

# Second Periodic Evaluation FLEGT VPA – Indonesia European Union

**Executive Summary**

11 November 2019



## Key Messages

- The Second Periodic Evaluation (PE 2) assessed the control measures performed at different points in the supply chain. The assessment concludes the system functions as envisioned in the VPA.
- The current legality standards reflect well the legal situation in Indonesia and support the implementation of the SVLK and the Indonesia-EU VPA. However, there are new developments that need to be reflected in relevant regulations, namely timber legality assurance from customary forests in state forest/land and private forest/land with natural standing stock.
- The supply chain control of SVLK is functioning as intended in the VPA. However, improvements are needed in the way MoEF's online information systems (SIPUHH and SIRPBBI) manage timber from concessions and processing industries. Confirmation of the certification status of operators is currently conducted manually. MoEF must take steps to automate this process by connecting SIPUHH and SIRPBBI with SILK.
- While all parts of the supply chain are controlled and monitored, some are subject to greater scrutiny than others. For instance, registered timber depots (TPT-KO) and secondary industries, while subject of CAB monitoring, are not effectively covered by SIPUHH and SIRPBBI. MoEF needs to explore ways to strengthen the online coverage of these operations.
- More attention is needed, via increased frequency and quality of spot checks by MoEF and provincial forestry agencies, to improve the functioning of the Supplier's Declaration of Conformity (SDoC/DKP) for low-risk sources of timber.
- The quantitative data management of SVLK is functional. However, it is dispersed across a range of individual MoEF systems. To maximize the use of available data, MoEF should promptly conduct field testing of an integrated data management system (SIPHPL), which has been in preparation for quite some time.
- Further progress on improving due diligence for timber import is needed to ensure that its implementation and verification are fully in line with Annex V of the VPA.
- While FLEGT licensing function has shown significant improvement through 2018 and early 2019, some problematic cases continue to occur. MoEF should implement additional improvements in stakeholder capacities and communications, as well as consider the feasibility of implementing e-licensing.
- The implementation of SVLK has improved the transparency and accountability in the Indonesian forestry sector, as exemplified by the online non-compliance monitoring portal. Further improvements are needed in a timely follow up to reported cases of non-compliance.
- The implementation of SVLK has also improved the disclosure of information. However, further clarification is needed on the access to specific data in the MoEF online system that may be needed for effective monitoring by Independent Monitors (IMs).
- Out of 20 recommendations submitted by PE 1, 11 have been implemented while several others are well advanced. It is important to sustain the momentum and build on this progress.

## Background

Under the framework of the EU Forest Law Enforcement, Governance and Trade (FLEGT), Indonesia and the European Union (EU) signed a Voluntary Partnership Agreement (VPA) on 30 September 2013. The VPA is a legally binding bilateral trade agreement that aims to improve forest governance and promote trade of legal timber from Indonesia to the EU. Indonesian timber legality assurance system (TLAS or SVLK) is the central component of the agreement between the EU and Indonesia. SVLK is aimed at ensuring the legal compliance of forest management units, harvesting, transportation, processing, and trade of timber and timber products. Both parties (Indonesia and the EU) agree to evaluate and monitor the progress of the implementation of SVLK through Periodic Evaluation (PE), as described in Article 5 of the VPA, and the detail of the tasks is listed in Annex VI of the VPA.

The First Periodic Evaluation (PE 1) of the VPA was carried out by PT Sucofindo under a joint supervisory team of the Indonesian Ministry of Environment and Forestry (MoEF) and the Multi-stakeholder Forestry Program (MoEF-MFP3) in 2017. The report of the PE 1 was approved in March 2018 by Indonesia and the EU. The Second Periodic Evaluation (PE 2) was implemented by Profundo B.V. in May-July 2019. PE 2 covers relevant data and developments until the 10<sup>th</sup> of August 2019. The report presents results and findings from the PE 2.

## Objective

The objective of PE 2 was to assess the functioning of SVLK and use the findings to ensure that SVLK is functioning as described in the VPA, thereby enhancing the credibility of the FLEGT licenses.

PE 2 covered the following subjects:

- The functioning of control measures from the point of production in the forest to the export of timber products.
- Data management and timber traceability systems that are supporting the TLAS, e.g., the issuance of FLEGT licenses and the production, licensing, and trade statistics relevant to this Agreement.

PE 2 emphasized the identification of non-compliance cases and system failures and suggested corrective actions to address the issues that have been identified. PE 2 also reviewed progress with the implementation of recommendations from PE 1.

## Evaluation method

### Scope of PE 2

The Periodic Evaluation covers key elements of the TLAS, as described in Annexes V, VI, and VIII of the VPA. These key elements are:

- Legality standard
- Control of the timber supply chain;
- Data management;
- Verification and accreditation;
- FLEGT licensing;
- Law enforcement
- Independent Monitoring;
- Public disclosure of information; and

- Government responsibility for enforcement of TLAS.

The activities of PE 2 consist of a review of regulations, procedures, statistics, and other records of relevance to the system's implementation. It also includes interviews with relevant stakeholders and on-site verifications, applying an evaluation triangulation method by following SNI ISO/IEC 19011:2012; SNI ISO: 19011:2012. The main components of PE 2 activities are desk study, stakeholder interview, and direct observation.

