry Industry Association
FIP	Forest Industry Professional
FKMPI	Indonesian Forestry Community Communication Forum
FLEGT	Forest Law Enforcement, Governance and Trade
FOLU	Forest and Other Land Use
GDP	Gross Domestic Product
Gol	Government of Indonesia
HIMKI	Indonesian Furniture and Craft Industry Association
IHE	In-House Expert
ILWA	Indonesian Light Wood Association
ISWA	Indonesia Sawmill and Wood Working Association
ITTA	International Tropical Timber Agreement
ITTO	International Tropical Timber Organization
LSSC	Legal and Sustainable Supply Chains
MM	Man Month
MD	Man Day
MoF	Ministry of Forestry of the Republic of Indonesia
Mol	Ministry of Industry
MoPWP	Ministry of Public Works and Public Housing
MoT	Ministry of Trade
NC	National Consultant
NDC	Nationally Determined Contribution
PAC	Project Advisory Committee
PBPH	Forest Concession Holder
PBPHH	Forest Industry
PC	Project Coordinator
PIT	Professional Information Technology
PMU	Project Management Unit
PAOT	Project Administration Officer/Treasurer
PSC	Project Steering Committee
SAP	Strategic Action Plan
SDG	Sustainable Development Goals
SF	Social Forestry
SFM	Sustainable Forest Management
SVLK	Legality and Sustainability Verification System
SME	Small Medium Enterprise
TD	Travel Day
YPO	Yearly Plan of Operation

PART I: PROJECT CONTEXT

1.1 Origin

As a tropical country with a land area of 1,9 million km² (Anur, 2023), Indonesia has a large natural resource potential, including timber. The high potential of this wood source also arises from the vast forest area, especially Production Forests and Community Forests. Based on data from the 2023 Annual Work Plan document for the Directorate for Forest Utilization Planning (MoEF, 2023), the area of Production Forest in Indonesia has reached 67.5 million hectares. Indonesia also has the potential of Community Forests which reach 34.8 million hectares (Susetyo, 2021). This means that there is great economic potential from the vast potential of wood-producing areas. One of the economic potentials that can be utilized from Indonesia's forest areas is as a source of wood as raw materials for industrial purposes. Based on rough calculations, with this large forest area, Indonesia has the potential to produce wood with a volume of 79.6 million m³ just from Community Forests. Meanwhile, the area of Community Forests continues to increase (Susetyo, 2021). The same source also stated that community forests supply 46.9% of the national timber needs. This data is promising for the sustainable development of the wood industry in Indonesia.

By paying attention to the issue of raw material fulfillment, there is an opportunity to develop fast-growing plantation forests such as sengon, jabon, balsa, etc on Java Island as stated in ITTO PD 928/22 Rev.1 (I). The challenging condition is that the raw materials for the wood industry in Java are also supplied from Kalimantan Island and Sumatra Island, although with the risk of raw materials becoming defective and high transportation costs for raw material transportation. The problem of raw material availability is felt by all wood product producers ranging from Small and Medium Enterprises (SMEs) to large industries. Raw material issues include a) information on the distribution of raw materials, b) scarcity of certain types of raw materials due to the competition in the industry, c) availability of raw materials according to specifications, and d) mobilization of raw material transportation with its risks namely damage to raw materials and high transportation costs. With the problem of raw materials faced, there is an anomaly that the industry continues to grow. At the same time, it is found that the wood productivity only reaches 30-40% of the installed capacity (ITTO PD 928/22 Rev. 1 (I), 2024).

In the present day, the Government of Indonesia manages 67.61 million hectares of Production Forest which 32.50 million hectares are not subjected to forest concession (PBPH). Based on the Directorate General of Sustainable Forest Management Strategic Plan 2020 - 2024, the areas that are not subjected to PBPH will be managed to be optimally developed by the Forest Management Unit (Provincial Government) covering 7 million Ha within that period. This means that the rest of the area is in urgent condition and needs to be focused on its development and management. If it is not implemented yet, the potential for any illegal activity in the forest area is largely open. For instance, North Sumatera Province has an area that is not subjected to any PBPH that could be developed by the legal scheme covering an area of 227,975 Ha whereas East Kalimantan Province covers an area of 206,360 Ha.

In the National Medium-Term Development Plan (RPJMN) target, Indonesia's ability to reduce deforestation is estimated to reach 400,000-300,000 in 2024. By the strategic efforts and corrective action by the MoEF, the reduction in the rate of deforestation has exceeded the target. Based on the data from The State of Indonesia's Forests (SOIFO) 2024 dated 25 July 2024, though the deforestation rates had declined in recent years (the rate in 2021-2022 was 8.4 percent lower than in 2020-2021), the rate increased by 16.4 percent in 2023, largely due to fires, other environmental impacts, and illegal human activities in the forest area. In 2022-2023, net deforestation was 121,103 hectares. However, Indonesia's land and forest cover conditions are dynamic, along with the need for land for development and other activities. Changes in forest cover occur from time to time, including due to forest conversion for non-forestry sector development, encroachment, and forest fires, as well as forest rehabilitation activities. Due to this condition, the government expects that the

development of the wood industry and its market could accelerate the development of forest plantations by private and community which becomes a beneficial effort to tackle the potency of illegal activity such as encroachment in the forest area.

One of the attempts to implement the management of timber production regulated in the Minister of Environment and Forestry Regulation No. 8 of 2021 is SVLK. The system seeks to ensure the sustainability of the timber industry by ensuring that the wood is extracted legally and sustainably. Implementing SVLK requires various stages for applicants, starting from requesting verification, planning verification, implementing verification, issuing legality certificates, and recertification.

Creating an information system on wood distribution, type, and volume and developing a timber marketplace platform. This is to provide services to small, medium, and large industries by enhancing the distribution and amount of wood available in various locations. With the information system and/or timber/log marketplace platform, the supply chain that connects the buyer and seller as well as the flow of raw materials to the industry can run efficiently. Transportation costs can be minimized because the planning of raw material collection routes can be calculated so as not to cause waste so that the production costs of wood products can be made efficient which will ultimately increase competitive advantage. In building a timber distribution information system, adequate information is needed, including geospatial data input, inventory database input, and tracking system. Geospatial data collects information on the distribution of forest locations and timber distribution (by name by address); inventory database input contains the existence of wood species, stand age, number or volume of publications, and logging time information. Meanwhile, the tracking system identifies the process of timber movement from the felling site to the final distribution point.

Forestry Industry Products consistently contribute to national export commodities. The export value of forestry industry products for the period 2024 to today has reached 11,896 billion USD, and based on the development of export value growth in recent years, it is believed to have the potential to exceed the 2023 achievement of 12.756 billion USD. The challenges of the global market are getting tougher, in addition to weakening market conditions in destination countries and increasing competition from other countries, the global market also requires environmentally friendly products and sustainable management.

In this context, this proposed project, developed by the Directorate of Forest Product Processing and Marketing, Directorate General of Sustainable Forest Management (DG SFM) of the Ministry of Forestry (MoF), The proposed project aims to enhance the legal and sustainable supply chain of the wood industry to stimulate good forestry governance through expanding the broader market for wood products to reduce the potency of unplanned destructive activities in forest areas in the Sumatra region (North Sumatra Province). This proposal has been thoroughly discussed involving the main stakeholders of the national forest industry and received their full support.

1.2 Relevance

1.2.1 Conformity with ITTO's objectives and priorities

▪ Conformity with ITTA 2006

The proposed project is concerned with the effort to develop national wood industries supported by enhanced governance and traceability arrangements for legal and sustainable supply chains. It focuses on the optimization of forest areas and private forest management in utilizing the diminished supply of natural forest timber and the vast supply of timber plantations to support the wood industry. The proposed project conforms with the objectives of ITTA 2006: (c) promoting the growth of the wood industry and contributing to national economic development and implementation of sustainable forest management; (d) enhancing the capacity of the wood industry to expand the global market from sustainably managed forest areas and private forests; (f) producing wood products from timbers harvested from sustainably managed production forests and private community forests; (j)

encouraging forest reforestation with the support of local communities having interest on forest resources; (n) strengthening the improvement of good governance and traceability in the wood industry and forest law enforcement to tackle deforestation caused by unplanned destructive activities of the forest resource; (o) encouraging information sharing by data integration in the information system to promote sustainable forest management.

