

# GOVERNANCE REFORM IN INDONESIA FORESTRY

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June 2015

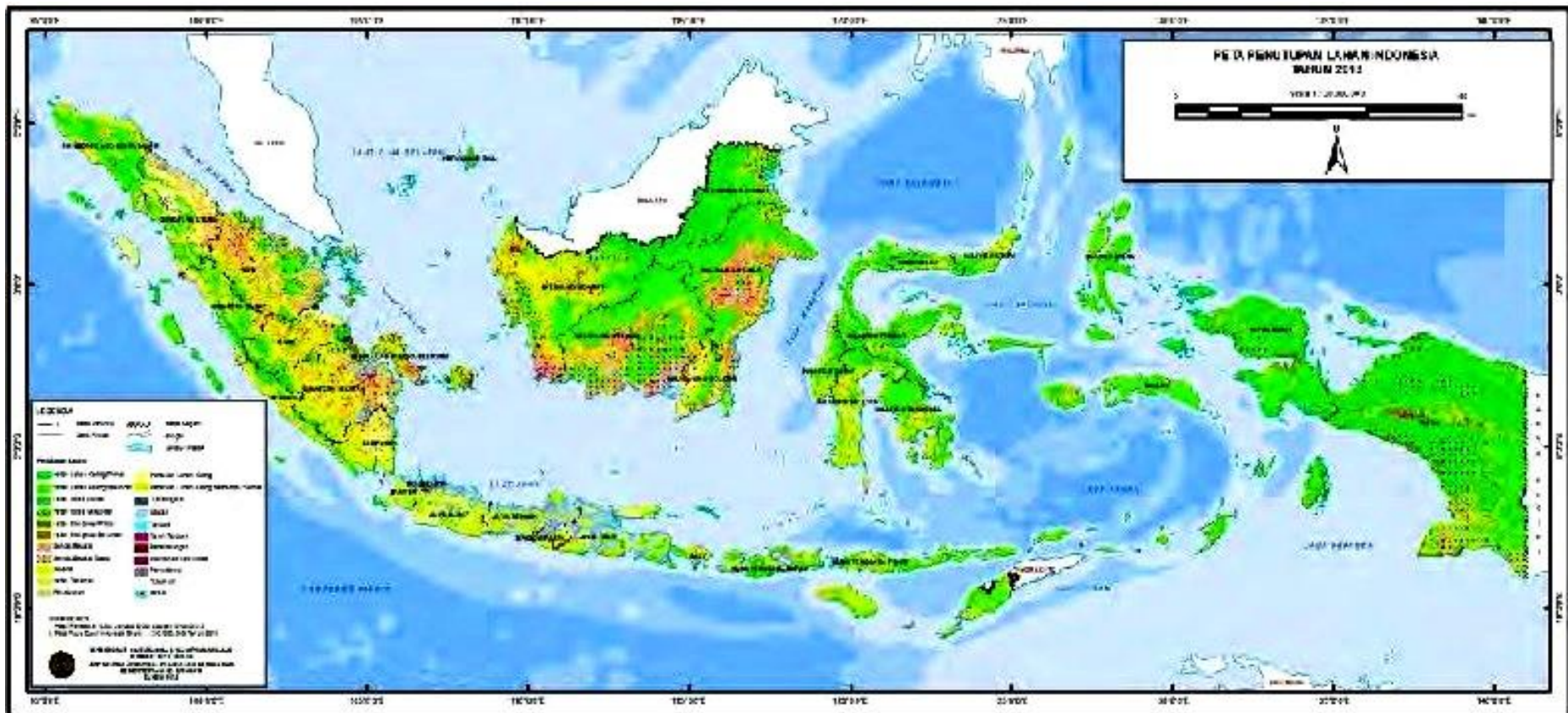
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# Themes of Discussion