## **Sampling Frames**

PE 2 conducted interviews and data collections in 50 organizations. The team has conducted the assessment at three different levels of sampling frames in the evaluation. The three levels were the national level, the provincial level, and the supply chain level. The sampling frame aimed at covering all types of activities on the ground that are relevant to the implementation of TLAS within the available time and resource for the evaluation. These were achieved by considering the following:

### **Geographical locations**

The evaluation team visited stakeholders in Jakarta and the surrounding cities (JABOTABEK) to visit and collect information from officials from relevant Ministries, National Accreditation Body of Indonesia (KAN), selected Conformity Assessment Bodies (CAB), Independent Monitoring Organisations, CSOs, Private Sector representatives as well as other relevant stakeholders.

The evaluation team conducted fieldwork in Papua, Central Kalimantan, East Kalimantan, Central Java, Yogyakarta, and East Java provinces to collect information from stakeholders involved in the timber supply chain at the provincial, district, and local/company levels.

### **Types of concessions and industries**

The evaluation team selected a sampling frame according to the type of concessions on state forest (natural forests and timber plantations), community forests, privately-owned forests, and timber utilization rights including licensing of forest land clearing (IPK), forest conversion for agricultural, mining, infrastructure and other proposes.

The evaluation team visited a variety of relevant industries for the implementation of SVLK/TLAS. These industries were family-based and both small-scale and large-scale industries. These industries were producers of sawn wood, veneer, and plywood, mouldings, pulp and paper, furniture, etc.

### **Timeline**

The methodology report was presented in a stakeholder workshop on May 29<sup>th</sup>, 2019 and the fieldwork of the PE 2 was conducted in June – July 2019. Initial findings were shared in a Joint Expert Meeting (JEM) on September 25<sup>th</sup>, 2019 and the findings of the evaluation were presented in a stakeholder workshop on the 5<sup>th</sup> of November 2019. The reporting and reviews by the EU-Indonesian Oversight Committee were concluded in November 2019.

# Evaluation results

## Legality standard

The legality standards are published in the most recent SVLK Ministerial Regulation, P.14/PHPL/SET/4/2016. The SVLK regulation contains five legality standards that apply to fifteen different types of timber permits. Nine permits are used for management of forests and plantations, and six permits are used for processing and trading of timber products.

Current legality standards reflect well the legal situation in Indonesia and support the implementation of SVLK and VPA. However, some updates or refinement is needed to reflect recent developments. PE 2 has identified the need to develop legality standards for natural timber coming from private lands and customary/indigenous forests in state forest/land. This condition is because there is an increasing possibility for commercial natural forest timber to originate from private land and customary forest areas in state forest/land. The integration of legality standards for timber from customary forest needs to consider clarity of user rights to the customary forests or proof of ownership, financial/technical capacity of the customary groups, identification of possible risks of "misused/timber laundering" by introducing this model, resolution for overlapping customary forest areas within timber concessions. Further dialogues and consultations involving relevant stakeholders should be conducted.

The existing regulations, such as the regulation on DG Forests Utilization No:17/2015, provides a basis for private land and customary forest outside of the permanent forest zone (*Kawasan Hutan*). A more recent regulation MoEF Regulation No.21/2019 designates private land and customary forest inside the permanent forest zone. What is needed is a scheme to utilize timber from private land and customary forest on state forest/land in compliance with SVLK, which requires a revision of the standard included in P14/2016.

Recommendation	Priority
<ul style="list-style-type: none"><li>[#R1] Revision of SVLK legality standards to include the timber from the customary forest on forest/state land and natural forest timber from privately-owned forest/land. A multi-stakeholder dialogue is needed to develop a common understanding, define a way forward, and develop safeguards for mitigating risks.</li></ul>	Medium

## Supply chain control

The supply chain control of SVLK is overall functioning as intended in the VPA. The SVLK was designed to create conditions where only timber originating from forest and timber plantation areas with valid rights of use, enters the supply chain. However, throughout PE 2, some weaknesses have been identified, which will require the attention of relevant stakeholders to improve the robustness of control on the supply chain.

### Upstream forestry sector

- Natural forest concessions (IUPHHK-HA)**

SVLK certified natural forest concession follows the sustainable forest management (SFM or PHPL) standard, including the application of annual management plan (RKT), pre-harvesting

inventory or Cruising Report (LHC), and a working map prepared by a licensed technical officer of the company (GANIS). Currently, day-to-day control of timber flows is based on a self-approval policy that relies on GANIS of the companies and surveillance/audits by Compliance Assurance Bodies (CABs). Since the implementation of SIPUHH online (Administration of Forest Information System), MoEF removed the role of WASGANIS (Provincial Forestry officer overseeing GANIS) to undertake field inspections and validate documents issued by GANIS.

PE 2 observed well-trained GANIS checking and registering log production information to SIPUHH to obtain log transport documents (SKSHHK) at log yards. GANIS operated SIPUHH according to applicable MoEF guidelines and procedures.

As currently operated, SIPUHH does not distinguish between (SFM/PHPL or VLK) certified and non-certified concessions or concessions with expired or lapsed certificates (both for natural and plantation forests). The reconciliation is conducted manually at MoEF. Based on manual reconciliation, which is not up to date and is prone to errors, the system issues SKSHHKB transport documents for timber transport.

- **Plantation forest concessions ((IUPHHK-HTI)**

In the plantation forests, the timber production report (LHP) is also prepared by GANIS. GANIS is also responsible for registering the information to SIPUHH. PE 2 observed well-trained GANIS checking and registering log production information at log yards (TPK) and uploading it to SIPUHH to obtain log transport documents (SKSKB). The GANIS operated SIPUHH according to applicable MoEF guidelines and procedures.