▪ *Conformity with ITTO Strategic Action Plan 2022 – 2026*

In addition to ITTA 2006, the priority activities of the proposed project coincide with strategic priorities defined in the ITTO Strategic Action Plan 2022 – 2026 that aims to:

- Highlight the ITTO's contribution to, among others, the SDGs;
- Recognize that COVID recovery may preoccupy the tropical forest sector for the SAP's duration;
- Serve as a transitional guidance document between 2022 and the launch of a process to renegotiate ITTA, 2006; and
- Coincide with the extension of ITTA, 2006 to 2026.

SAP 2022 – 2026 adopted at the ITTC-57 provides a new mission statement “To promote the expansion and diversification of international trade in tropical timber from sustainably managed and legally harvested forests and to promote the sustainable management of tropical timber-producing forests.” In addition, four strategic priorities were developed as follows:

- Strategic Priority 1. Promote good governance and policy frameworks to enhance financing and investment in sustainable tropical forest management, legal and sustainable forest product supply chains, and related trade;
- Strategic Priority 2. Increase the contribution of the tropical forest sector to national and local economies and resilient livelihoods, including through further processing and trade in tropical timber and other forest products and services;
- Strategic Priority 3. Reduce tropical deforestation and forest degradation, enhance forest landscape restoration and the resilience of forest ecosystems to climate change, and conserve forest biodiversity and ecosystem services; and
- Strategic Priority 4. Improve the quality, availability, and timeliness of information on tropical forest product markets, supply chains, and international trade, including challenges and opportunities related to market access, expansion, and diversification.

The proposed project is concerned with reducing the disturbance and pressure to the natural production forestry to sustain the supply chain for the wood industry. Therefore, the proposed project conforms with ITTO's Strategic Priority in the following manner:

- The proposed project deals with policy intervention on sustaining wood and wood products supply chain conforms with ITTO's Strategic Priority such as promoting good governance, legal and sustainable legal supply chains, and reducing tropical forest deforestation and degradation” (Priority 1 and Priority 3).
- This proposed project is concerned with the enhancement of supply chains in particular from plantation forests and reducing the pressure on natural forests thus conforms to ITTO's Strategic Priority 2 “increase the contribution of the tropical forest sector to national and local economies and resilient livelihoods, including through further processing and trade in tropical timber and other forest products and services.
- In addition, the project is also concerned with a capacity-building program on wood industry development and domestic marketing strategy for wood products thus conforming to ITTO's Strategic Priority 4 “improve the quality, availability, and timeliness of information on tropical forest product markets, supply chains, and international trade.

- **Relevance to the ITTO Program Lines**

This proposed project is relevant to ITTO's program line on Legal and Sustainable Supply Chains (LSSC). In particular with forest timber products, for local wood processing industries and downstream manufacturers, the impact of LSSC will be two-fold. From the market perspective, LSSCs bring improved opportunities to formalize and professionalize their business and accrue through partnerships a higher share of the previously forgone investments and value-added from tropical wood products. Price premiums are also within possibility. In reverse, those operators who fail to adhere to legal and quality standards will find fewer channels to the market, making it harder to continue their business as usual. From the forest management and timber supply standpoint, more efforts will have to be concerted to apply SFM certification, legality verification, traceability, and chain-of-custody standards on own concessions and scrutinize those wood supplies coming from other concessions or traders.

- **Relevance to the Sustainable Development Goals (SDGs) and other global agenda**

The Activity contributes to the achievement of SDGs, especially Goal 1 (No Poverty), Goal 5 (Achieve gender equality and empower all women and girls), Goal 8 (Decent Work and Economic Growth), Goal 9 (industry, innovation and infrastructure), Goal 12 (Responsible Consumption and Production), Goal 13 (Climate Action), and Goal 15 (Life on land). This activity will help to promote sustainable consumption of wood and wood products. Concerted efforts to promote legal and sustainable forest products will facilitate the economic, environmental, and social benefits of the management of forest plantations. This activity links with SDGs through climate change mitigation actions, community and women empowerment, low-emission development, and sustainable consumption. This proposed project is also part of the effort to support Indonesia's FOLU Net Sink 2030 as well as Gender Equity and Social Inclusion implemented by the Ministry of Environment and Forestry.

1.2.2 Relevance to the Indonesia's policies

This proposed project is relevant to forestry policies in Indonesia. Following are the key policies that are in favor of project implementation:

- **The Job Creation Law Number 11 Year 2020**, enacted to support the easiness for the community, especially business actors, in obtaining business permits and facilitating investment including in the forestry sector by utilizing forest areas and implementing the concept of a new forestry business configuration to increase in the contribution of national income from the forestry sector.
- **National Long-Term Development Plan for 2025-2045 by Law Number 59 of 2024**, enacted to support the realization of the Vision of Golden Indonesia 2045, the unitary of the Republic of Indonesia which is united, sovereign, advanced, and sustainable with one of its goals being increasing per capita income supported by the forestry sector by production of goods and services to support regional development.
- **Enhanced Nationally Determined Contribution Republic of Indonesia**
The Government of Indonesia has promulgated Presidential Regulation No. 98 year 2021 concerning implementing Carbon Pricing to Achieve the NDC Target and Control Over Greenhouse Gas Emissions in the National Development. The Regulation is a legal framework to implement NDC towards low carbon and climate resilience. It also prescribes carbon pricing, including arrangements for carbon trading, carbon levies, and result-based payments.
- **Presidential Decree Number 23 Year 2021** concerning Forest Governance, issued on 2 February 2021, creating *Forestry Multi-Business Development* in the form of implementing several forestry business activities including forest area utilization and timber, non-timber forest product utilization in Production Forest and Protection Forest.

- **Presidential Mandate of ASTA CITA 2025 - 2029**

Asta Cita is a development mandate from the 2024-2029 presidential cabinet. Of the 8 development targets through Asta Cita, Asta Cita 2,4,6,7 and 8 are in line with forestry development. The Asta Cita includes: strengthening the state defense and security system and encouraging national independence through self-sufficiency in food, energy, water, creative economy, green economy, and blue economy; strengthening the development of human resources, science, technology, education, health, sports achievements, gender equality, and strengthening the role of women, youth, and people with disabilities; building from the village and from below for economic equality and poverty eradication; strengthening political, legal, and bureaucratic reform, and strengthening the prevention and eradication of corruption and drugs; and, strengthening the alignment of harmonious life with the environment, nature, and culture, as well as increasing tolerance between religious communities to achieve a just and prosperous society.

- **Minister of Environment and Forestry Decree Number 8 the Year 2021** concerning *Forest Management and Preparation of Forest Management Plans, and Forest Utilization in Protection Forests and Production Forests*, creating breakthroughs in the risk-based forestry business, the scope of area for forestry business development, and forestry multi-business to support good forestry governance and traceability by tackling any potential of unplanned destructive activities of the forest resource.
- **Director General of Sustainable Forestry Management Decree Number 4 Year 2020** concerning *Strategic Plan of Directorate General of Sustainable Forestry Management Year of 2020-2024*, guiding sustainable forest management with strategies to increase forest productivity and forestry contribution to national income, increase forestry business diversification, investment, and forest product exports, optimize legal access for the community in forest management and forest governance.

1.3 Target area

1.3.1 Geographic location

The project will be implemented in North Sumatra Province as the representative of the forestry and wood industry in the Sumatra Region. The project locus is appointed based on the exit strategy of ITTO PD 928/22 Rev.1 (I) that there is an urge to expand the locus of PD 928/22 Rev. 1 (I) in other regions to develop a comprehensive roadmap for the sustainable market for wood products. North Sumatra Province is chosen as the project locus based on its forestry characteristics covering the forest area, PBPH, PBPHH, product and market variety. Brief information on the host province is provided below.