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

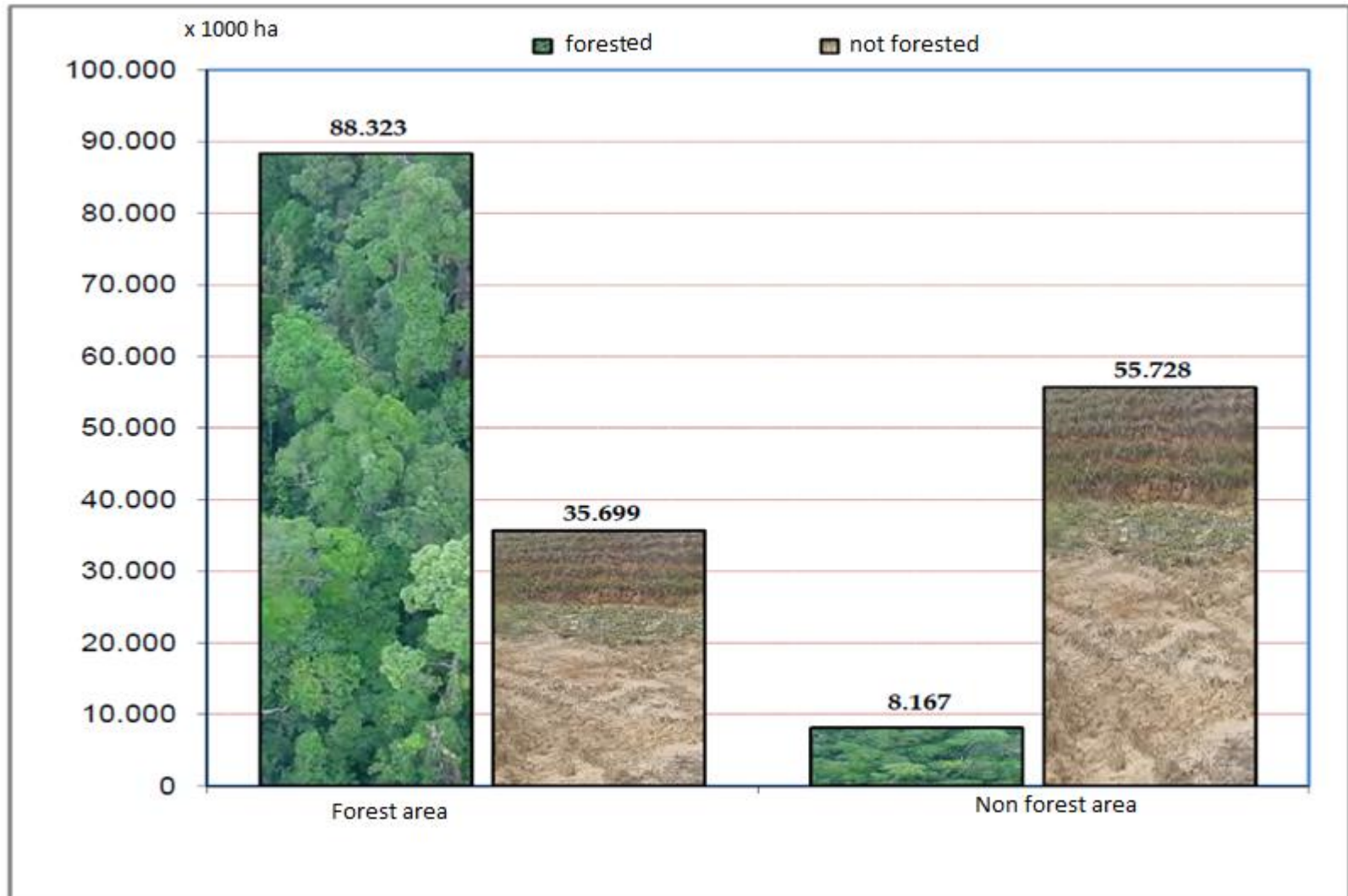
# Forest classification



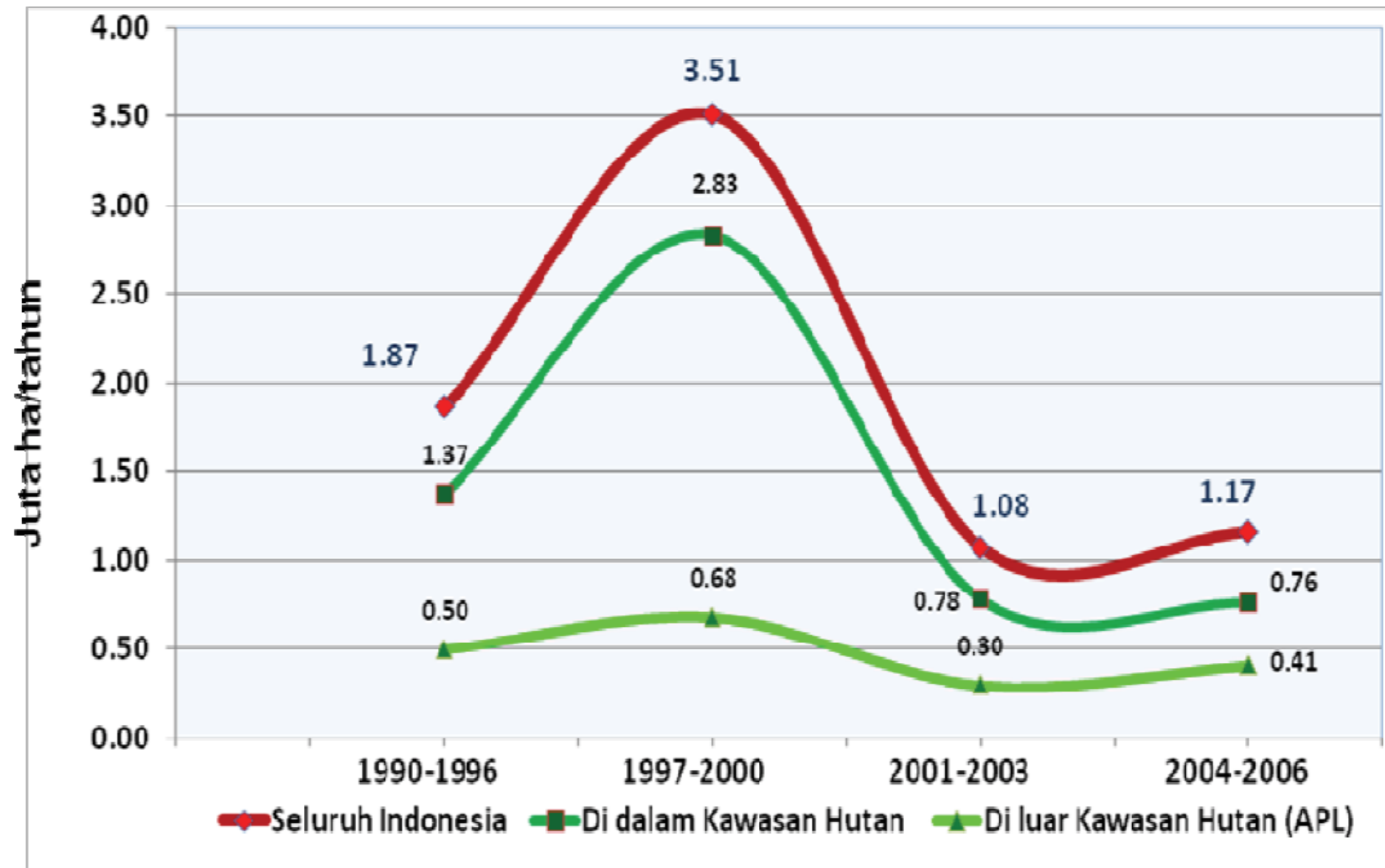
# Forest classification

Forest cover	Forest areas						
	Permanent Forest Areas						
	Conservation	Protection	Limited production	production	Total	Convertible	Total
Forested	17,543	24,091	21,869	17,311	80,813	7,510	88,323
Not Forested	4,453	5,827	5,818	11,587	27,684	8,015	35,699
Total	21,996	29,918	27,687	28,897	108,497	15,525	124,023