Large and medium-size logs (KBB, KBS) from natural forest clearing during the establishment of the plantation are measured, recorded, and tagged with ID barcodes at log landing (TPN) or log yard (TPK) before uploading and transporting to further points of destination. For small logs (KBK), the measurement is estimated based on a staple meter conversion ratio, and small logs are then transported without an ID barcode. These methods carry a potential risk of legal timber mixing with timber from unknown sources. The need for a revision of the current procedure should be discussed by reflecting on the extent of timber plantation establishment in the near future.

- **IPK and IPPKH**

Before obtaining approval for timber harvesting on Timber Utilization Rights from Forest Land Clearing on the non-forest zone (IPK) and Timber Utilization Rights From Forest Land Clearing where the status of the forest remains (IPPKH), both permits require the licensee to conduct a 100% timber cruising inventory in the concession. GANIS implemented the inventory, recorded in the Cruising Report (LHC), and then uploaded the information to SIPUHH. GANIS also prepared the production report (LHP) and uploaded to SIPUHH with the supervision of (BPHP).

PE 2 witnessed large and medium diameter logs being tagged with ID barcodes after logging has been conducted and before transport to temporary log yard (TPN) or log yard/log pond (TPK), and further to end destinations. This situation creates opportunities for mixing timber from unknown sources, as there is no possibility to trace timber back by matching the markings on logs with ID numbers on stumps – based on pre harvesting inventory. Although this may not be a large loophole in supply chain control in terms of timber volumes, a revision of relevant regulations is proposed to apply ID barcode labelling on commercial size logs during the cruising phase and to provide additional information about the coordinates/position of the TPN in the barcode.

- **Private forests**

MoEF introduced the Supplier's Declaration of Conformity (SDoC), or *Deklarasi Kesesuaian Pemasok* (DKP) in 2014. It applies to low-risk planted timber that is harvested from smallholder/community forests. The concept was incorporated in the context of the amendments to Annexes I, II, and V to the VPA in 2015. The Supplier's declaration of conformity based on SNI/ISO 17050 is a "self-declaration" as defined in ISO/IEC 17000, i.e., first-party attestation following a review that fulfilment of specific requirements has been demonstrated.

Minor cases of procedural non-compliance occurred in the implementation of DKP, such as incomplete DKP documents, or documents prepared by traders/middlemen rather than by the original timber owners (farmers), unsigned DKP documents, DKP documents without proof of land title, etc.

<b>Recommendations</b>	<b>Priority</b>
<ul style="list-style-type: none"> <li>• [#R2] SIPUHH automatically detects and blocks uncertified companies and companies with lapsed certification. This can be achieved by linking SIPUHH to SILK.</li> </ul>	<b>High</b>
<ul style="list-style-type: none"> <li>• [#R3] MoEF to strengthen traceability and improve supply chain control by assessing the feasibility of using barcoding for commercial size logs in HTI Land Clearing (LC), IPK, and IPPKH concessions during preharvest inventory.</li> </ul>	<b>Medium</b>
<ul style="list-style-type: none"> <li>• [#R4] Improve the implementation of the DKP system. E.g., MoEF coordinates with CABs to intensify and improve verification of DKP timber, Provincial Forestry Agency/MoEF conducts more checks, MoEF coordinates with IMs for more frequent monitoring. MoEF works with partners to further improve stakeholders' awareness and capacity.</li> </ul>	<b>Medium</b>

## **Downstream forestry sector**

- **Imported timber**

The procedures for determining the legality of imported timber have been developed in the SVLK system and have been integrated into the amendment of VPA Annex II, 2015 (Legality Standard). Indonesian regulation requires importers to have an Import Identity Number (API), and all prospective importers must be SVLK certified (Perdirjen PHPL No 3/2018). Based on this regulation, the control of imports timber has shifted from pre-import control to post-import checks. Currently, CABs are responsible for conducting post-import checks as part of SVLK certification or surveillance.

Indonesia has taken steps to further develop the post-import control system, but the current system and its implementation are not yet fully compliant with the Annex V of the VPA, which requiring all imported products to be verified for legality based on the regulation of the country of harvest. The current system also has insufficient guidance for CABs to conduct due diligence verifications. Furthermore, importers should regularly update statistical import data in SILK as required.

- **Impounded timber**

The Annex V of the VPA calls for impounded timber to be used exclusively for the domestic market, except for impounded timber from conservation forests, which must be destroyed. Any industry receiving impounded timber must implement measures to segregate that timber from other supplies and duly inform their conformity assessment body (CAB), which will conduct a special audit to ensure that this timber does not enter the export supply chain. SVLK standards (indicator 2.1.3.d) require industries to define, keep a record, and segregate impounded timbers.

Impounded timber is currently auctioned and sold to small processing industries (mills with annual capacity < 6.000 m<sup>3</sup>). MoEF (RPBBI data) shows very small volumes of impounded timber in the supply chain (in 2018, less than 65 cubic meters in the total supply chain of 58 million cubic meters). During PE 2, there was no case of auditees (SVLK certified companies) that used raw material from impounded timber for their commercial production.

- **Primary and integrated industries**

For primary and integrated industries, the SVLK supply chain control generally functions as intended. In the integrated industry, day to day timber supply control relies on GANIS of the mill, and surveillance/audits by CABs. GANIS use features in SIPUHH to verify transport documents for incoming timber supplier (SKSHHKB) and outgoing timber products (SKSHHKO, *Nota Angkutan*).

