Andrew Steer Transcript

It's hard to imagine a more important conference on a more important subject at a more important time. And I commend you, Frances, and all the organizers of this conference. This is one of the conferences that could be truly influential. And isn't it appropriate – CIFOR, I don't know if you are the only global multilateral institution hosted in Indonesia but you are certainly one of the very few and how appropriate it is that the world's world leading research and analytical institution on forests should be based here in Indonesia. Not just because Indonesia has one of the three great tropical forest systems in the world but because Indonesia is a global leader on forests.

Remember four years ago in Bali – it was there that forests were thrust in to the global climate change debate. A lot of people said, "No! It's too complicated!" Well, very hard work by people in this room, in this country and in other countries too, has demonstrated over the last four years that no, it's not too complicated. Yes, it's very difficult but yes, (forests) must be included in the climate change debate.

Bali was extraordinarily influential and your President's statement in Pittsburgh and his statement here today that Indonesia will be a leader in dealing with forests is one of the great bright spots in the world today. Let me also say that the Bali COP in 2007 was the first time that it had been decided to bring the world's economic and finance ministers to the table. So in Bali, for the first time, finance ministers gathered together, brought together by the Indonesian minister of finance. Every six months since then we have convened 40-60 finance ministers – and we did so four days ago in Washington – last Friday. At part of our annual meeting, we regularly meet now and we call it the Bali Dialogue and we bring together the finance ministers of the world to discuss climate change and the issues that we are talking about today.

Now, very briefly. I have the worst slot of the day. You're all hungry and you have to listen to me and if I go on too long, you just have to wait for your lunch. So I'm going to be brief. I am going to address – or at least explore – five questions very briefly. First, how does all of this relate to the global picture with regard to current negotiations on carbon markets and so on. Second, how does all this relate to the national economy in Indonesia? And in particular, can you grow at 7 percent and also lower emissions by 26 or 41 percent? Third, how does all of this fit within the local economy, whether it's central Kalimantan or anywhere else? And fourth, why is it all so difficult? And then finally, what can we all do to help?

First the global context. President Yudhoyono told us this morning that there are lots of reasons to protect the forests, whether it's food, fibre, energy security or biodiversity or whether it's carbon sequestration. Let me talk about the latter. Last December in Cancun, the world decided to limit global warming to two degrees. That was good. Ninety countries have now committed to address carbon issues by 2020. The problem is that if you add all those up and you go to the very optimistic end, we're not going to

have an increase in temperatures of two degrees. We're going to have an increase of about four degrees. The world is not on the right path. The Kyoto Protocol ends at the end of next year. Carbon markets therefore are currently in disarray. Carbon offset markets have helped the developing world quite a lot in the last eight years. $27 billion has flowed to developing countries and that $27 billion is generating about $125 billion of green investments. So that's very good. It's good news for those who want to do innovative things. The problem is there is a great deal of uncertainty. So carbon offset markets have shrunk and last year only $1.5 billion flowed through carbon-offset markets to developing countries. So some people are saying, "Oh, the glory days are gone." But actually, what's going to happen four or five years from now – perhaps even ten - is that the world is going to wake up and they are going to say, "Things are very, very seriously off course." And one of the most important decisions made last year in Cancun was to pick a date – 2015 – when the world will reconsider and will ask itself, "Are we doing enough?" Now, it will be a very easy question to answer. The world is not doing enough. And in 2015, the world will have to make much deeper commitments. And then the world will say, "We want to make those commitments to lower carbon emissions in a cheaper way." And that's where carbon markets come in. Because it costs less than half - often - if you use carbon offset markets. So my prediction is that we will find a very robust carbon market four years from today. We've just done some analysis and we've written a paper for the G-20 finance ministers. If the world decides to do what's necessary to get on a two-degree path, about $100 billion will be flowing each year from rich countries to the developing world through carbon offset markets at a price of $25-50 a ton. Indonesia can capture a significant share of this. But only if we do the homework right now. If we develop the methodologies for monitoring. If we get the governance right. If we create the context of predictability. If we fail, than forests may continue to be relatively excluded from these markets. At the World Bank Group, we do believe that carbon offset markets can be good for development. We think they bring money, they bring technology, they bring ideas and they bring jobs. And that's why we have about 200 people working full time on such markets. That's question number one.