# 30% of forests have been deforested

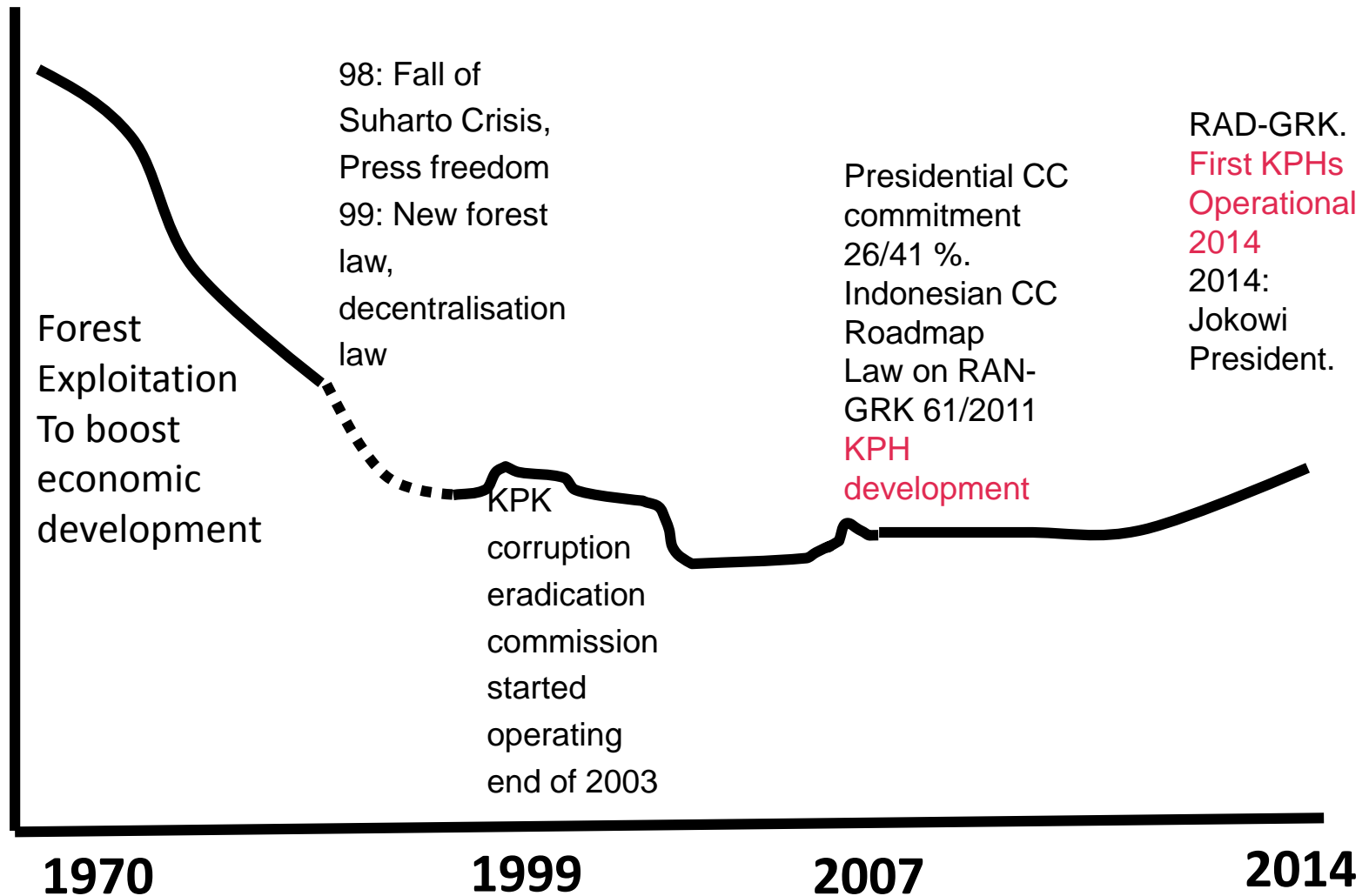


# Deforestation rate



# PATHWAYS OF FORESTRY GOVERNANCE REFORM