Similar to the case of forest concessions. Currently, the SIRPBB system does not impose hard cut-off on industries with expired or lapsed certificates. In all cases, the mill transport documents (SKSHHKO) are issued for both V-Legal certified and non-certified timber.

- **Secondary industries**

The secondary industries are monitored by the Provincial Government and the Ministry of Industry (MoI). The supply chain control is conducted by CABs during initial and surveillance audits. CABs also organize field inspections on an ad-hoc basis, as described in the SVLK Guidelines.

Timber arrives in secondary industries with either SKSHHKO or *Nota Angkutan* (transport slip), but all timber products can leave the industry with *Nota Angkutan*. Thus, when natural timber is used, there is a risk of mixing timber from undocumented sources as it is not necessarily captured in SIPUHH.

SVLK certification for industries and timber traders requires CAB to check the availability of the inspection reports of *Nota Angkutan* prepared by the auditee. The recipient of DKP timber is not included in the special inspections by the government. However, this industry is required to respond whenever its inspection report indicates wrongdoings by the supplier.

- **TPT-KO**

TPT-KO is a registered timber depot that is established based on a permit issued by provincial forestry authorities. TPT-KO employs provincial forestry officers (GANIS PHPL) that assist with monitoring input and output of timber. TPT-KO depots are not part of SIPUHH monitoring systems. These depots receive timber using SKSHHKO or *Nota Angkutan* and dispatch timber accompanied by *Nota Angkutan* slips.

TPT-KOs that manage timber from natural forests must be SVLK certified. TPT-KO operators can also use DKP documents, but only if they use timber products originating from import or low-risk sources (such as private forest plantation).

IM organizations are concerned about the possibility of undocumented timber entering TPT-KO supply chains. Therefore, it is advisable that TPT-KO that manage timber from natural forest and provide timber for export be not only SVLK certified but also covered by SIPUHH.

The integration of TPT-KO and secondary industry into SIPUHH poses a challenge because these sectors are the domain of the Ministry of Industry. However, MoEF has already initiated communications on this issue so there is a basis to build on.

- **Small Medium Enterprises (SMEs)**

Advancing SVLK among small and medium enterprises (SMEs) faces some challenges. The main problem for SMEs adopting SVLK is that many of these companies cannot meet the required business legality requirements. Another challenge is the certification costs (temporarily alleviated by MoEF subsidies) and limited understanding by SMEs of the need and benefits of SVLK. In this regard, MoEF has introduced a self-declaration of legality procedure (DKP) to allow smallholders and SMEs handling low-risk timber from private land to trade in legal products. It is recommended that MoEF and other Ministries continue capacity-building for SMEs on SVLK, business strategy, and continue monitoring the impact of SVLK on SMEs.

Recommendations	Priority
<ul style="list-style-type: none"> <li>• [#R5] MoEF to further improve due diligence (DD) design, implementation, and verification for imported timber to fully meet the criteria in the VPA (Annex V). Lesson learned from EUTR post-import checks should be explored to improve the Indonesian import control system</li> </ul>	High
<ul style="list-style-type: none"> <li>• [#R6] MoEF to develop guidelines and manuals to improve the capacity of CABs to monitor due diligence application by importers effectively.</li> </ul>	High
<ul style="list-style-type: none"> <li>• [#R7] SIRPBBI needs to supplement current manual checks and automatically detect and block uncertified mills or mills with lapsed certification. This effort can be achieved by linking SIRPBBI to SILK.</li> </ul>	High
<ul style="list-style-type: none"> <li>• [#R8] MoEF to explore ways to integrate TPT-KOs and secondary industry into SIRIPBB online system</li> </ul>	Medium
<ul style="list-style-type: none"> <li>• [#R9] MoEF to assess obstacles relating to SVLK- FLEGT implementation by SMEs and develop options for streamlined procedures and reduce costs</li> </ul>	High

## Quantitative data management

The VPA expects a robust and effective mechanism for measuring and recording the quantities of timber or timber products at each stage of the supply chain, including reliable and accurate pre-harvest estimations of the standing timber volume at each harvesting site. PE 2 observed that the

quantitative data management of SVLK is functional, but some gaps need to be addressed to improve the management of quantitative data of the Indonesian timber supply chain.

- **SIPUHH, SIRPBBI, and SIPHPL**

The latest Indonesian regulations (Ministerial decree no. P.43/2015, P.60/2016, P42/2015, and P.58/2016) require operators in the timber sector to report timber supply chain quantitative information by submitting regular paper-based or electronic reports. To support these regulations, MoEF has developed online systems (i.e., SIPUHH, SIRPBBI, SIPNBP, and others) as a means to register and to share data/information on the production and traceability of timber.

SIPUHH (Administration of Forest Information System) and SIRPBBI (Industrial Raw Material Admission Plan Information System) register extensive data of the timber supply chain. Both systems cover supply chain data almost all timber flows in the sector. However, as previously mentioned, currently, both systems do not oversee timber flows at timber depots (TPT-KO), secondary industries, and/or industries that source timber from DKP's timber.

MoEF and Multi-Stakeholder Forestry Programme (MFP) are working to operationalize the Sustainable Production Forest Management Information System (SIPHPL) to oversee timber flows from natural forests to primary industries and within primary industries. SIPHPL will integrate data and information that are currently under SIPUHH, SIRPBBI, Non-Tax State Revenue System database (SIPNBP/SIMPONI), Electronic and Monitoring, and Evaluation (e-MONEV) and SVLK. Since it was initiated in 2017, the progress of SIPHPL has been slow.