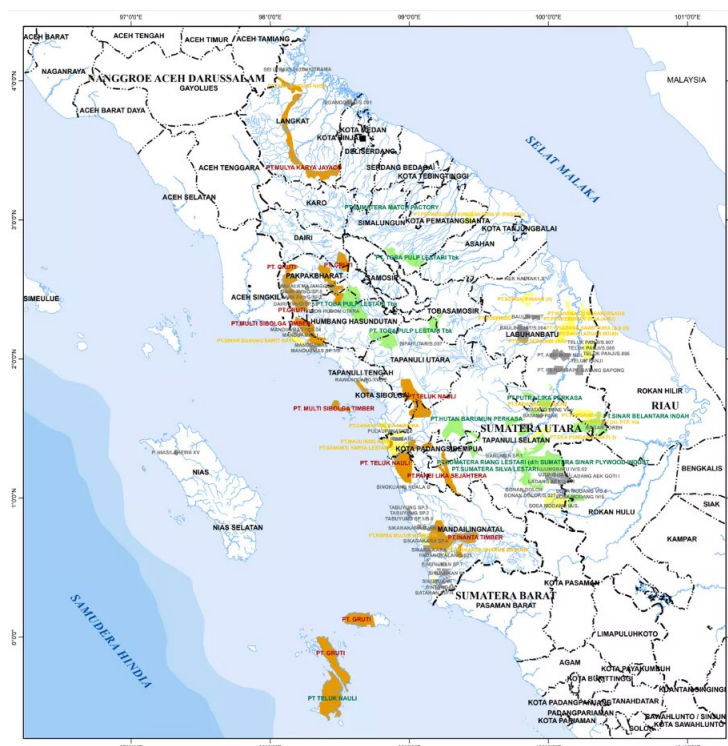


Figure 1. Map of Project Areas of North Sumatera Province

1.3.2. Social, Cultural, Economic, and Environmental Aspects of the Project Locus

Table 1: Description of Project Areas

Project Areas
North Sumatra Province is located at 1° - 4° North Latitude and 98° - 100° East Longitude with a total land area of 72,981.23 km². This province is the fourth most populous province in Indonesia after West Java, East Java, and Central Java. According to the complete census results of the 1990 Population Census, the population of North Sumatra was 10.81 million people, and in 2010 the population of North Sumatra had increased to 12.98 million people and became 15.37 million people in 2020 with a population growth rate of 1.10 percent. The forest area in North Sumatra is 3,014,725.89 hectares (ha) consisting of Conservation Forest of 424,835.68 ha (14%), Protected Forest of 1,196,933.30 ha (40%) ha, Limited Production Forest of 623,331.83 ha (21%), Permanent Production Forest of 678.590.40 ha (22%) and Convertible Production Forest of 91,034.14 ha 93%). Regarding the supply chain of the wood industry, North Sumatra has 7 forest plantation concessions of 299,528 ha and 5 natural forest concessions of 245,807 ha. Those concessions produced 1.63 million m³ in 2024, which decreased from 2.03 m³ in 2023. In those 5 units of natural forest concession, the replanting and enrichment activity reached 7,499 ha, significantly decreasing from 13,019 ha in 2023. In 2024, the productivity of the wood industry is 1.29 million m³ comprising woodchips for pulp and paper of 1.11 million m³, and the rest 0.18 million m³ is processed into sawn timber, veneer and plywood and LVL. The number of wood industries in North Sumatra is 32 units in 2023 with an installed capacity of 2.5 million m³ creating 10,300 job opportunities. This condition shows that the productivity of the wood industry in the province is reaching 51.60% dominated by pulp and paper. It shows that the slower development wood industry exists in North Sumatra so does exist at the national level. The realization of annual income from forestry levies in North Sumatra as of December 2024 reached a USD 3.12 million increase compared with the 2023 of USD 1.78 million. This province has high potential for both timber and non-timber forest products. The wood is dominated by eucalyptus (57.16%) and is mostly used for the pulp and paper industry, the mix of natural forest species (13.55%), and Shorea (9.07%).

1.4 Expected outcomes at project completion

There has been a lot of damage due to encroachment and illegal activity. So far, more than 206,000 ha of forest in North Sumatra has changed function into plantation land, and transmigration. Of that area, 163,000 ha is for plantation areas and 42,900 ha is for transmigration areas. A tenurial conflict is one example of a social conflict that often occurs in using areas for business permits in the forestry sector. This conflict arises due to uncertainty about forest areas which hinders the effectiveness of forest governance. To resolve tenure conflicts, forest area designation, boundary determination, mapping, and determination of forest areas are required. This process aims to provide legal certainty for forest areas and accommodate all parties' interests. Social conflicts like this require a comprehensive and participatory approach, involving dialogue between all stakeholders, and ensuring that the resulting solutions are fair and sustainable for all parties, including the environment. The role of the forestry industry as a market channel for forest product utilization activities, especially wood, is important in providing a source of income from legal forest management by the private sector and the community.

Implementing a large range of activities to stimulate good forestry governance in forest and forestry, after the project, the policy framework and institutional set-up needed to succeed through enhancing a legal and sustainable supply chain in the wood industry will be developed and strengthened. Demonstrated legal and sustainable supply chains in coherence with data integration and capacity building improvement of the timber producer and wood industry, at the end of the project, supported by optimal incentives will help improve the market for the wood industry. The strong penetration of national wood products in the market is expected to be an incentive for timber farmers both in the forest area and private forest to plant and significantly reduce the potency of illegal activity of timber extraction in the forest area.

In particular, following 12 months of the project lifespan, the comprehensive strategy of wood industry development resulting from the data and information from the comprehensive study in the project locus supported by the big data integration in the MoF information system will be in place to improve the enabling conditions to connect the forestry business process to promote legal and sustainable supply chain of wood industry and generate the potency of market development. At the same time, the capacity of relevant stakeholder groups will be improved by promoting capacity building for the wood industry and timber farmers.

In the context of Indonesia recently becoming one of a few SVLK signatories with a strong commitment to reinforce wood legality control for both domestic and global markets and consolidate responsible development of the wood industry sector, special attention will be given by the project to training on wood legality assurance and SFM implementation. To enlarge project outreach, a series of publications and communication of project outputs are planned to take place.

By achieving the specific objective mentioned above, the expected outcomes of the project will go beyond its overall goal of sustainable and efficient development of the wood industry, as a key economic sector of the Indonesian economy, contributing significantly to the national economic growth and creation of job and income opportunities for Indonesia people.

PART II: PROJECT RATIONALE AND OBJECTIVES

2.1 Rationale

2.1.1 Institutional set-up and organizational issues

SVLK+, which is a development of the SVLK that we have had for the past 15 years, is an innovation designed to guarantee the legality and sustainability of processed forest products while increasing global market confidence in Indonesian wood products. The forestry industry and wood industry have the best quality and have met global standards, especially legality and sustainability with the strengthening of geotagging better known as SVLK+. Due to global challenges in the processed wood market, the Ministry of Forestry presents SVLK+ to answer the high global demand for spatial-based traceability of forest product origins from sustainable management. The SVLK+ scheme applies spatial technology to improve the traceability of forest products to improve the legality aspect and ensure the sustainability of forest management.

In this condition, the role of MoF in particular The Directorate of Forest Product Processing and Marketing as Executing Agency is vital to engage associated institutions to promote a strong and resilient domestic consumption of wood products. Based on Minister of Environment and Forestry Regulation Number 15 of 2021, the Directorate of Forest Product Processing and Marketing is an Echelon II Unit in the Directorate General of Sustainable Forest Management with the task of conducting policy formulation and its implementation, providing technical guidance and its evaluation in the field of forest product processing planning, preparing the assessment for permits for primary forest product industries, controlling of raw materials for primary forest product industries, certification and marketing of forest product, and providing notification of exports and imports of forest product industry products. This activity unit is intended to increase the export volume of forestry industry products through SVLK document issuance services, foster export and import activities, and monitor export and import data of forestry industry products.

The Executing Agency collaborates with the Provincial Forestry Agency as the institution that carries the responsibility for the formulation of technical policies, administration of government affairs, public services, and supervision in the field of forest inventory and administration, forest exploitation, forest rehabilitation, and forest protection at the provincial level.

In forest product processing, MoF is integrated with the Ministry of Industry, and the Ministry of Trade which is responsible in the domain of middle and downstream forestry business. The Executing Agency also actively engages FIAs as partners of the government that function as a forum for communication, information, consultation, facilitation, and advocacy, regarding forest and forest product business in a responsible, accountable, transparent, and professional manner.

Regarding forestry and wood industry development, MoI is in charge of carrying out the formulation and implementation of the policies in the field of improving and strengthening the wood industry, fostering optimization of the use of industrial technology, resource utilization plans for natural resources for industry, development of green industry and strategic industry, development of use of domestic products, planning and fostering industrial standardization, fostering industrial services, and supervision and control of industrial business activities in the forest product industry and plantation in particular with type of wood products of furniture, pulp and paper.

In line with MoI, MoT is responsible for supporting the development and performance of forest product exports including wood products. In addition, the Ministry of Trade is also responsible for transferring knowledge to the related stakeholders including the central and local authority, the wood industry and association, community as consumers through the dissemination of regulations related to forest product exports and the acceptability of the Indonesian forestry industry products in domestic and global market.

