

First Annual Overview of the TLAS Operationality in Indonesia

Implementation Report

Periodic Evaluation FLEGT VPA – Indonesia
European Union

PT. SUCOFINDO SBU LSI
Graha Sucofindo 10 Floor,
Jl. Raya Pasar Minggu Kav. 34, Jakarta 12780 Indonesia
Contact Person : Novie Fajar Ismanto
Phone : (62-21) 7983666: Fax : (62-21) 7987015
Email : novief@sucofindo.co.id

Key Messages:

- The Ministry of Environment and Forestry (MOEF) exercises control over the supply chain of timber from the forest to wood-processing industries and export points based on the analysis of data reported by private sector actors, certification bodies and independent monitors.
- The Indonesian Timber Legality Assurance System (Sistem Verifikasi Legalitas Kayu or SVLK) is operational and applied by all relevant actors. It provides the necessary information on operations relating to harvesting, processing and trading of timber. The Government agencies and other bodies tasked with controlling and verifying legal compliance of operations ensure SVLK functions are credible.
- There is an increasing number of large companies upstream and downstream of the supply chain that have obtained SVLK certification. However, this significant progress is not uniform. Small and medium enterprises (SMEs) (and secondary timber processing in general) still face challenges in meeting SVLK requirements due to limited technical knowledge and financial constraints. It is encouraging that in 2018, the MOEF plans to intensify the financial support and field extension service for SMEs.
- The monitoring of compliance carried out by the provincial forestry services (Dinas) is well established. There is a coordination mechanism established between the MOEF and the provinces for the follow up on reported non-compliance cases. More needs to be done to address these cases in a timely manner.
- The Conformity Assurance Bodies (CABs) have established procedures and resources in place to implement audit, certification and surveillance. These activities are subject to systematic external checks that build confidence in their integrity. The MOEF and the National Accreditation Body of Indonesia (Komite Akreditasi Nasional or KAN) need to pay continuous attention to the performance of CABs and Licensing Authorities (LAs) as feedback from Independent Monitoring (IM) organisations suggests that improvements may still be needed in the quality of field audits.
- The LAs have similarly well-established systems for issuing FLEGT licences. However, there are problems with data inconsistencies between FLEGT licences and other export documents, especially in the furniture sector. The MOEF is addressing these issues via the FLEGT licensing action plan. It is important to ensure the continuing implementation of this action plan in 2018 to improve the consistency of export documents.
- The MOEF has an operational online system in place for monitoring the import of timber products to Indonesia. While the system appears comprehensive, it is important to better understand: the effectiveness of the document-based online

system; the extent to which physical checks are currently carried out; and the possible benefits of increasing their extent and intensity.

- The IM function is operating well, as there are at least four extensive civil society organisation networks engaged in IM activities. IMs have satisfactorily carried out monitoring operations on the ground and produced valuable findings for CABs and Government law enforcement. However, IM networks and constituent organisations need to take steps to coordinate the reporting of findings and follow the established reporting procedures. They also need to further strengthen their organisational and operational capacity.
- Data management on licensing and certification-related activities is well developed. However, further improvement is needed for data management of the supply chain controls (i.e. from harvest to primary/secondary processing to export or domestic market). The MOEF has made great strides with developing an integrated timber information system (i.e. SI PHPL), which is to become operational in the near future.
- Public access to information relevant to the SVLK at the MOEF has improved and is becoming easier for IM organisations and other civil society actors. However, the MOEF will need to clarify what data can be publically accessed, particularly in relation to disaggregated data in online systems.
- The Joint Implementation Committee has sufficient information on the SVLK and its operationality to be able to act upon the recommendations and make informed decisions.

Background

As part of international endeavours to address the issue of illegal logging and associated trade, a number of consumer countries have made a commitment to take measures to prevent the trade in illegal timber in their respective markets, while producing countries have made a commitment to provide a mechanism to ensure the legality of their domestic and imported timber products. Voluntary Partnership Agreements (VPAs), which are negotiated in the context of the European Union's Forest Law Enforcement Governance and Trade (FLEGT) Action Plan, are an example of these commitments.

Indonesia and the European Union (EU) signed a VPA on 30 September 2013 and agreed to make the Sistem Verifikasi Legalitas Kayu (SVLK) the backbone of the Timber Legality Assurance System (TLAS) of Indonesia. The SVLK is one of the key systems to curb illegal logging and promote legal timber in Indonesia. This system is specifically aimed at ensuring the legality of the forest management units, harvesting, transportation, processing and trade of timber and timber products.