Recommendation	Priority
<ul style="list-style-type: none"> <li>• [#R10] MoEF to ensure that the Integrated Data Management System (SIPHPL) for data reconciliation is soon operational.</li> </ul>	High

## Verification and accreditation

The verification and accreditation systems of SVLK are functioning as intended. The SVLK has well-established procedures and resources in place to implement audit, certification, and surveillance. However, there are minor shortcomings that should be explored to improve SVLK verification and accreditation.

- **National Accreditation Committee of Indonesia (KAN)**

KAN is authorized by MoEF to accredit verification bodies for the SVLK and SFM. The accreditation process is entirely independent of the MoEF. KAN hires external assessors with a forestry background to ensure their technical competence in the accreditation of the VLK and PHPL. In addition, KAN has recruited full-time personnel with a forestry background and ISO-based experience in a managerial position to ensure managing its capacity in the context of forestry business and policies

At present, KAN has accredited 26 conformity assessment bodies (CABs) for VLK and 15 CABs for PHPL (or SFM). Over the last six years, three accreditation certificates for CABs on PHPL have been cancelled permanently due to the expired validity of their accreditation certificates, and two CABs on PHPL were suspended for six months.

Furthermore, one CAB on VLK was suspended recently (August 2019) due to non-compliance with the requirement of accreditation. The fact indicates the checks and balances are working as intended. Information on the accredited certifiers and their current status of accreditation are available on the website of KAN as required in Annex V of the VPA.

In the accreditation process, KAN also implements a witnessing audit, which is observing the work of CAB in the field (during the initial assessment and at a minimum in one surveillance assessment during the validation period of the accreditation). Previously, the witnessing audit was conducted once in every 50 audits. However, due to pressures from stakeholders and to ensure the credibility and integrity of CABs, KAN is planning to increase the frequency of witnessing audits to every 25 audits of CABs. KAN does not allow the same auditors of CABs in different witnessing audits. The action is to ensure that CABs employ auditors with equal capacity and competency.

- **Conformity Assessment Body (CAB)**

SVLK verification conducted by CABs is functioning as intended in the VPA. Most of the standards and procedures in place are in line with ISO/IEC 17065. However, there are minor gaps that need to be addressed to improve the quality of auditors, the availability of lead auditors, and impartiality.

As specified in Annex V of the VPA, CABs send the summary of their certification reports to MoEF systematically. The summary reports are published on the website of the Timber legality Information System (SILK). The VPA Annex IX requires that non-compliances be made publicly available as category 3 information (information that is always available and provided upon request). The requirement to describe non-compliances and suggested corrective actions have been included in the public summary reports and have been made publicly available on the SILK website. Nevertheless, not all CABs implement this requirement.

Any individual or organization (IM organization, government, company, CABs in case of the accreditation process to KAN) may submit a formal complaint against the accreditation or the certification decision. PE 2 observed that this mechanism had been developed, but the application of this mechanism still has shortcomings. IM organizations (CSOs) claimed that responses to their complaints often come late, and the responses themselves are often inconclusive or inadequate.

The ISO-based auditing service strictly required CABs to be able to demonstrate how the requirements of impartiality are fulfilled in their operations, including when they use outsourced auditors. During consultations with SVLK stakeholders (KAN, CABs, and IM organizations), PE 2 took note of potential risks to impartiality in the SVLK certification process. As requested under ISO, CABs have their own "Impartiality Committees" to monitor the integrity of their verification activities. However, to date, most of the CABs' Impartiality Committees" do not perform optimally as they only meet once per year.

There are two Independent Professional Certification Institutions (LSP) that carry out testing of the SVLK auditors' competence. The auditors must also participate in competency training and examinations/tests conducted by LSPs. According to CABs, the mechanism of the competency tests by the LSPs should be improved by involving experienced/lead auditors as examiners. The LSPs holds the potential to develop into an organization that can also impose sanctions (e.g., blacklist option) to auditors based on their audit record performance.

Recommendation	Priority
<ul style="list-style-type: none"> <li data-bbox="188 277 1249 383">• [#R11] KAN to ensure that the Impartiality Committee at each CAB meets more frequently to provide oversight and ensure the independence of audits, in particular, if external auditors are used.</li> </ul>	Medium
<ul style="list-style-type: none"> <li data-bbox="188 427 1233 568">• [#R12] MoEF and KAN to explore how LSPs can become more active in improving the capacity of auditors, as well as the capacity of external auditors by offering more stringent competency tests, training, etc. Also, a code of conduct must be developed to improve auditors' integrity and independence.</li> </ul>	Medium

## Licensing

SVLK licensing is operating as intended. The systems for managing V-Legal/FLEGT Documents and controlling the export of timber products operate in accordance with the requirements laid down in the VPA. However, some weaknesses have been identified that require attention from the stakeholders.

MoEF, via its dedicated Licensing Information Unit (LIU), recognizes and oversees the operations of 26 independent Licensing Authorities (LA), which are all accredited bodies for conformity legality verification. LAs provide V-Legal and FLEGT license services to 2,136 registered exporters. Since the enactment of FLEGT licensing (15 November 2016), 76,295 FLEGT licenses have been issued to 28 EU member states. Among these shipments, about 715 problematic cases were officially reported to Indonesia by competent authorities in the EU (data until December 2018). According to CABs and exporters, most of these cases were associated with the Harmonised System (HS) code mismatches. Also related to this, is the occurrence of incorrect specification of volume, weight, species, and unit numbers in FLEGT license and accompanying shipping documents submitted by SME exporters.