Question number two. How does all this relate to Indonesia's aspirations economically? Can Indonesia achieve 7 percent growth and also do REDD? And the answer is yes. So. Some issues in this whole business are difficult to answer. This is an easy one to answer. Recent drivers of growth do not really include estate crops. Or mining actually. Rather communications, wholesale and retail trade, transport manufacturing, construction, food, beverages and – sadly – tobacco. Those have been the drivers of growth. Forestry and oil palm are relatively small elements of the economy. Forests account for 0.7% of GDP and non-food crops – that's all the estate crops including oil palm – at 2.1% of Indonesia's GDP. If these sectors had not grown at all in 2010, Indonesia's growth would have been 1/20th of one percentage point lower. So instead of being 6.1%, it would have been 6.04%. So, these are very important sectors but they are not the sectors currently driving Indonesia's macroeconomic growth. So it's important just to lay this to rest so that if anybody says, "We simply can't do all of this stuff because we couldn't grow; that's just not the point. The President's goal of 26 percent and 41 percent reduction is

fully consistent with 7 percent growth and all the analysis shows that. That doesn't mean that the oil palm sector, for example, is not important – it is. It generates jobs; it generates income and livelihoods. And it should keep on growing. But it should grow differently. It should grow through intensification. It should grow through using the millions of hectares of underutilized or degraded lands. Currently over eight million hectares of palm oil are under production, three million have been licensed for production but are not currently under cultivation and something like 15 million hectares are unused or degraded lands. Now, if I were to be honest, at the moment it is more expensive to develop oil palm on these underutilized or degraded lands. For one reason, you don't get the revenues from cutting down the trees. Another reason is administratively it's more expensive and costly to get land tenure and there may be issues of transportation. But I tell you things are changing. The demand for certified products is growing rapidly. All kinds of issues. At the moment, if I were to be honest, it doesn't look so profitable. But things are changing. The demand for certified products is growing rapidly. A recent survey of 57 of the largest global companies, which had over 1000 suppliers, most of them showed that they now track regularly supply chain emissions data. So more than half of the leading companies that are purchasing now are actually now measuring the supply chain for its sustainability. And this is increasing hugely. So far it's been largely in the West but that too is changing rapidly. And what's going to happen as we get to the middle of this decade and we realize that we are off course and we have to make bigger, tougher decisions, this will accelerate. And accelerate. And it will be extremely smart for Indonesia to position itself as well as it possibly can, get ahead of the curve, develop the reputation to be the country and the industries of choice, the companies. Get the halo effect just as other countries are doing. We heard in the previous session what Brazil is doing, and other countries Mexico and others are seeking to do this and Indonesia should too.

Question number three. OK, it's pretty clear that at the national level this can be done but what about at the local level? What actually happens – if we do this right – in central Kalimantan? What does it look like? This is a much more difficult question to answer. Some people assume that this wonderful carbon market is going to come in and it's going to drop so much money on these local economies that they can actually relax. They don't need to keep on earning an income, eking out an income as a smallholder farmer. That's partly true. CIFOR and ICRAF have done some remarkably good work that shows if the carbon price is only a dollar a ton then protecting the forests will be more attractive than doing smallholder rubber on peat, for example. Or at $6 a ton, it will be more attractive than doing smallholder rubber on other soils, mineral type soils, or smallholder palm oil on peat. So we have all of these calculations, which are a very, very valuable starting point. We also can show that often the carbon price would have to be very high in order for that alone to justify a change in behaviour. So for some the carbon price would have to be $27 a ton to beat smallholder oil palm on mineral soils. And so on. You could go on with the calculations. Now these are important starting points but it is very, very important to remember that's they are not the only thing that matters. What matters is what are the alternatives livelihoods and sources of income for these

people? The context is extremely important as well. Two months ago, I was in Western Kenya and I met some farmers – this is a project, 40 000 farmers we're working with. And these farmers had done some relatively simple things: inter-cropping, zero tillage, planting trees, mulching. Their yields had increased by 60 percent. Those yields were more resilient to drought and climate change. And every single acre of land was sequestering a ton of carbon. And these farmers are being paid cash for the carbon that's being sequestered in the soil. And the pride of those farmers, who had less than one acre each –less than one-third of a hectare – in explaining the carbon cycle to me, was fantastic. These were very, very poor farmers. They weren't doing anything because of the $20 or $50 extra they got per year for sequestering carbon, but the fact that it happened made them excited and deepened their understanding. And it brought in all kinds of financing from the international community. And that's what we have to think about. So I think the news when we do our homework will be very good. I think there is a vision for central Kalimantan that will show rapid increases in oil palm on degraded lands; that will show a modernizing economy; that will show agricultural growth; that will bring in carbon markets. But we still have some work to do to demonstrate that. And we also have some work to do to show how the funds will flow: precisely how does the money get to the smallholder or the citizen? Indonesia is extremely well equipped in this regard. For many years, Indonesia has been a pioneer at putting money directly down into the community level. The PNPM programme that President Yudhoyono mentioned this morning began life as a small programme with 30 villages in 1998. It's now dispersing into about 85 000 villages around the country. It is now a world famous programme with the mission of injecting money at the local level. That's the kind of instrument that Indonesia could use now to inject economic life as well as education, infrastructure, etc. at the local government level. We need to think about this development strategy because it's whether or not local citizens and the private sector are engaged that will determine whether or not there is a success story.