2.1.2 Stakeholder analysis

While the main beneficiaries of the project are SMEs, a large variety of stakeholders could also benefit from the project, including the associations of wood producers (PBPH and community forestry) and wood industry (PBPHH), and wood product trading enterprises at the national and international levels, potential consumers, research and training institutions as well as government agencies as both regulator and wood products users in Indonesia.

Table 2: Stakeholder Analysis of the Project

Related stakeholder groups	Characteristics	Problems/Needs/Concerns	Potential contribution and participation in project implementation
Primary Stakeholders			
Wood producers (PBPH and community forestry as tree growers) and association	Producing wood from state forests or private forests at large scale or small scale	- Low price of timber from natural production forest - Lack of ability to engage effectively in supply chains	- Engage in legal and sustainable supply chains in the wood industry - Share the experience and provide inputs for the regulator
PBPHH and association	- Have resources to produce wood products (factories, woodworking equipment, labor force, etc.) - Have a large spectrum of members - Maintain good cooperation with central and local government - Create an enabling business environment for the member	- Lack of updated information on wood products consumption - Weak capacity for product development - Need an incentive for the SVLK compliance - Strong competition for raw material supply among the industries - Require increment of local consumption and enlarge domestic markets for wood products - Inadequate capability to connect their members, provide services and advice to members, and maintain a strong network and link business - Lack of resources to hold updated policy dissemination, and training on advanced technology	- As the market channel for wood producers - Improve the performance and efficiency of the wood industry - Improve compliance with SVLK and the market intelligence - To provide appropriate advisory services and updates on policies, and technologies available for timber industry development - Experienced in mastering the promotion of wood products in the global market - Develop collaborative links with relevant authorities and institution - Potential partner in SVLK implementation
Government institution	- Provide effective policies for enabling the wood industry development - Prepare guidance for SVLK implementation by	- Lack of policy tools to support domestic market development - Lack of updated information for market trend analysis	- Sharing experience and networks to improve supply chains - Follow up on project progress disseminate project outputs and review existing

Related stakeholder groups	Characteristics	Problems/Needs/Concerns	Potential contribution and participation in project implementation
	- PBPH, community forestry, and wood industry to expand the domestic and global market - Coordinate with the local government authorities and related stakeholders	- Limited access to overseas experience in consumption facilitation	- regulations based on project outputs - Providing a database of information - Providing coordination among stakeholders - Gathering members of FIAs to implement project activities
Secondary Stakeholders			
Community as consumers	- Potential timber producers and wood product consumers	- Have a lack of understanding of the advantages of using wood products and limited options for wood product assortments offered by the market - Have a potential preference to use wood products from legal sources - Have a potential capacity to produce community plantation timber as raw material for the wood industry	- Engage in a green lifestyle and better utilization of certified wood products for daily consumption to promote wood consumption in domestic markets - Provide recommendation to the wood industry regarding the preferred wood product
University	As the center of development for policy and technology in supporting legal and sustainable supply chains in wood industry development	Limited access to the field data of legal and sustainable supply chain in wood industry development	Develop a research-based policy to support the supply chain in the wood industry

2.1.3 Problem analysis

As highlighted in Section 1.1., it appears the global condition of the wood industry and its market is diminishing. This is understandable due to global depressed economic activities and thus the income of the people that necessitated reducing spending. It is to be noted, however, for the proposal, foreign exports are still an important part of the long-term equation. In other words, the exportation of wood products will always affect and influence the behavior of wood industries including compliance with SVLK. To engage with the global market for wood products, the wood industry must meet global market requirements through SVLK and be supported by the domestic market. The development of the market will increase demand for the timber which positively triggers the willingness to plant the timber in both the concession in the forest area and the community plantation on the private land.

The stakeholder consultation meeting that the MoEF and Executing Agency organized on 13 August 2024 in Jakarta, 1 November 2024 in Bogor, 28 November 2024 in Jakarta, 2 December 2024 in Yokohama, and 12 December in Jakarta involving related stakeholders, concluded that the key problem that requires urgent addressing is the “enhancing legal and sustainable supply chain in the wood industry to stimulate good forestry governance”. The meeting identified two main causes of the key problem namely: i) Lack of supporting environment to implement legal and sustainable supply chains, and, ii) limited capacity of the wood industry in the domestic and global markets.

The meeting maintained that the cause of the key problem is attributable to three underlying problems, namely:

- Lack of updated information on legal and sustainable supply chains in the wood industry
- Limited integration among platforms of legal and sustainable supply chain in the wood industry
- Limited trained human resources in SME wood industries in competitive domestic and global market
- Weak outreach program for sharing information and experience

The above information on the cause-effect of the key problem is summarized in Figure 2, in The Problem Tree. Correspondingly, solutions to the problems have been identified as shown in Figure 3, The Solution Tree, which is just the direct mirror of the problem tree. The solution tree indeed exhibits the effective and relevant solutions to the problems at hand as it has been derived from the problem themselves; the solution tree has, therefore been used as the basis for defining the project elements as presented in the subsequent sections.

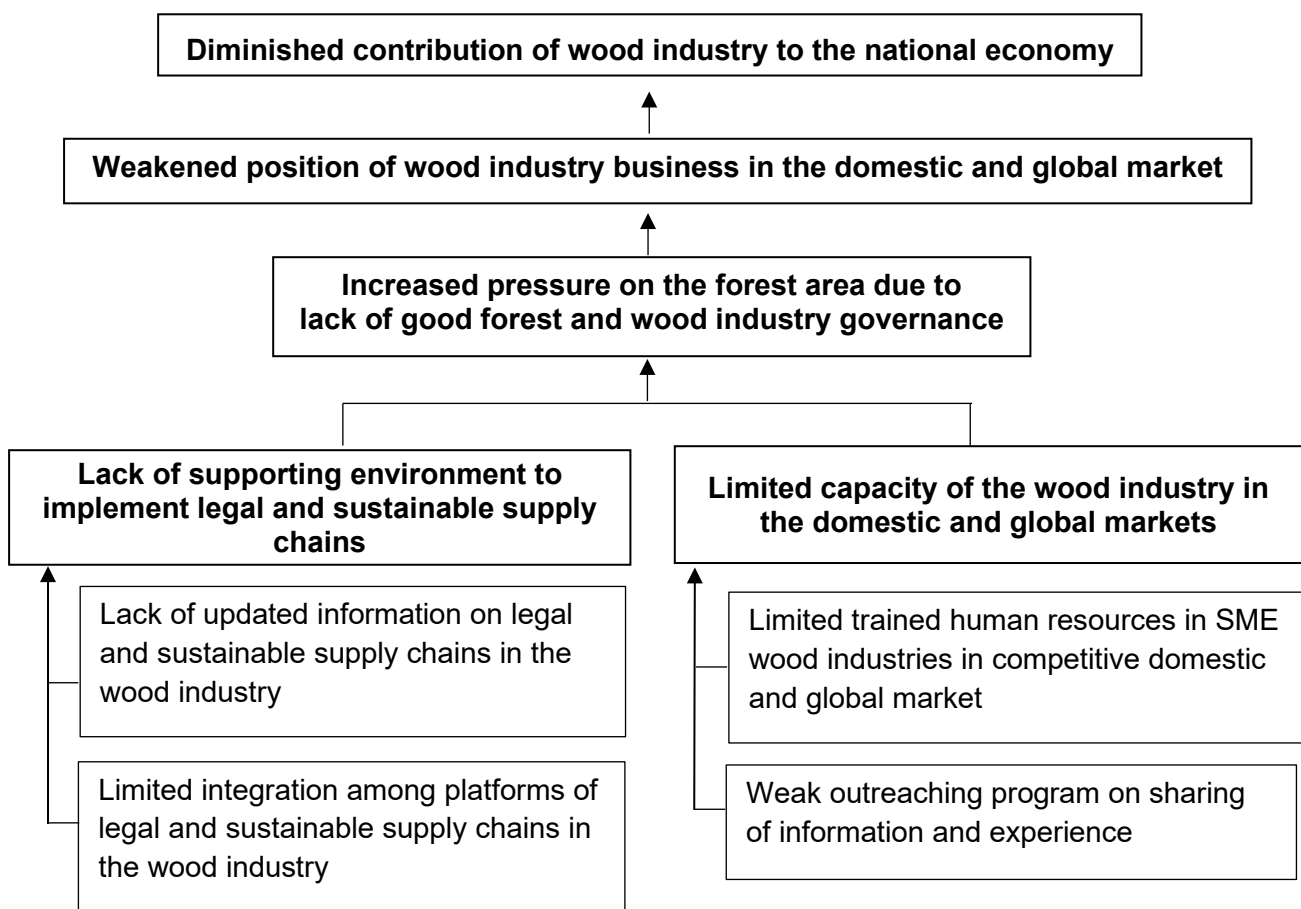


Figure 2. The Problem Tree

As above indicated the accumulated problems represent the condition of the weakened position of the national upstream forestry sector, and legal wood products in the global market lie in the less optimal supply chain in the wood industry that connects the upstream sector by PBPH and community forestry and downstream sector by PBPHH. The problem tree further indicates that these topping problems of low forest governance in the wood industry are associated with 2 key pending issues, including (1) *a lack of supporting environment to implement legal and sustainable supply chains in the wood industry*, and (2) *the limited capacity of the wood industry in the domestic and global market*. These two problems/weaknesses, in turn, are rooted in 2 groups of related sub-problems as above described.