MoEF (LIU) has taken multiple steps to address licensing issues. In 2018, LIU implemented the Mini Action Plan that aimed at assessing, understanding, and reducing the frequency and number of licensing issues. Extensive socialization and outreach to SME exporters and associations have been undertaken. MoEF/LIU increased its budget and planning to add staff. MoEF/LIU is currently working on legal adjustments to enable revision or issuance of new FLEGT licenses after the shipment departed Indonesia. The possibility of ex-post adjustment is important and will address many cases of discrepancies. Indonesia and the EU are also exploring the option to implement e-licensing by connecting SILK to FLEGT in the EU.

Recommendations	Priority
<ul style="list-style-type: none"> <li data-bbox="164 1704 1265 1854">• [#R13] MoEF to further improve the FLEGT licensing function and reduce cases of data/document mismatches by continued socialization, stakeholder capacity building, and strengthening LIU operations and communications. MoEF to explore revision or issuance of new FLEGT licenses after the shipment departed Indonesia</li> </ul>	High
<ul style="list-style-type: none"> <li data-bbox="164 1890 1241 1957">• [#R14] MoEF to explore the implementation of e-licensing to improve the FLEGT licensing function further.</li> </ul>	High

## Noncompliance cases and law enforcement

Addressing noncompliance and law enforcement within the scope of SVLK is functioning as required. MoEF has procedures in place for initiating special audits and, if necessary, law enforcement actions when there is noncompliance identified by CABs and IM organizations. During PE 2, several issues have been identified that need to be addressed to reduce noncompliance cases further and improve law enforcement.

- **Noncompliance cases (NC) and actions**

MoEF/LIU has an online, operational platform for uploading and monitoring the status of non-compliance cases (<http://silk.dephut.go.id/index.php/info/NonCompliances>). The platform is called *Ketidaksesuaian* and is on the SILK website. In 2018, SILK listed 19 cases of non-compliance submitted by IM organizations. The complaints were first forwarded as hard copy material to MoEF and KAN. As of mid-2019, eighteen complaints have been addressed, and one complaint is pending with “ongoing” status in the SILK. The latest complaint concerns illegal logging in two concessions in West Papua province. The IM organizations request information (or update) on the case periodically, and asked MoEF for the list of recipients of the illegal timber (industries).

Efforts have been made by MoEF to follow up on the cases of NC, and most NCs have been addressed on a case by case basis. It is not clear to what extent MoEF regularly handles noncompliance cases involving all branches of MoEF. IMs noted delays in receiving responses from MoEF and CABs on reported non-compliances.

The VPA Annex V requires MoEF and provincial forestry offices to oversee the control of timber supply chains and verifying related documents. In the event of inconsistencies, forestry officials may withhold approval of documents resulting in a suspension of operations. Further, infringements detected by forestry officials or by IM organizations are communicated to the CAB, which, upon verification, may lead to suspension or withdrawal of the SVLK legality certificate.

In early 2018, the IM and media in Indonesia reported on large scale timber smuggling from Papua to other parts of Indonesia. Subsequent to these reports, MoEF (PHPL/SFM and GAKKUM/Law Enforcement) conducted: 6 security operations in Papua, Surabaya, and Makassar; 6 ships were seized, 483 containers were seized; 6 suspects were arrested in Makassar, Papua, and Jakarta; 6 criminal cases were initiated; MoEF and 7 SVLK audit companies (CABs) have carried out special audits on 18 companies in Papua associated with illegal timber containers. Following the special audit, 15 companies had their SVLK certification suspended. By August 2019, the District Court in Makassar sentenced the directors of four different Indonesian companies involved in these cases to one year in prison and a fine of RP 500 million per defendant.

Learning from the cases of illegal logging in Papua, it is clear that IM organizations have an important role in the SVLK. IM organizations add a layer of verification and monitoring by conducting investigations, strengthening the implementation of procedures by CABs. The Provincial Forestry Agencies (PFA) and Agency for Monitoring the Utilization of Production Forest (BPHP) also implemented crosschecking of the validity of the document using SIPUHH as well as targeted checks in the field.

Illegal logging cases in Papua also uncovered the need for more intensive communication among Directorate Generals within MoEF, i.e., Directorate General of Sustainable Forest Management (PHPL) and Directorate General of Law Enforcement of Environment and Forestry (GAKKUM). The close communication between these Directorate Generals will improve the effectivity of law enforcement within SVLK.

Recommendations	Priority
<ul style="list-style-type: none"> <li data-bbox="188 539 1294 607">• [#R15] MoEF to further improve the quality and features of non-compliance online platform in SILK.</li> </ul>	Medium
<ul style="list-style-type: none"> <li data-bbox="188 645 1294 757">• [#R16] MoEF (PHPL and GAKKUM) and other stakeholders to intensify their coordination and communication efforts on investigations and corrective actions to address non-compliance.</li> </ul>	Medium

## Monitoring

- ### Independent Monitoring

Independent Monitoring (IM) is an integral part of the implementation of SVLK in Indonesia. The PE 2 observed that the Independent Monitoring is functioning as prescribed under the VPA. IM organizations have appropriate mechanisms and procedures in place to implement the monitoring and file any complaints or findings in the field.