Question number four: so why is this all so difficult? In a word, it's difficult because…it is difficult. Technically it is difficult stuff. It is socially difficult. It is politically difficult. And we've run into a bit of a problem whereby we sort of stereotype each other and the environmentalists sort of say, "Oh for heaven's sake it's obvious you should be doing this." And the business people, who have been doing business and earning money and creating jobs and building exports in this country, they say, "These guys have no idea what they're talking about." And it's deeply polarizing. This happens in every country. There is a deeply conflictual political and economic tussle that's going on and we shouldn't kid ourselves. It happens in every country and the question is, is there a way of navigating and managing better? Of course you'd expect the business group that's been doing things a certain way and doing it, in their own judgment, well to want to keep going. And of course you'd expect the environmentalists to say, "No, no, no, no, no, you've got to do it differently." This is an entirely legitimate part of the process. And you'll have a government where some ministries will be encouraged to go in this direction and other ministries will say, "No, we have to go in this direction." We're also influenced by the element of risk. What is going to happen in carbon markets? Do we

really understand the science of all this? So in this context we have to be realistic. I am absolutely certain that the overall journey is in the direction toward what this conference is all about: REDD with growth. I do believe that green growth is coming; the simple logic of it suggests that citizens of great countries like Indonesia would demand that this wonderful national and global heritage be sustained. So I'm convinced that's the direction but at the same we have to be very realistic: we are in a healthy platform and we need to diagnose all the different positions.

And that leads us to the final question. What can we all do to help? What won't help is if we all stay in our own groups individually. If the academics are here, if the NGOs are here, if the business community is over here throwing stones and vice-versa; if the donors take a sort of holier than thou attitude. I don't think that is happening in this country. I think this is a healthy process. But we have to keep it in that way. The international community first: we need to be more generous; we need to be patient; we need to be not judgmental; we need to be coherent; we need to simplify our processes; we need to get rid of the spaghetti that is the financing system in forestry. We need to have more one-stop-shops. We need to work together – the different donors – in a coherent way. We shouldn't be doing things that are not consistent with what the President has suggested. From the World Bank's standpoint, I hope we are honouring that. I hope that our work in the forestry partnership fund, the forestry investment programme, our permanent policy operations - I hope that they are all moving in one direction. But we have to keep our eye on that. The government needs to be clear. I think we could not have heard a clearer statement than this morning from President Yudhoyono. The government needs to be joined up. Every government in the world is heterogeneous with different departments pulling in different directions at times but it's terribly important now that the government shows one clear face and a consistent, predictable, long-term policy with regard to the private sector and carbon markets. NGOs need to keep pulling us down to Earth. We spend too much time in Jakarta and not enough time on the front lines where the really difficult decisions need to be made and I think civil society can help us to better understand. The private sector needs to be willing to engage, needs to be willing to sit down, share facts and experiences together. You will be the ones who drive growth. We need an honest dialogue with you. And also the media and the education sectors need to play an extremely important role. It will be the hearts of Indonesians that will drive whether we succeed or fail now and those in turn will be shaped by what's in our media and what our teachers are teaching at school.

Well, let me just close because I can see in your eyes that you are all hungry. The world is watching Indonesia with extraordinary admiration. The foreigners here know that. I'm not sure the Indonesians do. But I really want you to know that. The world looks at Indonesia as a great potential beacon of hope in this field. They love the statements that they heard this morning. They feel if we had more leadership like this, the world would get on to the path we need to get to. But the world is also sitting on the edge of its seat. "Are they going to succeed?" "Oh dear, it doesn't seem to be going so well." You

wouldn’t believe the sleepless nights we’re all having as we watch with great affection and admiration for what you are doing. That’s not to put any pressure on you. Don’t assume it’s only your own citizens that are watching you. If Indonesia succeeds, and I deeply hope that Indonesia will succeed, it will be a massive gift to the world and also it will be a huge gift to the citizens of Indonesia. It’s a great joy for me to be part of this conference and this journey we are on together. There will be ups and downs. There will be disappointments and failures along the way but I believe the direction of change is the right one and it’s a privilege to work with you.

Thank you very much.