The Objective Tree below shows the structure (“Software” – improved policy framework to drive domestic consumption of wood and wood products) and the infrastructure (“hardware” – enhanced forest governance in the wood industry to promote strong national upstream forestry sector and legal wood products in the global market. These “software” and “hardware” are needed to enhance the wood industry and its products in the domestic and global markets. Given the limited funding and lifespan allocated, project interventions are designed to provide direct contributions to mitigate or eradicate the identified problems and reach the targeted objectives.

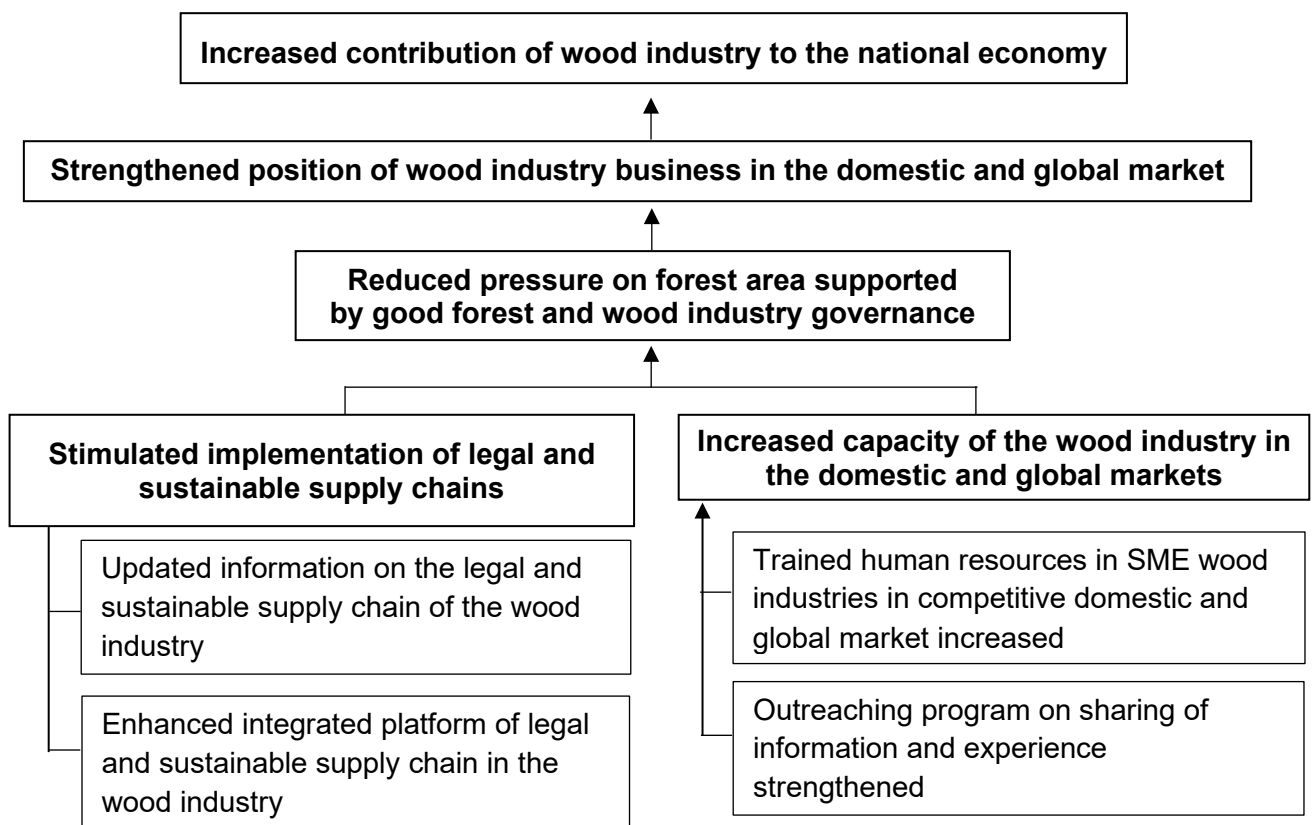


Figure 3. The Objective Tree

2.1.4. Logical framework matrix

Table 3: Logical framework

Project element	Measurable indicators	Means of verification	Key assumptions
Development objective: To increase the contribution of the wood industry to the national economy through a strengthened supply chain in the wood industry	3 years after project completion, compared to the situation in 2025, the contribution of the forest industry to the national GDP increased by 1 percent	Annual report by Central Bureau for Statistics	Supportive government authorities
Specific objective: To reduce pressure on the forest area due to the lack of good forest and wood industry governance	Output 1: Stimulated supporting environment to implement sustainable and legal supply chains At project completion: • A study on the supply chain of the wood industry completed • 2 information systems of the wood industry and its market are integrated Output 2: Increased capacity of the wood industry in the domestic and global markets At project completion: • 9 training on capacity building in the wood industry are conducted • The progress of the sustainable supply chain of the wood industry is disseminated	• Sub-contractor report to be published by EA • Integrated information systems • Upgraded capacity of the SME in SVLK+ • The mutual understanding and vision to strengthen the supply chain in the wood industry are shared	Government authorities, PBPH, community forestry, PBPHH, cooperative consumers, and university

2.2 Objectives

2.2.1 Development objective and impact indicators

Development objective

To increase the contribution of the wood industry to the national economy through a strengthened supply chain in the wood industry.

Impact indicators, 3 years after project completion

The contribution of the forest industry to national GDP increased by 1 percent compared to 2025's situation.

2.2.2 Specific objective and outcome indicators

Specific objective

Reduced pressure on forest area supported by good forest and wood industry governance.

Outcome indicators, at project completion

- A study on the supply chain of the wood industry completed
- 2 information systems of the wood industry and its market are integrated
- 9 training on capacity building in the wood industry are conducted

PART III: DESCRIPTION OF PROJECT INTERVENTIONS

3.1 Outputs and Activity

3.1.1 Outputs

Output 1: Stimulated implementation of sustainable and legal supply chains.

Output 2: Increased capacity of the wood industry in the domestic and global markets.

Note that outputs correspond to the main cause of the key problem shown in the problem tree.

3.1.2 Activities and Inputs

The activities presented below have been defined to correspond to the indirect or underlying cause of the key problem exhibited in the problem tree.

Output 1

Activity 1.1 : To conduct the study of the sustainable and legal supply chain of the wood industry

Notes : The study will include the North Sumatra Province as the representative of the Sumatra Region as one of the biggest regions as the center of production of wood products and its consumption involving different groups of consumers (age class, income bracket, urban vs rural)

Activity 1.2 : To develop an integrated platform for the sustainable supply chain of the wood industry

Notes : The information gathered will be used to support sustainable supply chains in the wood industry

Output 2

Activity 2.1 : To conduct training in enhancing human resources capacity in SME wood industries in competitive domestic and global market

Notes : The capacity building for the SME wood industries aims to increase their capacity to meet the SVLK, particularly the traceability of the supply chain for a broader market, both to expand the domestic and global markets

Activity 2.2 : To disseminate the progress of the sustainable supply chain of the wood industry

Notes : The result of the activity is disseminated to ITTO and national stakeholders to enhance the existing supply chain in the wood industry based on the findings and to gain recommendations for the exit strategy of the project

3.2. Implementation approaches and methods

The project will be implemented using a participatory, collaborative approach, i.e., planned activities will be executed in close consultation, cooperation, and collaboration with competent partners, as appropriate, including policymakers and regulators, universities, the wood industry, timber producers, and wood product consumers. Any partners should be selected solely based on competence by existing ITTO rules and procedures. The project will also practice gender inclusion by giving priority to women as the most targeted beneficiaries. Gender inclusion will be practiced by giving priority to project interventions to women to join project activities such as all of the intended surveys, training, and field visits will include women (at least, 35% of invitees/participants). All aspects of Gender Equality and the Empowerment of Women and Environmental and Social Management Guidelines will be prioritized in the course of the project execution and policy preparation. Table 4 summarizes the approaches/methods wood to implementing individual activities.