## Forestry performance





# 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



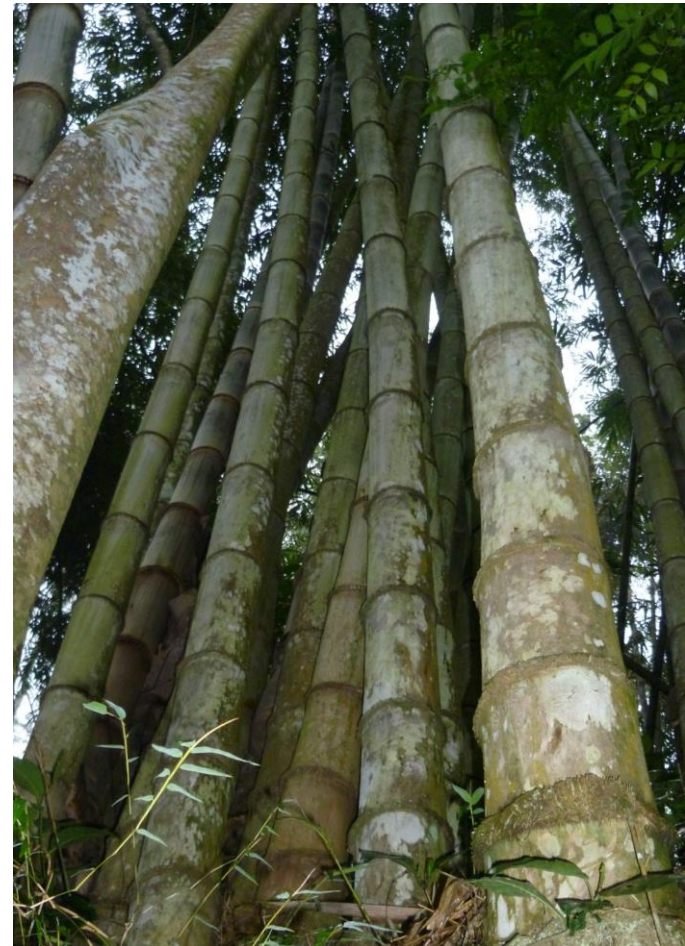