The VPA stipulates that Indonesia and the EU will jointly evaluate and monitor the overall progress of the implementation of the Agreement, including the operation of the

TLAS and measures related to market acceptance, based on the findings of annual joint evaluations.

The First Periodic Evaluation of TLAS implementation was carried out by an Independent Team of PT SUCOFINDO SBU LSI. An official declaration signed by PT Sucofindo Director and filed with the MOEF on 9 October 2015 proclaims that PT SUCOFINDO SBU LSI is “fire-walled” from other SUCOFINDO business units, in particular from PT SUCOFINDO that provides SVLK auditing and certification services, and from any external interference. The evaluation method draws on the Periodic Evaluation Design that was developed and endorsed by the Joint Implementation Committee (JIC) in September 2016.

Objectives of Periodic Evaluation

In line with Annex VI of the VPA, the purpose of the Periodic Evaluation is to provide independent assurance of the functioning of the TLAS in Indonesia in order to enhance the credibility of FLEGT licences issued. The detailed objectives of the Periodic Evaluation are:

- a. To obtain information on the compliance of all institutions implementing the control function within the provisions of the Timber Legality Verification System;<sup>[L]
[SEP]</sup>
- b. To obtain information on the effectiveness of the control of the supply chain from the production points in forests to the export points from Indonesia;<sup>[L]
[SEP]</sup>
- c. To obtain information on the adequacy of data management and the timber tracking system that support the TLAS and the issuance of FLEGT licences;
- d. To identify cases of non-compliance in the functioning of the system, understand the gaps, and present recommendations for necessary corrective measures.
- e. To report its findings to the JIC.

Evaluation method

Sources and analysis of information

In order to understand the functionality and operability of the TLAS, the Periodic Evaluation consists of a review of regulations, procedures, statistics and other records relevant to the system’s implementation. It also includes interviews with a large number of stakeholders and on-site verifications, applying an evaluation triangulation method in accordance with SNI ISO/IEC 19011:2012; SNI ISO: 19011:2012. The key methodological components are desk study, stakeholder interview and direct observation.

Evaluation objects

The Periodic Evaluation covers key elements of the TLAS as described in Annexes V and IX of the VPA. These elements are 1) control of the timber supply chain, 2) legality verification (SVLK certification), 3) Independent Monitoring (IM), 4) Government responsibility for law enforcement, 5) FLEGT licensing, and 6) public disclosure of information.

A large number of actors implement the TLAS throughout the timber supply chain from the source of raw materials (natural forests, plantations, imports), processing, to the point of export or sale on the domestic market. This means that in order to assess their performance, a sampling method has to be applied. Since TLAS actors have differentiated impact on the system in terms of functions and geographical location, TLAS actors were classified into two categories, namely:

- a. Actors having extensive impact on their own functions and those of other actors across Indonesia. These actors include the central Government (the Ministry of Environment and Forestry (MOEF), the Ministry of Trade, the Ministry of Industry, and the Ministry of Finance, including the Directorate General of Customs and Excise), the National Accreditation Body of Indonesia (Komite Akreditasi Nasional or KAN), the Conformity Assessment Bodies (CABs), the Licensing Authorities (LAs) and IM organisations.
- b. Actors having local impact, mainly limited to their own functions and operational areas. These actors include holders of permit to utilise timber from natural production forests (IUPHHK-HA/HPH), permit to establish and manage industrial plantation forest (IUPHHK-HTI/HPHTI) Forest Management Rights (Perum Perhutani), permit for community or private forest plantation (IUPHHK-HTR), permit for community forest management (IUPHHK-HKM), Owners of Private Forests, Holders of Timber Utilization Permit (IPK) including IPPKH, Holders of IUIPHHK with a Capacity of > 6000 m³/year and IUI with Investment Value of more than Rp.500,000,000.-, Holders of IUIPHHK with a Capacity of ≤ 6.000 m³/year and IUI with Investment Value up to Rp.500,000,000.-, IPKR, TDI, Household Industry/Craftsmen, TPT (Logs and Processed Timber) and companies trading products of forest industries (TDP), and regional governments (provincial forestry service offices).

The actors having extensive impacts are evaluated by applying the census method (i.e. the entire population of actors is surveyed), while a sampling method is applied to the actors having local impacts (i.e. a selected number of actors are surveyed).