Table 4: Approaches to executing project activities and the stakeholders involved

Output and Activity	Approach	Stakeholders involved
Output 1: Stimulated supporting environment to implement sustainable and legal supply chains		
Activity 1.1: To conduct the study of the sustainable supply chain of the wood industry	Hiring the university as the subcontractor	• PC develops ToR • The university as the subcontractor conducts the comprehensive study based on the ToR • The university provides the report • PC assists in reviewing the result and the report
Activity 1.2: To develop an integrated platform for the sustainable supply chain of the wood industry	Hiring an IT consultant as the subcontractor	• PC develops ToR • Subcontractor develop integration of information systems in DG SFM to enhance the sustainable supply chain of the wood industry • and provide the report • PC assists in reviewing the result and the report
Output 2: Increased capacity of the wood industry in the domestic and global markets		
Activity 2.1: To conduct training in enhancing human resources capacity in SME wood industries in competitive domestic and global market	Appoint the associations to conduct the training on capacity building	• PC develop ToR • The association as the subcontractors conduct the comprehensive capacity building based on the ToR and provides the report • PC assists in reviewing the result and the report
Activity 2.2: To disseminate the progress of the sustainable supply chain of the wood industry	Collaboration with all related stakeholders	• EA reviews the results of the project and disseminates the report with ITTO and related national stakeholders • ITTO disseminates findings to member countries

3.3. Outputs and Work Plan

Table 5: Workplan for the entire project duration

Output/Activity	Responsible Party	YPO			
		Q ₁	Q ₂	Q ₃	Q ₄
<u>Output 1:</u> Stimulated supporting environment to implement sustainable and legal supply chains					
Activity 1.1: To conduct the study of the sustainable and legal supply chain of the wood industry	PC, EA, University	X	X		
Activity 1.2: To develop an integrated platform for the sustainable supply chain of the wood industry	PC, EA, and IT Consultant	X	X		
<u>Output 2:</u> Increased capacity of the wood industry in the domestic and global markets					
Activity 2.1: To conduct training in enhancing human resources capacity in SME wood industries in competitive global and domestic market	PC, EA, wood industry association		X	X	
Activity 2.2: To disseminate the progress of the sustainable supply chain of the wood industry	PC, EA, ITTO			X	X

3.4 Master Budget

Table 6: Master budget of the project

Output/Activity	Timeline	Budget Component	Inputs		Unit	Quantity			Unit Cost	ITTO Contribution	GoI (Executing Agency) Contribution	Grand Total
						ITTO	GOI (Executing Agency)	Total				
1	2	3	4		5	6	7	8	9	10	11	12
Activity 1.1: To conduct the study of the sustainable supply chain of the wood industry	Q1-Q2, Y1	31.6	a	DSA IHE	MD	15	-	15	90	1350	0	1350
		53	b	FGD	event	2	-	2	2500	5000	0	5000
		22	c	Sub-contract	contract	1	-	1	10000	10000	0	10000
		32	d	Air tickets IHE	trip	10	-	10	200	2000	0	2000
		33	e	Local transport IHE	TD	15	-	15	60	900	0	900
		54	f	Coordination meeting	meeting	3	2	5	600	1800	1200	3000
									21050	1200	22250	
Activity 1.2: To develop an integrated platform for the sustainable supply chain of the wood industry	Q1-Q2, Y1	17	a	Sub-contract	contract	2	-	2	10000	20000	0	20000
		53	b	FGD	event	3	-	3	2500	7500	0	7500
		31.2	c	DSA IHE	MD	10	-	10	90	900	0	900
		32	d	Air tickets IHE	trip	5	-	5	200	1000	0	1000
		33	e	Local transport IHE	TD	15	-	15	60	900	0	900
		54	f	Coordination meeting	meeting	3	2	5	600	1800	1200	3000
									32100	1200	33300	
									53150	2400	55550	
Activity 2.1: To conduct training in enhancing human resources capacity in SME wood industries in competitive export and domestic market	Q2-Q3, Y1	31.3	b	DSA IHE	MD	20	-	20	90	1800	0	1800
		32	c	Air tickets IHE	trip	10	-	10	200	2000	0	2000
		33	d	Local transport	TD	20	-	20	60	1200	0	1200
		17	a	Sub-contract	contract	10	-	10	1500	15000	0	15000
		53	b	FGD	event	1	-	1	2500	2500	0	2500
		54	e	Coordination meeting	meeting	3	2	5	600	1800	1200	3000
									24300	1200	25500	
Activity 2.2: To disseminate the progress of stimulated sustainable supply chain of wood industry	Q3-Q4, Y1	31.3	b	DSA IHE	MD	10	-	10	90	900	0	900
		53	b	FGD	event	1	-	1	2500	2500	0	2500
		32	c	Air tickets IHE	trip	10	-	10	200	2000	0	2000
		33	d	Local transport IHE	TD	10	-	10	60	600	0	600
		18	a	Consulting JFA	trip	2	-	2	5612	11223	0	11223
		54	e	Coordination meeting	meeting	3	2	5	600	1800	1200	3000
									19023	1200	20223	
									43323	2400	45723	
Total Project										96473	4800	101273

Non-activity based												
				Key Personnel								
		11	a	Project Coordinator	MM	12	-	12	3000	36000	0	36000
		12	b	Project Secretary/Admin	MM	12	-	12	900	10800	0	10800
				Duty Travel								
		32	d	Air tickets	trip	45	-	45	200	9000	0	9000
		31.4	e	DSA	MD	60	-	60	90	5400	0	5400
		33	f	Local transport	TD	75	-	75	60	4500	0	4500
				Office								
		41	g	Equipments	unit	3	-	3	1800	5400	0	5400
		55	g	Space 30 M2	month		12	12	300	0	3600	3600
		56	h	Facilities	set	-		1	2000	0	2000	2000
		52	i	Utilities	month	-		12	100	0	1200	1200
		51	j	Consumable	month	12		12	210	2520	0	2520
				Miscellaneous								
		65	k	PSC Meeting	meeting	2	-	2	3000	6000	0	6000
		66	l	Financial Auditing	year	1	-	1	8000	8000	0	8000
		64	m	Report Printing	copy	12	-	12	150	1800	0	1800
Total Non-activity based										89420	6800	96220
Grand Total Project Costs										185893	11600	197493
ITTO Monitoring and Review										15000		
ITTO Programme Support										24107		
										225000		236600

3.4.2 Consolidated budget

Table 7: Consolidated budget of the project

Category	Description	Total
10	Personnel	
11	Project Coordinator	36.000
12	Project Administration Officer/Treasurer	10.800
18	Consultation with Japan Forestry Agency	11.223
19	Subtotal	58.023
20	Subcontracts	
21	Subcontract No. 1, Study	10.000
22	Subcontract No. 2; System Information	20.000
23	Subcontract No. 3; Training	15.000
29	Subtotal	45.000
30	Duty Travel	
31	Daily Subsistence Allowance	
	31.3. DSA In-house Expert	4.950
	31.4. DSA PMU	5.400
32	Air ticket	16.000
33	Local Transport	8.100
39	Subtotal	34.450
50	Office	
41	Equipment	5.400
51	Consumables	2.520
52	Utilities	1.200
53	FGD	17.500
54	Coordination Meeting	12.000
55	Space 30 M2	3.600
56	Facilities	2.000
59	Subtotal	44.220
60	Miscellaneous	
64	Report Printing	1.800
65	PSC Meeting	6.000
66	Financial Audit	8.000
69	Subtotal	15.800
70	Total Project	197.493
80	National management cost	-
90	Project monitoring and administration	
91	ITTO monitoring & review	15.000
95	ITTO Programme Support	24.107
100	Total Project Monitoring and Administration	39.107
	GRAND TOTAL (70 + 100)	236.600