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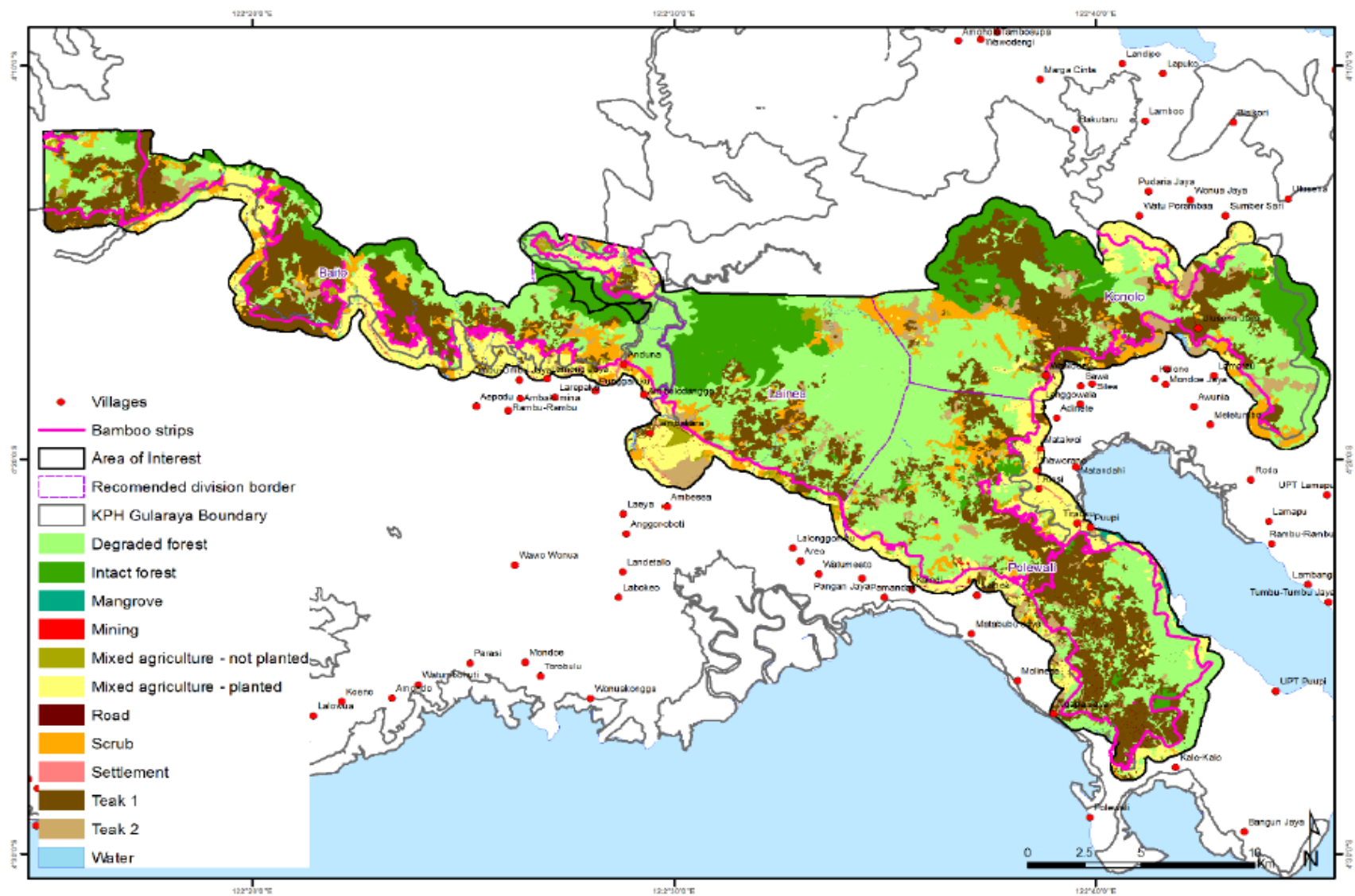
# Special aspect: community venturing - more than participation