Geographic scope of the evaluation

The first Periodic Evaluation targeted actors in the following provinces: Special Region of Yogyakarta, Central Java, East Java, Bali and Jabodetabek-Banten areas (focus on timber industry, planted trees on private lands and smallholder issues); and East Kalimantan, Jambi and Central Kalimantan (focus on natural forests, forest conversion

and industrial timber plantations). A total of 101 actors were included in the evaluation sample.

Timeline

The fieldwork of the first Periodic Evaluation was conducted in April – June 2017. The reporting and review by the EU-Indonesian Oversight Committee was concluded in November 2017.

Evaluation results

Supply chain control

A baseline requirement under the Indonesia-EU VPA is that the supply chains from the natural forests and industrial plantations are fully SVLK certified, whereas timber from private plantations may either be SVLK certified or equipped with *Suppliers Declaration of Conformity* (SDoC or DKP in Bahasa Indonesia)¹. The legality of imported timber must be assessed through a due diligence process. There should also be mechanisms in place to prevent illegal timber from entering the supply chain.

State-owned forest

Information from the MOEF indicates that 74% of natural forests covered by IUPHHK-HA (selective logging concessions) and IUPHHK-HT (industrial forest plantations) are SVLK certified, amounting to 23.3 million hectares (ha). Based on the latest data available, in 2016 about 19 million ha of State forest was allocated to 262 commercial logging concessions. About 3.5 million ha (55 concessions) of IUPHHK-HA holders were certified as SVLK, while another 10.5 million ha (89 concessions) had sustainable forest management certification (PHPL). PHPL includes all aspects covered by SVLK, but requires more efforts by the concession management, in particular concerning social and environmental aspects. Overall, at least 14 million ha (out of 19.5 million ha allocated) was under the TLAS. Perum Perhutani forest holdings on the island of Java covered 2.57 million and were all SVLK certified. The Industrial Forest Plantations (IUPHHK-HT) covered 10.8 million ha spread over 286 concession permits. Of these, 154 concessions (6.5 million ha) were SVLK or PHPL certified. There is limited information available on timber utilisation permits for timber from convertible production forest (IPK).

The remaining quarter of IUPHHK-HA and IUPHHK-HT are not certified because the concessions are not yet in production stage, operations are suspended due to financial difficulties, or their SVLK certificates have been revoked. SVLK prohibits timber from

¹ SDoc/DKP is a self-declaration on legality issued for planted (low risk) timber from tree plantations on private lands.

the non-certified sources to enter the supply chain. However, if the SVLK or PHPL certification are suspended or withdrawn, the regulations appear to allow permit holders to continue log production within the frame of their already allocated annual logging quotas, raising questions on the use and destinations of such logs. No real-life cases on log supply from forest areas with suspended or withdrawn SVLK certificate were discovered in this Periodic Evaluation. However, this issue is a potential systemic weakness that needs further investigation.

The pre-harvest inventories and movements of round wood (logs) from the natural forests and plantations located in the forest zone must be registered in the Government database called SIPUHH Online. At present, it covers data from more than 3 400 entities on timber flows from the forest to timber depots (TPT-KB) and primary industries. SIPUHH is designed to enable effective controls of payments of timber royalties, production and other charges. However, at present it has no other in-built reconciliation means. This means that quantitative data between stages of the supply chain is at present reconciled manually outside of the online system. Significantly improved reconciliation tools for timber from state-owned forests will be available in the new information management system called SI PHPL slated for nationwide implementation in 2018.

Private tree plantations

Timber supplies from private (households and smallholder) tree plantations account for a substantial and fast-growing proportion of the total timber production in Indonesia and predominantly qualify for SVLK through the use of DKPs. The share of SVLK-certified private plantations is insignificant due to the fact that the use of DKP is an easier and more cost-effective procedure within the SVLK.

DKPs enable timber with a low illegality risk (i.e. planted exotic species) from non-SVLK certified sources to enter the SVLK supply chain. DKPs are self-declarations containing information about the supplier, products and recipient of the products. The recipient of DKP timber from private plantations is tasked to check the ownership of land, including by carrying out field inspections prior to signing a purchase contract.

There is no Government database on the use of DKPs. The provincial forest agencies are regulated to carry out spot checks on the proper use of DKPs. However, no documented evidence on the conduct of spot checks was found during the Periodic Evaluation. The MOEF has communicated that CABs assessing compliance with SVLK requirements are currently their main source of information on the use of DKPs. At present, eight CABs have provided such information, whereas submission from other CABs is still pending.

