GOVERNANCE REFORM IN INDONESIA FORESTRY

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Themes of Discussion

1. General Situation of Forest Resources
2. Pathway of Forestry Governance Reform
3. Way Forward
4. Lessons that may be Learned
Forest classification
### Forest classification

<table>
<thead>
<tr>
<th>Forest cover</th>
<th>Forested</th>
<th>Not Forested</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17.543</td>
<td>4,453</td>
<td>21,996</td>
</tr>
<tr>
<td></td>
<td>24,091</td>
<td>5,827</td>
<td>29,918</td>
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<tr>
<td></td>
<td>21,869</td>
<td>5,818</td>
<td>27,687</td>
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<tr>
<td></td>
<td>17,311</td>
<td>11,587</td>
<td>28,897</td>
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<tr>
<td></td>
<td>80,813</td>
<td>27,684</td>
<td>108,497</td>
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<td>7,510</td>
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<td>88,323</td>
<td>35,699</td>
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<table>
<thead>
<tr>
<th>Forest areas</th>
<th>Permanent Forest Areas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conserv ation</td>
<td>Protection</td>
</tr>
<tr>
<td>Forested</td>
<td>17.543</td>
<td>24,091</td>
</tr>
<tr>
<td>Not Forested</td>
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<td>Total</td>
<td>21,996</td>
<td>29,918</td>
</tr>
</tbody>
</table>
30% of forests have been deforested
Deforestation rate

Juta ha/tahun


Seluruh Indonesia
Di dalam Kawasan Hutan
Di luar Kawasan Hutan (APL)
PATHWAYS OF FORESTRY GOVERNANCE REFORM
Forestry performance

1970

1999

2007

2014

98: Fall of Suharto Crisis, Press freedom
99: New forest law, decentralisation law

KPK corruption eradication commission started operating end of 2003

Presidential CC commitment 26/41 %.
Indonesian CC Roadmap Law on RAN-GRK 61/2011 KPH development

RAD-GRK. First KPHs Operational 2014
2014: Jokowi President.

Forest Exploitation
To boost economic development

To boost economic development
1970-1999

- Forestry was defined as “activity” – to utilise resources (support national economic development)
- Forest licensing on production forests predominated policies
1999 – 2007
“After Fall of Suharto”

• New Forestry Laws were issued in 1999
• Forestry was defined as “systems of governance” that cover forest, forest area, and forest products
• Forest governance:
  – Securing forest area with sufficient size and proportional distribution
  – Optimising the multiple functions of forests (production, protection, conservation) to achieve environmental, social, and economic benefits in sustainable basis
  – Improve carrying capacity of watersheds
  – Enhancing capacity and empowerment of communities
  – Ensuring distribution of benefits equitably and sustainably
• **Transitional governance** – new laws in forestry in the transitional politics – autonomous of local government

• **Illegal practices were rampant** – FLEG Asia → timber-based economy was hit heavily

• **Soft landing in timber production to 30% of previous level of national allowable cut** – particularly from natural forests (shares of plantation increase)
2007-2015
New era of Forestry Governance: Establishment of FMU (KPH)
National Construction

• All forest areas in Indonesia are to be divided up into KPH
• FMU is a transformation of central governance into site level forest governance – contribution of forestry to settle national reformed governance
• KPH transforms various dimension in forestry governance:
  – From centralised control to diffusion of accountable management and economic operation of forestry at site level → the true decentralisation of forestry
KPH - Driving sustainable economic development

• Securing investment and business environment
• Providing space for creative products
• Generating many more local economic activities
• Generating economic clusters
• Enforcement of professionals to operate KPH - Generating more jobs
  – 80,000 professional foresters
  – 800,000 field workers
WAY FORWARD
FMU as the building block of forestry and landscape development

• The state and governance presence at site level – KPH Management plan as legal guidelines in forestry governance on the ground – local actors are engaged

• Genuine unit of sustainability of forest management (watershed, biodiversity, local economy, community co-management)

• The end of forest concessionaires – FMU leads the sustainable forestry businesses

• FMU as the accountable unit for REDD+ MRV
KPH - accountable forestry units at Southeast Sulawesi
Special aspect: community venturing - more than participation

• Self-managed enterprising by community
• In the FMU framework, community finds space to generate and manage forestry-based businesses in joint venture with FMU
Case: Community venturing on Bamboo plantation

• Production system
  – Hybrid bamboo is planted along the border between forests and villages
  – Planting space is 10 x 10 sqm
    – to let other seasonal crops grow before year 4 – when bamboo is ready to be harvested
  – 3800 families are accommodated in 10,000 ha of bamboo plantation
## Financial Performance of Bamboo

<table>
<thead>
<tr>
<th>YR</th>
<th>ACTIVITY</th>
<th>Costs</th>
<th>Revenues</th>
<th>B-C</th>
<th>NPV18</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>per clump</td>
<td>cumulative</td>
<td>per ha</td>
<td>cumulative</td>
</tr>
<tr>
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<td>3000000</td>
<td>0</td>
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<td>2500000</td>
<td>5500000</td>
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<td>2500000</td>
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<td>6</td>
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<td>2500000</td>
<td>25500000</td>
<td>40000</td>
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</tbody>
</table>

NPV (18%): 1426/ha = 14,260,000/10,000 ha
PBP : year 6
IRR: 500%
ROI: 26%
Enterprising scheme – real joint venture

FMU SHARE

- Provision of forest
  Land legally
- Provision capital/investment
- Provision of infrastructures
- Provision of management and marketing services

COMMUNITY SHARE

- Provision manpower
- Provision of forest patrolling
- Plantation management
- Bamboo harvesting
- Primary bamboo processing

Community Bamboo Enterprise
Enterprise profit sharing

• Community:
  – USD 50,000/ha in terms of wages
  – 20% profit in year 5 and 6 (USD 0.5 – 1 M every 10000 ha)
  – 70% profit starting year 7 (USD 7 - 10 M/10000 ha)

• FMU:
  – 70% profit in year 5 and 6 – pays back the loan
  – 30% profit starting year 7 (USD 2 – 4 M/10000 ha)

• Bank: enjoy ROI 26% (Central Bank rate: 7.5%, commercial Bank rate: 12%)
Development of SFM happens if and only if KPH delivers improvement of quality of life for the communities.
Materialisation of networked governance

• In managing the forests, FMU has to deal with Ministry of Forestry and forestry office of local government
• In dealing with illegal deforestation → KPK (corruption eradication committee)
• In dealing with processing facilities, FMU received services from Ministry of Industry and trade
• In dealing with community empowerment, local government delivers services in terms of community institution improvement and local economy infrastructures
• Forestry schools supplies FMU with professionals
Impacts

- Watershed performance is well maintained
- Livelihood increases very significantly
- Tenure rights? – more importantly rights to manage the bamboo business
- Enterprising requires professionals – capacity building to community
- Planned deforestation is fully controlled by FMU Management Plan
- Un-planned deforestation and degradation are minimised – community guards the forests
- Regular audit to FMU – MRV is exercised
Lessons that may be learned
1. The role of state is vital. Laws and government → good Laws, effective law enforcement
2. Delivery of governance services at the local/site level
3. FMU is given full mandate to represent government in managing the forests – direct interactions with communities and private investors
4. FMU delivers REDD, co-benefits, not the way around
5. Community is partner in managing forests – not just being engaged or participating in forest activities
6. The need for good networked governance
Thank you