During the implementation of PE 2, the evaluation team noticed that IM organizations often confront the following three major challenges: 1. Only short-term funding available; 2. Limited information from MoEF; and 3. Limited capacity and human resources at the local level.

IM organizations are currently only supported by short-term donor funding. The current funding for their activities will end in late 2020. To address the situation, the Independent Forest Monitoring Fund (IFM-Fund) was established in 2017. The function of IFM-Fund is to develop and implement a sustainable funding strategy as well as to distribute small grants for grassroots IM organizations. PE 2 team notes that long term funding options for IM organizations have been discussed, but more work and progress are needed in this area.

IM organization recognized that there are knowledge and capacity gaps among its members in understanding the SVLK systems, monitoring techniques, reporting findings, and following up on monitoring results. Focal points (members) at the local levels (provincial and district levels) are less knowledgeable than focal points at the national level. Several trainings have been conducted to reduce the gap. Further capacity building is needed to address this issue.

- ### Public Disclosure

The VPA requires that key forestry-related information is made available to the public either in the public domain or upon request. Information on SVLK/PHPL audits, general forestry and statistical data, log production, processing, and export (type 1) are available and accessible to the public. However, IM organizations conveyed challenges in accessing type 3 information.

IM organizations can obtain forestry-related information from the MoEF through PPID (Information and Documentation Management Officer). However, the process of accessing this information is often time-consuming. IM organizations often require quick access to detailed information (e.g., SIPUHH) to monitor the integrity of the timber supply chain. This situation is still a challenge. IM organizations also encounter difficulties in accessing information from other relevant Ministries, such as the Ministry of Industry, the Ministry of Trade, and the Provincial Government.

The SILK website publishes relevant information as defined in the VPA Annex IX. However, there is a need to clarify and agree on a formal procedure to acquire forestry-related information from MoEF that may be confidential but is necessary for the effective performance of IM.

- **Impact monitoring**

The VPA includes a joint commitment to monitor the social, economic, and environmental effects of the agreement to see whether a VPA is having the desired outcomes. MoEF is currently conducting the assessment of the VPA impact to understand the outcomes of its implementation and mitigate possible adverse impacts, in accordance with the mandate outlined in Article 12 of the VPA agreement.

The first impact monitoring on the implementation of the VPA in Indonesia was conducted in 2017 by a consortium based in Jogjakarta. The first impact monitoring identified the necessity of integrating supply chain control from the upstream businesses (which are under the MoEF) to the downstream businesses (which are under the Ministry of Industry). It recommended connectivity between the existing monitoring systems and maintain/improve the institutional capacity of the stakeholders.

In mid-2019, MoEF's concluded a tender for the second round of the VPA Impact Monitoring, which was awarded to PT Hatfield Indonesia. FAO-EU FLEGT Programme funds the work via a Direct Assistance (DA) grant. The kick-off of the project and a public consultation took place in August and September 2019.

Recommendations	Priority
<ul style="list-style-type: none"> <li>• [#R17] IM organizations, led by Independent Forest Monitoring Fund (IFM Fund), to develop and propose a clear strategy for sustainable funding.</li> </ul>	Medium
<ul style="list-style-type: none"> <li>• [#R18] MoEF to define layered access to different information systems (SILK, SIPUHH, SIRPBB) for IM organizations.</li> </ul>	Medium
<ul style="list-style-type: none"> <li>• [#R19] MoEF to formulate guidelines for IM organizations to request information (including for commercially confidential information in the public domain). The guidelines should also include an indicative timetable for delivery.</li> </ul>	Medium

# Implementation of PE 1 recommendations

The First Periodic Evaluation (PE 1) produced twenty recommendations to improve the implementation of SVLK in Indonesia. The recommendations addressed issues relating to the supply chain control, SVLK certification, independent monitoring, law enforcement, FLEGT licensing, and public disclosure of information.

Indonesia made good progress and was able to complete corrective actions on 11 out of the 20 PE 1 recommendations. The progress includes the following:

- MoEF invested in multiple training opportunities, capacity building events, and offered subsidies to community forests and private forest owners to help them comply with supply chain-related regulations. (R#3)
- MoEF conducted consultations with provincial authorities on the guidelines for the TPK Antara (log landing) and TPT-KB. There is sufficient clarity on these regulations and based on provincial authorities' assessment and monitoring, TPT Antara/TPT-KB are considered as operating well. (R#4)
- MoEF invested in multiple training opportunities, capacity building events, and also provided subsidies (IDR 20 billion) to support the adoption of SVLK certification by different types of operators. (R#7)
- MoEF reviewed its procedures for recognition of accredited CABs and held close consultations on this matter with KAN. MoEF procedures have been clarified and aligned with KAN. (R#9)
- MoEF conducted intensive consultation with CABs and provincial forestry agencies in key timber-producing areas to ensure effective communication and regular meetings between CABs and provincial forestry bodies. (R#10)
- Following consultations with MoEF, all CABs are now online and have sufficient storage capacity to upload all relevant documents on their websites. (R#11)
- MoEF, CABs, KAN have had consultations to ensure that CABs respond to IM complaints promptly. CABs react to such cases within 2 weeks, as required. (R#12)
- MoEF and KAN assessed the effectiveness of field audit procedures and audits. Some CABs were suspended concerning non-compliance cases detected by IM, but the procedures for audits are deemed sufficient. (R#13)
- It is no longer required that all IM organizations register with the MoEF for independent monitoring work. All CSOs can engage in this activity. (R#14)
- IMs have established a consultative process for closer coordination under the Independent Forest Monitoring Fund (IFM Fund). (R#15)
- MoEF (PHPL, GAKKUM) has intensified internal coordination and consult more often with provincial forest agencies for timely investigations of suspected non-compliance cases. (R#18)