Timber Imports

Timber imports are subject to an import permit issued by the Ministry of Trade. Registered importers are instructed to exercise due diligence on the legality of timber

products by assessing the legality risks involved and, where necessary, applying mitigation measures before the import takes place. The legality risks are assessed by considering the exporter's track record, timber products, tree species, country of harvest, country of dispatch and forest concession (for import of logs only). The legality risk can be mitigated by one of the following means: (i) legality statement by the authorities from exporting countries, (ii) independent forest certification (e.g. FSC, PEFC), (iii) demonstrated compliance with *Country Specific Guidelines* of exporting countries, (iv) *Mutual Recognition Arrangements* between Indonesia and exporting countries, and (v) FLEGT licences.

The Licensing Information Unit (LIU) assesses the results of importer's due diligence and submits recommendations to the Ministry of Trade for the issuance of an import permit. The LIU has registered over 2 000 importers. In 2017, it assessed over 37 000 due diligence forms (including revised ones) and provided the MOEF with over 7 000 recommendations for import permits.

The import permit is issued for a designated import quantity. The actual imports are not allowed to exceed the quantitative quota presented in the permit. The Indonesian Customs are tasked with carrying out administrative checks on timber shipments arriving in Indonesia and applying importer-specific control cards². The CABs are in charge of conducting physical checks once the timber arrives into industrial facilities. In order to better understand how the physical checks are implemented and how effectively other parts of the due diligence function, it is important to carry out an assessment. This will also respond to the inquiries from civil society stakeholders in Africa and competent authorities in the EU about FLEGT licensed shipments from Indonesia that include timber from high-risk African countries.

Trading and processing of timber

Interview-based information from the MOEF indicates that practically all large primary industries (capacity of over 6 000 m³/year) are SVLK-certified. However, there are still some small-scale industries (capacity of less than 2 000 m³/year), including timber depots (TPT-KB, TPT-KO), that lack certification. It is acknowledged that TPTs and timber processors dealing exclusively with timber from private plantations may choose to use DKPs rather than being SVLK-certified. In addition, there is a temporary arrangement (Verifikasi Legalitas Bahan Baku, VLBB) in place until the end of 2017 to accommodate SVLK-related challenges of small industries, TPT-KOs and exporters by allowing them to source a limited amount of processed timber from non-SVLK certified suppliers. The VLBB requires CABs to check that the non-certified suppliers deal exclusively with SVLK or otherwise acceptable timber.

Timber flows to primary industries, within primary industries and timber depots (TPT-KO), and from primary industries to TPT-KOs and/or secondary industries are reported to the provincial forest agencies in form of transport documents and balance reports (LMK). In addition, timber flows to, within and from primary industries are recorded in a

² Customs control of import shipments was not included in the scope of this evaluation.

national data management system called RPBBI through an online application or manual entering.

The field findings indicate that there are individual TPT-KOs that may not fully comply with the regulatory reporting requirements and have insufficient records demonstrating the volumes and types of timber handled.

The timber flows of secondary industries are not covered by RPBBI. There are some information gaps on the rate of adoption of SVLK certification among the secondary industries.

Longer term prospects for integrated data management

At present, the Government manages the supply chain-related data up to the primary industries using non-integrated information systems (SI-PUHH and RPBBI) and paper-based records. From the primary industries onwards, the Government does not collect data on the timber supply chain in a comprehensive and regular fashion. Therefore, there are high expectations for an integrated IT system (SI PHPL) that is to synchronise the whole supply chain from the forest via timber depots and primary processing to the secondary/tertiary processing.

Recommendations

1. The MOEF reviews the adequacy of the current regulatory means to prevent timber supply from sources that have lost their SVLK certification status (e.g. suspension or withdrawal) from entering the SVLK supply chain. Where necessary, the MOEF initiates necessary regulatory amendments.
2. The MOEF prepares guidelines for spot checks on the use of DKPs and provides provincial forest agencies with necessary training. Provincial forest agencies commence systematic spot checks on the use of DKPs. Based on the spot check results and other information sources, the MOEF produces an assessment on the use of DKPs.
3. Provincial forestry agencies make efforts to intensify controls of community forests and private forest owners, and provide them with capacity building opportunities to comply with supply chain-related regulations.
4. Provincial forestry agencies check the adequacy of guidelines for the establishment and cancellation of TPK Antara (log landing) and TPT-KB, and prepare complementing guidelines where necessary.
5. Provincial authorities (forest, industry) assess all TPTs and small-scale industries, their reporting practices, and, where necessary, provide them with assistance to report on incoming and outgoing materials as per the regulatory requirements (ref. LMK).
6. The MOEF conducts a review of the effectiveness of the currently implemented import controls – i.e. due diligence exercised on imported timber. The assessment

should consider the effectiveness of document-based Customs checks, the extent to which physical checks are carried out, and potential gains that may be achieved by extending the legality controls on imported timber on Indonesian market.