3.4.3 ITTO yearly budget

Table 8: ITTO yearly budget of the proposed project

Category	Description	Total
10	Personnel	
11	Project Coordinator	36.000
12	Project Administration Officer/Treasurer	10.800
18	Consultation with Japan Forestry Agency	11.223
19	Subtotal	58.023
20	Subcontracts	
21	Subcontract No. 1, Study	10.000
22	Subcontract No. 2; System Information	20.000
23	Subcontract No. 3; Training	15.000
29	Subtotal	45.000
30	Duty Travel	
31	Daily Subsistence Allowance	
	31.3. DSA In-house Expert	4.950
	31.4. DSA PMU	5.400
32	Air ticket	16.000
33	Local Transport	8.100
39	Subtotal	34.450
50	Office	
41	Equipment	5.400
51	Consumables	2.520
52	Utilities	-
53	FGD	17.500
54	Coordination Meeting	7.200
55	Space 30 M2	-
56	Facilities	-
59	Subtotal	32.620
60	Miscellaneous	
64	Report Printing	1.800
65	PSC Meeting	6.000
66	Financial Audit	8.000
69	Subtotal	15.800
70	Total Project	185.893
80	National management cost	
91	ITTO monitoring & review	15.000
95	ITTO Programme Support (70 + 91) x 12%	24.107
100	Total Project Monitoring and Administration	39.107
	GRAND TOTAL (70 + 100)	225.000

3.4.4 Executing Agency Support Budget

Table 9: MoF support budget of the project

Category	Description	Total
	Office	
52	Utilities	1.200
54	Coordination Meeting	4.800
55	Space 30 M2	3.600
56	Facilities	2.000
59	Subtotal	11.600
70	Total Project	11.600

3.5 Assumptions, Risks, and Sustainability

3.5.1 Assumptions and Risks

The key assumptions made regarding the delivery of outputs and achievement of the objectives, closely relate to the attitude of the authorities and partners involved in project implementation which is beyond the control of the Project Coordinator. If an assumption does not hold, potential risk may materialize and compromise the achievement of the project. Hence, it is necessary to put in place the relevant mitigating measures as shown in Table 10 to be implemented since the onset of project operations.

The success of the proposed activities depends on the continued shared commitment and political will of the authorities in the country both at the national and local levels and related stakeholders in supporting the sustainable supply chain of the wood industry. To mitigate the risk of being unable to implement the project and to achieve the project's objectives, the project will select qualified personnel with high acceptance by the authorities to manage the project and hire qualified sub-contractors with extensive and in-depth knowledge of the encountered issues. The project will also work with forest concession holders and associations, wood industries and associations, the community as timber producers and wood products consumers, and universities, and will closely collaborate with ITTO for guidance in implementing the project's activities.

Table 10: Key assumptions, potential risk, and mitigating measures

Key assumptions	Potential risk	Mitigating measures
Supportive forest concession, wood industries, and associations	Delayed completion of particular activities and delivery of outputs	Continuous coordination and communication among Project Coordinator, EA, and association
Supportive government authorities	Delayed data and information, recommendations, and policy development to support project implementation and delivery of outputs	Strong and steady consultation by EA
Cooperative university	Delayed completion of particular activities and delivery of outputs	Effective consultation regarding the study implementations
Supportive community as timber producer and wood products consumers	Delayed completion of particular activities and delivery of outputs	Coordination and communication among Project Coordinator, EA, and community representative

3.5.2 Sustainability

Sustainability of the project is mostly dependent on the perception of the main beneficiaries toward the project and the exit strategy pursued. If the main beneficiaries perceive that the project is beneficial to them, they will surely be in favor of project sustainability. Before closing the project, the PC must disseminate information on the benefits of using wood products and resilient domestic consumption of wood products using any events or occasions of the project to the best possible.

A realistic exit strategy has to be defined by the Executing Agency (EA) before the completion of the project. Such a strategy should include i) Project activities that need to be continued and/or expanded, ii) The competent institution to execute the activities, and iii) Source (s) of financing the activities.

PART IV: IMPLEMENTATION ARRANGEMENTS

4.1. Executing agency and organizational structure

4.1.1 Executing agency and partners

The Executing Agency of the project is the Director of Forest Product Processing and Marketing, Directorate General of Sustainable Forest Management of the Ministry of Forestry. The Directorate of Product Processing and Marketing is responsible for the preparation of policy formulation, policy implementation, provision of technical guidance and supervision as well as evaluation and reporting of forest product processing, certification, market development, and marketing. In addition, to implement the project, EA will engage PBPH holders, community forestry, and the wood industry. It also will engage various stakeholders including the regulators such as Mol, MoT, and the provincial government in North Sumatra. The project will also engage several related forestry and wood industries such as the Indonesian Forest Entrepreneurs Association (APHI), Indonesia Sawmill and Wood Working Association (ISWA), Indonesian Light Wood Association (ILWA), Indonesia Wood Panel Association (APKINDO), Indonesian Furniture Industry and Handicraft Association (ASMINDO), the Indonesian Furniture and Craft Industry Association (HIMKI) and Indonesian Forestry Community Communication Forum (FKMPI).

ITTO support will be provided to the project staff as indicated below:

Table 11: Roles of EA, ITTO, Japan Government, and Associations

Organization	Roles
The Directorate of Product Processing and Marketing	▪ Act as the Executing Agency of the project ▪ Form and appoint the Project Management Unit ▪ Implement the project activities and deliver the outputs
ITTO	▪ Provide inputs to the implementation of the project ▪ Supervise, monitor, and support the project implementation ▪ Facilitate communication with the PMU and EA in the target countries
Japan Government	▪ Provide the funding for project implementation ▪ Supervise, guide, monitor, and evaluate project implementation ▪ Provide exit strategy recommendations of the project
Forestry, wood industry, and community forestry association and LPVI association	▪ Act as the key collaborator of the project ▪ Provide business implementor to join project activities, especially with the policy framework improvement ▪ Participate in field studies and conduct training

4.1.2 Project Management Unit

The Project Management Unit (PMU) will consist of a Project Coordinator (PC) and a Project Administration Officer/Treasurer (PAOT). Project-planned activities will be executed with the assistance of partners as indicated in the previous section.

4.1.3 Project Steering (PSC)

PSC will be established to oversee project implementation, approve budget planning, monitor and evaluate project progress against the project logical matrix, and give immediate instructions on necessary revisions and adjustments. Membership of PSC is:

- Chairperson: Director General SFM;
- Representative of the Japanese government;
- Representative of ITTO;
- Representatives of EA;
- Representatives of timber producers and wood industry associations.

4.1.4 Stakeholder Involvement Mechanisms

A stakeholder forum with regular online/offline consultations and dialogues will be established under the project to facilitate participants from PBPH, the wood industry, associations, related government institutions, consumers, R&D institutions, timber farmers, and other groups interested in promoting good governance through sustainable supply chain of wood industry to exchange views and ideas, develop propositions and make recommendations to the Executing Agency given improving efficiency of project implementation. While the forum has no formal responsibility for the project execution, its advice and recommendations are invaluable inputs to the project and will be as much as possible incorporated in recommendations to policymakers.

The project's organizational structure is as depicted below.

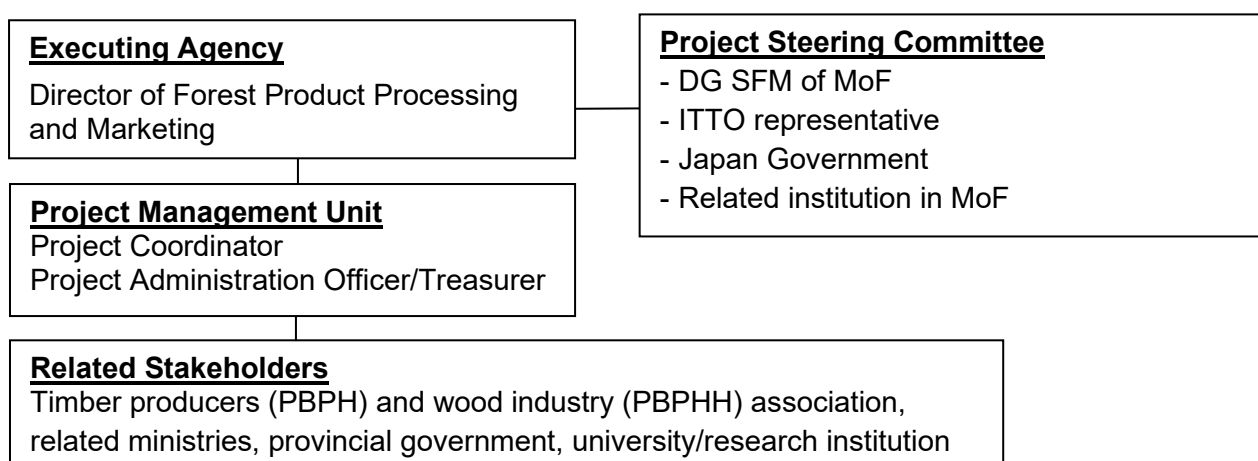


Figure 4. Organizational Structure

4.2. Reporting, Review, Monitoring and Evaluation

Reporting

Following the ITTO Manual on standard operating procedures for the ITTO project cycle, the following reports will be prepared and submitted to ITTO:

- **Inception Report**

To be submitted after the signing of the Agreement between ITTO and the Executing Agency. The Inception report contains the confirmation of the availability of office space and facilities, registered banking account, key project personnel, and any changes if any, and the Yearly Plan of Operation.