- 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

YR	ACTIVITY	Costs			Revenues			B-C	NPV18
		per clump	per ha	cummulative	clump	per ha	Cummulative		
1	planting	250000	0	3000000	0	0	0	-3000000	-2154553,289
2	maintain	25000	2500000	5500000	0	0	0	-5500000	-3347469,8
3	maintain	25000	2500000	8000000	0	0	0	-8000000	-4126311,001
4	cut 1	10000	2500000	10500000	40000	8000000	8000000	-2500000	-1092773,041
5	cut 2	20000	2500000	13000000	40000	12000000	20000000	7000000	2593020,774
6	cut 3	30000	2500000	15500000	40000	16000000	36000000	20500000	6435463,181
7	cut 3	40000	2500000	18000000	40000	20000000	56000000	38000000	10109450,22
8	cut 4	50000	2500000	20500000	40000	24000000	80000000	59500000	13414636,22
9	cut 5	60000	2500000	23000000	40000	28000000	1,08E+08	85000000	16240479,69
								11450000	
10	Cut 6	70000	2500000	25500000	40000	32000000	1,4E+08	0	18539730,05

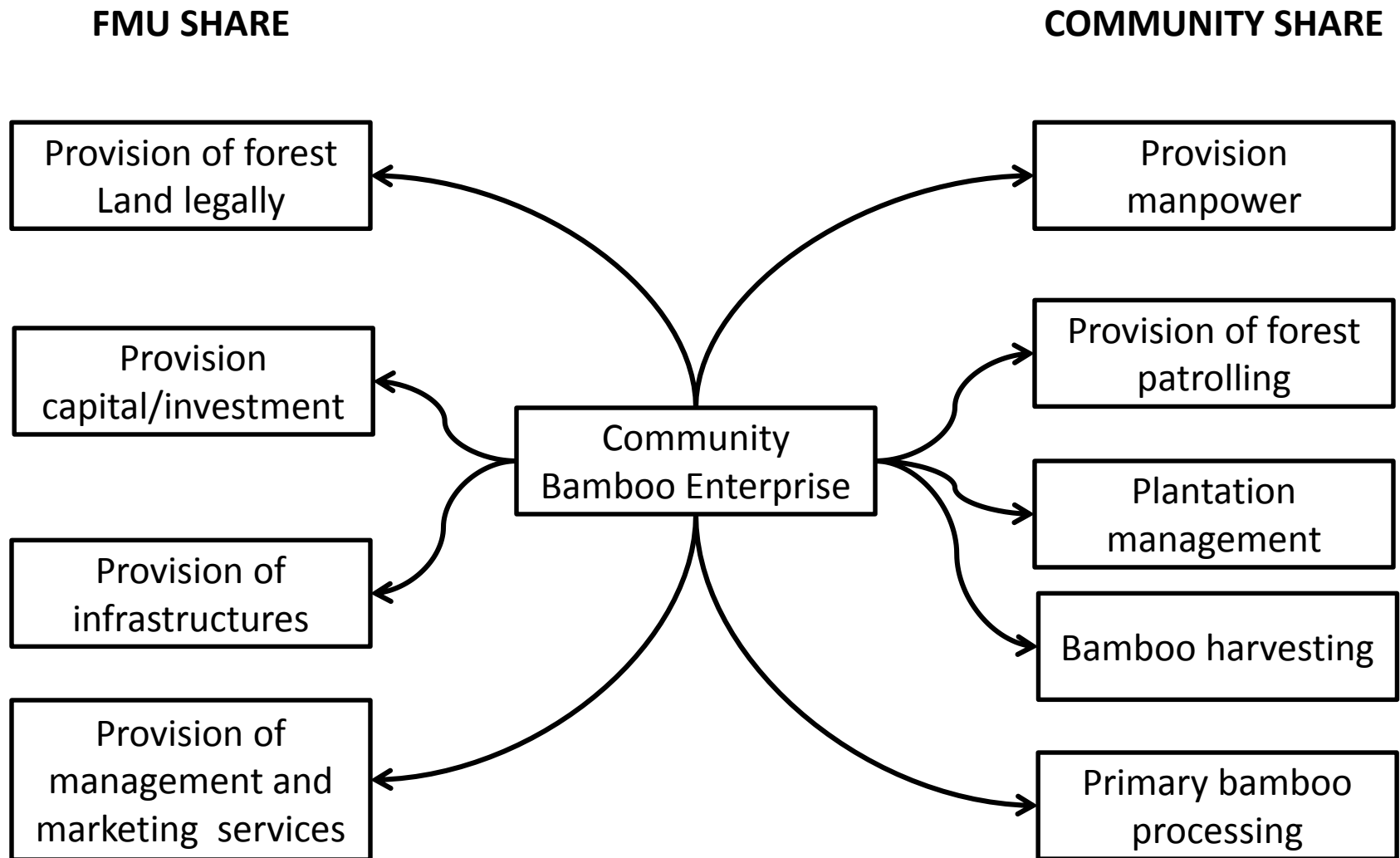
**NPV (18%): 1426/ha =14,260,000/10,000 ha**

**PBP : year 6**

**IRR: 500%**

**ROI: 26%**

# Enterprising scheme – real joint venture





# 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



**FPAE**



**Thank you**