7. Based on the tables compiled during earlier joint TLAS assessments, the MOEF collects and compiles information on the adoption of SVLK certification by different types of operators at provincial level and nationwide. This information database needs regular update.
8. In cooperation with other relevant ministries, the MOEF continues preparations for the nationwide implementation of the integrated information management system (SI PHPL next generation) covering timber flows from all sources throughout the entire supply chain, thus enabling reconciliation of all quantitative data.

SVLK certification

CABs Competence

At present, the compliance of operators in terms of activities in their forest areas, timber depots and timber processing mills with the SVLK requirements are audited by 23 accredited CABs. The compliance is audited against

- the relevant timber legality standard and
- the requirements for the supply chain control (operations of the auditee and its direct suppliers i.e. “one step backwards”).

CABs are accredited by KAN, which is recognised by the Pacific Accreditation Cooperation and the International Accreditation Forum, and operates under the guidance of the ISO/IEC 17011 and SVLK-specific guidelines for the accreditation of CABs. Based on the accreditation by KAN, the MOEF appoints the CABs for SVLK certification. In general, the accreditation of CABs appears to work well. KAN is keeping a close watch over CABs and takes corrective actions when needed. So far, KAN has revoked four CAB accreditations due to unsatisfactory performance and procedural issues. However, the Periodic Evaluation identified minor procedural shortcomings related to communication between KAN and the MOEF on re-accreditation and withdrawal of accreditation.

All accredited CABs were found to operate internal management systems that are in accordance of ISO/IEC 17065 and relevant SVLK specific-regulations. The management systems include provisions on, among others: general organisation; organisational structure; impartiality mechanisms (e.g. impartiality committees); personnel qualification criteria; audit and certification process; and appeal and complaint mechanisms.

Audit and certification process

The auditing and certification consist of standardised steps: application for certification, auditing preparations, compliance audit, decision making on certification, surveillance and re-certification. The CABs issue SVLK certificates only if all the relevant SVLK requirements are met, including approval of corrective actions to eliminate the causes of non-compliance raised by the audits.

The SVLK emphasises the importance of transparency and information sharing with governmental and non-governmental stakeholders. CABs systematically arrange public consultations prior to auditing of forest areas, they inform IM organisations about the initiation of audits and audit results, receive complaints from IM organisations regarding certified operators, and inform the MOEF about audit results (in particular about cases of non-compliance discovered, as well as certificates issued, changed, suspended or withdrawn). However, the findings of this Periodic Evaluation indicate that in 2017, there were at least 56 cases of suspected non-compliance filed by IM organisations, potentially casting a shadow over the quality of a number of SVLK audits. In cases where field inspections are needed to address IM complaints, these investigations are time-consuming for the CABs (field investigations are usually carried out during the next scheduled surveillance audit). It was also detected that not all audit plans and reports are available on the CABs' websites.

Recommendations

9. The MOEF reviews its procedures for recognition of accredited CABs, especially from the point of view of communication with KAN, and makes necessary revisions.
10. The MOEF instructs CABs and provincial forestry agencies to ensure that there is sustained communication between CABs and provincial forestry bodies on the cases of suspected SVLK non-compliance and their handling/follow up.
11. CABs look into options to increase storage capacity of their websites in order to have all audit plans and reports publically available.
12. CABs, KAN and the MOEF seek practical solutions for CABs to respond to all IM complaints in a timely manner (especially when special audits are needed).
13. KAN assesses the effectiveness of field audit procedures and audits carried out (in response to a significant number of suspected non-compliance cases detected by IM organisations). Where necessary, KAN further develops audit procedures and provides training for auditors.

Independent Monitoring

IM is an integral component of the SVLK that is carried out by civil society. The aim of the IM is to assess the compliance of certified operators with the relevant SVLK requirements and the performance of CABs. IM organisations can submit complaints to

CABs concerning the operations of the certified operators and to KAN concerning the operations of accredited CABs. Complaints on the use of V-Legal Label and DKP are submitted to the MOEF. If the response from a CAB is unsatisfactory, civil society organisations may file a report to KAN and/or the MOEF.

CABs are required to set up Ad Hoc Teams for complaints settlement and respond to the complaints within seven working days. The complaints submitted to KAN and the MOEF are settled in accordance with their existing complaint handling mechanisms.