- **Yearly Plan of Operation**

This is to be submitted a year before the commencement of project activities in the subsequent year for endorsement by EA, as appropriate, and by ITTO. The YPO will be attached to the Inception Report. The subsequent YPOs will be submitted at least ten weeks before the beginning of the planned year. ITTO approves the YPO based on the endorsement of the PSC Meeting.

- **Project Progress Reports**

This is to be submitted bi-annually or as requested by ITTO. This report contains information on the execution and the progress of activities during the period covered for the report, achieved output, and inputs applied.

- **Project Technical Reports**

This is to be submitted following the schedule and at the end of the project period. The Technical Report contains technical and scientific data and information, analyses, and other project results. A technical report may be produced from one or a set of activities in one project output. The report may also contain the present procedure and methodologies adopted, the data generated, and the results achieved.

- **Financial Report**

An audited financial report will be submitted to ITTO within three months after the end of the current fiscal year. A final audited report will be submitted within four months after the date of project completion. The project will appoint a public accountant to be submitted to ITTO for approval period to carry out project financial auditing.

- **Project Completion Report**

A Project Completion Report will be submitted to ITTO within three months after project completion. The report contains a summary of the activities executed, unexecuted (if any), inputs and expenditures, outputs achieved, and objectives during the project implementation period. The report also highlights the most critical differences between planned and realized project elements using original project documents as primary reference, and lessons learned from the implementation of the project.

Monitoring

An internal monitoring system will be led by the PC to ensure timely and appropriate project implementation and reporting, as well as adaptive management. Internal monitoring is applied monthly basis or where appropriate, including the following aspects:

- Follow-up commitments resulting from the Agreement between ITTO and the EA;
- Progress and proper execution of work, using as indicators planned input items from input tables and budget tables and the Activities in the Work plan and the Yearly Plan of Operation;
- On-time delivery and quality of the Outputs, using indicators as presented in the Logical Framework Matrix in the Project document;
- Report on the extent to which the Specific Objective has been achieved, using indicators as presented in the Logical Framework Matrix in the Project document:

External monitoring will be undertaken by ITTO, in cooperation with the Government of Japan, where desirable, to supervise the project implementation. The timing for external monitoring will be determined between ITTO and the Executing Agency. The scope of the external monitoring includes:

- To assess whether these Projects are proceeding according to the agreed work schedules, so that the necessary ITTO actions (e.g., payments to the Executing Agency) may be taken;
- To propose and participate in any necessary reviews of the Projects as a result of these assessments; and
- To report to the Committees and the Council on the situation and completion prospects for the Project.

4.3 Dissemination and mainstreaming of project learning

4.3.1. Dissemination of the project results

Project learning and results will be disseminated through various means and channels during the implementation stage and after project completion, as outlined below:

- **Technical documents**
Will be circulated widely by various means, such as websites, and so on.
- **National Workshop**
The national workshop will be organized to disseminate information on the project's goal and objective to gain support from stakeholders.
- **Completion Report**
Will be distributed to interested nationwide and ITTO member countries and other relevant institutions.

4.3.2. Mainstreaming of the project learning

Indonesia has become a globally important player as a timber producer, manufacturer, and exporter of wood products in the global market. This project will provide an opportunity for Indonesia to share lessons learned at national and international levels. In particular, the project will analyze the current situation of the sustainable supply chain in the wood industry, provide recommendations on how to overcome constraints, and step up toward sustainable forest management in terms of forest plantation to prevent deforestation and any illegal activity in the forest area as the incentive of expansion of the both domestic and global market of wood products. The experience and lessons learned with the promotion of a sustainable supply chain in the wood industry in the context of Indonesia's dynamic development are expected to be meaningful for other countries. In the course of the project implementation, offline and online meetings will be held regularly to review and monitor project activities, update project progress as well as share lessons learned.

ANNEX

Terms of Reference for PMU and Technical Experts Funded by ITTO

1. Tasks and responsibilities of Project Coordinator

➤ **Qualification:**

As a project coordinator, the incumbent should be an expert with in-depth knowledge and experience in forest management and wood industry fields. The Project Coordinator should have a postgraduate qualification in forestry policy, natural resource management, or related subjects, and at least 15 years of experience in policy analysis of sustainable forest management. Experience in the implementation of ITTO-funded projects is a must.

➤ **Minimum requirements:**

- Experience in coordinating and leading wood industry-related projects;
- Good knowledge of policy analysis of sustainable forest management;
- Have experience as the ITTO Project Coordinator;
- Fluency in English.

➤ **Responsibilities:**

- To maintain the daily operation of the project
- To prepare project action plans
- To coordinate all project activities
- To prepare ToRs and supervise recruited experts
- To prepare agendas and contents for PSC meetings
- To prepare or supervise the preparation of all project reports
- To implement and evaluate the project action.

➤ **Duration:** 12 months.

➤ **Location:** Jakarta with field trips to project locus

2. Tasks and responsibilities of Project Administration Officer/Treasurer

➤ **Qualification:**

A Project Administration Officer/Treasurer appointed by the Project Coordinator should have experience with in-depth experience in project management. The incumbent should have a minimum graduate from university. Experience is required at least 5 years' experience in project management.

➤ **Minimum Requirements:**

- Experience in managing projects as administration/finance staff
- Familiar with project management
- Fluency in English
- Fluency in MS Office and Canva/Adobe Design

➤ **Responsibilities:**

- To deal with tasks assigned by the Project Coordinator and support project management
- To manage the project office and documentation
- To organize meetings and field visits, support technical experts
- To support the Project Coordinator in preparing the reports
- To manage project finance, update project disbursement, and prepare reports to be submitted to ITTO and relevant institution

- To develop finance arrangements and reports for the project
- To manage the income and expenditure of the project
- To consult with auditors to conduct auditing
- Duration: 12 months
- Location: Jakarta, Indonesia

3. Tasks and responsibilities of Sub-Contractor of Activity 1.1 and 2.1

- Qualification:

The Subcontractor appointed by the Project Coordinator should be an expert with in-depth knowledge and experience in forest management and wood industry fields. The Leader of the Subcontractor should have a postgraduate qualification in forestry policy, natural resource management, or related subjects, with at least 15 years of experience in policy analysis of sustainable forest management. Experience in the implementation of international projects is a preference.

- Minimum Requirements:
 - Experience in coordinating and leading project management funded by international donors
 - Good knowledge of policy analysis of sustainable forest management and wood industry
 - Fluency in English
- Responsibilities:
 - To conduct a study of the sustainable supply chain of the wood industry
 - To develop an integrated platform for the sustainable supply chain of the wood industry
 - To conduct training in enhancing the capacity of the wood industry
- Duration: based on contract
- Location: in the project locus and Jakarta, Indonesia

4. Tasks and responsibilities of Sub-Contractor of Activity 1.2

- Qualification:

The Subcontractor appointed by the Project Coordinator should be an expert with in-depth knowledge and experience in developing data integration of information systems regarding forest management and wood industry fields. The Leader of the Subcontractor should have a postgraduate qualification in IT with at least 10 years of experience. Experience in the implementation of international projects and IT projects for forest management and wood industry fields is a preference.

- Minimum Requirements:
 - Experience in coordinating and leading project management funded by international donors
 - Good knowledge of information system development
 - Fluency in English
- Responsibilities:
 - To develop the data management of conduct data integration in DG SFM information system
 - To develop an integrated platform for the sustainable supply chain of the wood industry
- Duration: based on contract
- Location: in the project locus and Jakarta, Indonesia