There are 9 recommendations on which progress has been made as well, but due to the scope or complexity of the issues involved, the work is still ongoing. The recommendations include the following:

- MoEF has taken steps to prevent the timber from sources that have lost SVLK certification status from entering the supply chain. The actions involve manual cross-checks between the Certification section (PPHH) and the SIPUHH section (Section in the Directorate General of PHPL/SFM of MoEF). The automated function of this kind is in the process (R#1).

- MoEF held consultations with CABs and the Provincial Forest Agencies to improve the quality and frequency of spot checks for DKPs. MoEF and partner organizations (MFP4, CSOs) are working on the capacity building among farmer groups and SMEs on DKP implementation. The process is ongoing. (R#2)
- MoEF held consultations with CABs and Provincial Forest Agencies to ensure that all TPTs and small-scale industries get the support they needed for input-output reporting. Most TPTs and small industries can get assistance from provincial GANIS, but further improvement is needed. (Re#5)
- MoEF has made significant strides to review and improve the effectiveness of post-border timber import controls. Multiple stakeholder consultations have been held, a Working Group (WG) on Timber Import has been established, and regulatory revisions to strengthen the system are ongoing. (R#6)
- MOEF continues to work towards full operationality of the Integrated Forest Management Information System (SIPHPL). The system is currently in the final stages of testing. (R#8)
- IM organizations have faced some delays in developing options for sustainable funding. With assistance from MFP4, they are developing options and strategies to implement them. (R#16)
- MoEF and CABs have made progress with providing timely updates to IM organizations about the follow up on reported cases of non-compliance. The information is shared, among others, via a dedicated platform within SILK. However, updates are not always timely, and further improvement is needed. (R#17)
- MoEF/LIU has implemented mini action plans developed to address the FLEGT licensing issues. There has been a significant improvement in the performance of the licensing function. However, some cases still occur, and therefore further improvement is needed. (R#19)
- MoEF strives to make timely decisions on applications for access to detailed forestry data relating to the SVLK and timber supply chain from IM organizations. This is done on a case by case basis and can be time-consuming. (R#20)

## Conclusion

Overall, PE 2 concludes that SVLK functions as intended and described in the Indonesia-EU VPA. PE 2 team examined the measures of control performed from the point of production in the forest to the point of export of timber products. Significant improvements have been made in the implementation of TLAS/SVLK since last years' PE 1, as well in control and oversight. The majority of issues identified for improvement in PE 1 have been addressed, and work on some issues is ongoing.

PE 2 has witnessed the active involvement of relevant stakeholders in applying and improving the implementation of SVLK. MoEF performs its role in overseeing the implementation of SVLK, the development of data management systems, and seeking innovations to improve the efficiency and credibility of supply chain control. MoEF also made improvements in the area of transparency and disclosure of information by establishing an on-line portal in SILK dedicated to reporting and monitoring non-compliance. The CABs and LAs have further developed their capacities in implementing audits and verifications. They publish all relevant documentation and are responsive to reported cases of non-compliance. The forestry operators (concessionaries, depots, and industries) utilize skilled technical officers and provide the expertise needed to comply with SVLK requirements. IM organizations have appropriate mechanisms, skills, and procedures in place to effectively conduct forest monitoring, though they still face challenges with long term financial support and timely access to forestry data.

To build on the progress achieved so far and further strengthen the credibility of SVLK, PE 2 assessment suggests that sustained focus on a number of key issues is needed. These are as follows:

- The current online systems for supply chain control (SIPUHH and SIRPBBI) do not automatically detect uncertified companies or companies with lapsed certification. While checks of the certification status are currently implemented manually, both systems should detect lapsed certification automatically and issue timber transport documents only to companies with valid certifications.
- Registered depots for processed timber and secondary industries are monitored by CABs. However, they are not effectively covered by the MoEF online systems. To strengthen the supply chain control, MoEF should assess possibilities to integrate TPT-KOs and secondary industry in the systems.
- The implementation of the legality verification under the DKP system needs to be improved. The frequency and quality of spot checks by MoF and provincial forestry authorities need improvement.
- MoEF should consider assessing the feasibility of barcoding for commercial size logs in temporary forest use permits (HTI LC, IPK, and IPPKH) to strengthen the control of these elements of the supply chain.
- MoEF should continue the on-going work on strengthening the due diligence for timber import and revising relevant regulations to meet the criteria in Annex V of the VPA.
- MoEF should continue the on-going testing of SIPHPL to assess the feasibility of its operationalization soon.
- MoEF should build on the significant progress achieved so far in addressing FLEGT licensing issues and should further improve (additional) implementation and communication processes. Key among these is the implementation of e-licensing.
- Building on progress with non-compliance online portal, MoEF should more clearly define the access to information in various internal systems (SILK, SIPUHH, SIRPBBI) that may be necessary for IM organizations to conduct effective monitoring.

Since the implementation of PE 1, significant progress has been made in improving SVLK. It is important to build on the improvement that has been achieved and continue the ongoing work to strengthen the reliability and credibility of SVLK further.