Four networks of IM organisations have been established: Jaringan Pemantau Independent Kehutanan (JPIK), Aliansi Pemantau Independen Kehutanan Sumatera (APIKS), Aliansi Anti Mafia Hutan (Alliance Against Forest Mafia), and Eyes of the Forests (EoF). In addition, there are other organisations such as ICEL, Auriga, YCHI and Borneo Initiative that carry out IM activities.

All IM organisations must be legally established. The independence of IM organisations and avoidance of conflict of interest are demonstrated by impartiality statements. The IM organisations are expected to operate in accordance with established procedures. This Periodic Evaluation targeted three IM networks/organisations, all possessing certificates of formal establishment and impartiality statements. Two of them had IM procedures in place and one was in the process of completing them.

Two of the three sampled IM organisations were registered at the MOEF. The registration is a precondition to access restricted information at the MOEF and security measures during field missions. IM activities are currently funded by external donors, an arrangement that tends to be of short-term nature. There is an obvious need to secure long-term financial sustainability through multi-year donor support and the Independent Forest Monitoring (IFM) Fund that was established in 2016. While the IFM Fund is already in place, the financial resources available to support its operations (as mandated under the VPA) are limited. Alternative options may also be explored, such as earmarking a share of the fees the exporters pay for the issuance of V-Legal Documents.

Recent IM activities have revealed 56 cases of suspected non-compliance in forest concessions, forest conversion areas and associated supply chains. The non-compliant observations relate, for example, to: harvesting of logs prior to the granting of an approved utilisation permit; harvesting of under-sized logs; mismatch between production and timber royalty payments; conflict with local communities; clearing of river banks and other environmental and social irregularities; logs not marked with V-Legal Logo; and sourcing of timber from non-SVLK certified forests.

This Periodic Evaluation learned that, as of September 2017, IM organisations had reported all these 56 cases of suspected non-compliances to CABs. About half of these cases were related to administrative failures of certified companies. However, 28 cases were of a more serious nature and thus also reported to the MOEF. All these cases have been acted upon, while at the time of writing, four cases were not yet concluded. However, IM organisations have not been duly informed about the handling of the suspected cases of non-compliance.

It is noted, however, that most of the available information on non-compliance cases are from the JPIK network. Many other IM organisations do not coordinate the disclosure of their findings and do not always follow the established procedures for reporting suspected cases of non-compliance. There is a need for coordination among IMs and for consistent adherence to the established reporting procedures.

Recommendations

14. All active IM organisations register with the MOEF in order to have better access to restricted public information, funding and security measures for field missions.
15. IM networks establish a consultative process for closer coordination and adherence to established reporting guidelines.
16. IM organisations, in cooperation with the MOEF and the donor community, explore possibilities for long-term funding of IM activities.
17. The MOEF and CABs provide timely updates to IMs about the progress of the follow up on the reported cases of non-compliance and ensure there is a public summary on progress available online.

Law enforcement

The MOEF has procedures in place to initiate law enforcement actions based on the findings of the CAB audit reports and IM complaints. The MOEF also informs relevant provincial forest authorities about non-compliance cases discovered by the CABs or IM organisations.

As indicated earlier, 28 complaints that IMs filed with the MOEF have been registered and acted upon. The MOEF and provincial forestry agencies implemented field checks to investigate the suspected non-compliance cases and determine the necessary law enforcement actions.

Recommendations

18. The MOEF and provincial forest agencies develop and implement procedures, and allocate adequate resources for timely investigations of suspected non-compliance cases.

FLEGT licensing and exports

The VPA between Indonesia and the EU recognises V-Legal Documents as FLEGT licences that are needed for importing Indonesian timber products into the EU. V-Legal Documents are issued:

- to export consignments that comply with applicable SVLK requirements.
- by LAs that are assessed, approved and registered by the LIU of the MOEF.

The competence requirements of LAs, the process to issue V-Legal Documents, and the technical specifications of V-Legal Documents are described in SVLK-related regulations following VPA Annex III and IV requirements.

There are currently 23 active LAs. In 2017, they issued over 180 000 V-Legal Documents (of which a great majority is used for non-EU markets) to a total number of 2 306 exporters. In the first year of FLEGT licensing, between November 2016 and November 2017, LAs issued 39 010 FLEGT licences for timber exports to the EU worth USD 1.2 billion. Only SVLK-certified exporters that are registered with the LIU may apply to LAs for V-Legal and/or FLEGT documents. The applications are systematically supported by packing lists, invoices and export declaration forms. The LAs have to ensure that exporters have SVLK or DKP timber for their export consignments. They do so for each shipment by inspecting the exporters' summaries of transport documents of the raw material, timber/raw material balance sheets (LMKB), processed products balance sheets (LMKO), and deliveries of products, and by reconciling the inspected data. The V-Legal Documents can be issued if there are no irregularities in the supply chain data and the exporter has no open/pending non-compliance case.

Management of V-Legal Documents / FLEGT licences

The LIU maintains a database of V-Legal Documents (including FLEGT Licences) issued in an information management system called the SILK (*Sistem Informasi Legalitas Kayu*). LAs generate V-Legal Documents on the SILK, which enables the LIU to receive real-time data on V-Legal documents. According to the SILK, over 700 000 V-Legal Documents (for all export markets) had been issued at the time of writing. The LIU maintains a separate database on non-compliance issues related to FLEGT licence shipments.

Exports

The exporters submit their export declarations forms electronically through the Indonesian National Single Window (INSW) portal or the conventional paper-based system to the customs service. The customs clearance requires a V-Legal Document for the timber products covered by the VPA, and an original invoice and packing list. The INSW automatically checks the existence of the aforementioned support documents but is not able to check the consistency of their information contents.

In addition, the MOEF has contracted PT Sucofindo to survey export consignments of certain timber products (for example plywood, veneer or joinery) in order to ensure that inappropriate types of timber products (such as round logs and sawn timber) are not leaving Indonesia.

Despite comprehensive procedures in place to ensure the robust issuance of V-Legal Documents, this Periodic Evaluation found indications of problems associated particularly with the export of furniture and other household utility items. Lesser extent problems were also detected on other export products. As of September 2017, the LIU has received queries from FLEGT competent authorities of the EU Member States seeking clarifications on:

- Inconsistences in product quantities between V-Legal Documents and invoices and packing lists
- Appearance variations in the V-Legal Documents (paper quality, paper colour, logo, signature attributes) in part related to decentralised printing practices
- Inconsistences in HS codes between export and import declarations

The LIU is currently implementing an action plan to address the identified problems. The action plan covers: (i) exploring feasible means to minimise the practice of making changes to export documents after V-Legal Documents/FLEGT licences have been issued; (ii) harmonising the use of HS codes; (iii) providing LAs with additional instructions and guidance for appropriate issuance of V-Legal Documents/FLEGT licences; and iv) improving the communication between the LIU and competent authorities on the identified problems.

In order to improve the exchange of information between the LIU and the competent authorities, the LIU is developing a standard query/response form that is expected to make communication on V-Legal Documents/ FLEGT licences more efficient. The LIU also plans to host visitors from competent authorities to solve these issues through direct communication.

Recommendations

19. The LIU continues to implement the action plan developed to address the issues related to FLEGT licensing and periodically evaluates the progress achieved.

Public disclosure of information

Appendix IX of the Indonesia-EU VPA states that both parties are committed to ensuring that key forestry-related information is made available to the public. The document specifies which type of documents are freely accessible (Type 1) and which are available upon request (Type 3).

This Periodic Evaluation has found that public access to information is in-line with the spirit of Annex IX of the VPA. It can be confirmed that information for reinforcement of (i) larger VPA objectives (except for disaggregated statistics on timber production), and (ii) verification, monitoring and the functioning of the TLAS (i.e. all Type 1 information on SVLK/PHPL audits, general forestry and statistical data, log production, processing, and export) is accessible. In the case of Type 3 data that is to be made available upon request (and on a case-by-case basis), IM organisations reported that accessibility has

improved but there are still some challenges. On the positive side, the MOEF is willing to release Type 3 data (for example on concession permits, annual/10-year workplans or maps) to registered IM organisations or other public actors as long as they provide clear justification. In addition, the MOEF makes it clear that requests for Type 3 data must be reasonable in terms of scope and quantity. In cases when the MOEF does not possess the required data, it facilitates communication between the IMs and provincial administrations where the data in question is located.

IM organisations report that the remaining challenges with access to Type 3 information relate mainly to lengthy processes to access this information and slow responses in some particular cases – for example, requests of IM organisations for access to disaggregated SIPUHH data on supply chains by individual companies.

Recommendations

20. The MOEF makes timely decisions on IM applications for access to detailed company-level information that is relevant to the SVLK and timber supply chain.

Conclusion

The overall conclusion of this Periodic Evaluation is that the SVLK is operational and applied by all relevant actors. It captures operations of most private sector companies involved in harvesting, processing and trading of timber, and Government agencies and other bodies tasked with controlling and verifying legal compliance of operations.

The MOEF has been instrumental in overseeing SVLK implementation, coordination, compilation of data, and development of data management systems. On the operational side, provincial forest authorities are the main bodies that control the private sector and take law enforcement actions. The findings of this Periodic Evaluation suggest that their **control function** and level of **compliance** are satisfactory, but further efforts are needed in monitoring of and follow up on reported non-compliance cases. The MOEF also needs to do more in terms of outreach to private forest holdings and SVLK certification support for SMEs. The MOEF has actively provided the provincial authorities with training on various aspects of SVLK implementation but further actions will be needed.

The **supply chain control** of timber from the forest or points of import via processing to the points of export or sales on the domestic market is exercised by private sector actors that are monitored by the Government (MOEF). The Government monitoring focuses on the analysis of data reported by private sector actors.

The private sector implementing the SVLK consists of diverse operators. The large-scale operators upstream of the supply chain (forest-based operations) and in the processing sector further downstream have the greatest preparedness, adequate skills

and resources to comply with SVLK requirements. With regard to the SMEs that are usually the secondary processing sector, there are still challenges as small-scale operations may struggle with meeting SVLK requirements due to insufficient technical knowledge and limited financial resources. More Government and donor support is needed to strengthen SME performance. To this end, it is encouraging to see that in 2018, the MOEF plans to intensify the financial support and field extension service for SMEs.

In recent years, CABs and LAs have systematically developed their capacities. This is encouraging as both play a critical role in the control of supply chain certification of operations and licensing of exports. Their procedures and resources to implement audit, certification processes, as well as issuance of V-Legal Documents are subject to systematic external checks, building confidence in their integrity. However, feedback from IM organisations suggests that improvements may still be needed in the quality of field audits, mechanisms to investigate IM findings, and the incorporation of this material into the evidence base of SVLK certification. It is also encouraging to see coordinated follow up by the MOEF and KAN on the reported cases of non-compliance to ensure that CABs check on these cases. Both CABs and the MOEF need to be more forthcoming with information on the exact steps and law enforcement implications.

Civil society organisations engaged in IM activities have been instrumental in detecting and reporting suspected **cases of non-compliance** in the functioning of the SVLK. IMs have satisfactorily carried out monitoring operations on the ground and produced valuable findings for CABs and Government law enforcement. The exact number of IM missions and surveys is unknown, but it is clear that their intensity is still low. This Periodic Evaluation concludes that IM organisations need to make further efforts to strengthen their capacities in terms of organisational structures, planning and reporting, intensity of field monitoring and sustainable funding.

The implementation of the SVLK includes massive amounts of data, presently collected and analysed using electronic and paper-based systems. **Data management** on licensing and certification-related activities is well developed, and competent authorities of the EU Member States have access to the SILK database on legal documents / FLEGT licences issued. However, further development is needed to improve **data management on the supply chain controls**, especially from the primary processing to the point of exports or sales on the domestic market. It is acknowledged that the MOEF has made great strides in managing supply chain data using two stand-alone systems – one for controlling timber flows from natural forests to primary industries and the other one within primary industries. However, additional steps are needed to capture all timber sources and timber processors. Therefore, the plans for an integrated timber information system (i.e. SI PHPL) are warmly welcomed. Such an integrated system holds great promises for real-time data reconciliation and evaluation of legal compliance.

Availability of data is crucial for effective communication and evaluation of the SVLK implementation. IM organisations and others interested in the use of State forests and associated processing and trade of timber have recently managed to acquire

information as per the definition of the Indonesian Law on Freedom of Information. Thus, it can be concluded that access to information at the MOEF level has improved during the past three years, though some delays remain. IM organisations and other civil society actors will likely need more detailed datasets for assessing the integrity of the timber supply chain. The MOEF will therefore need to make decisions on how to handle requests for access to disaggregated data on SIPUHH and SI PHPL.

Lastly, this first Periodic Evaluation shows how critical is the importance of clear understanding of the assessment's scope, availability of the data needed, and intensive oversight during data collection and analysis. The combination of these three factors is fundamental for quality assessments, which are critical for the **Joint Implementation Committee** to be able to act upon the recommendations and make informed decisions. Up to date information on the forestry sector will also be fundamental for subsequent Periodic Evaluations of SVLK implementations, as these will build on the findings from earlier assessments and lessons learned.