Decentralization of Forest Administration in Indonesia

Implications for Forest Sustainability, Economic Development and Community Livelihoods

Edited by
Christopher Barr
Ida Aju Pradnja Resosudarmo
Ahmad Dermawan
John McCarthy

with
Moira Moeliono and Bambang Setiono

Decentralization of Forest Administration in Indonesia

Implications for Forest Sustainability, Economic Development and Community Livelihoods

Edited by
Christopher Barr
Ida Aju Pradnja Resosudarmo
Ahmad Dermawan
John McCarthy

with
Moira Moeliono and Bambang Setiono

National Library of Indonesia Cataloging-in-Publication Data

Decentralization of forest administration in Indonesia: Implications for forest sustainability, economic development and community livelihoods/ed. by Christopher Barr, Ida Aju Pradnja Resosudarmo, Ahmad Dermawan, John McCarthy with Moira Moeliono and Bambang Setiono. Bogor, Indonesia: Center for International Forestry Research (CIFOR), 2006.

178p
ISBN 979-24-4649-4

CABI thesaurus: 1. decentralization 2. forestry 3. administration 4. central government 5. local government 6. sustainability 7. economic development 8. livelihoods 9. rural communities 10. Indonesia I. Barr, C. et al. (ed.)

Front Cover photo: Christian Cossalter
Design & Layout by Ahmad Yusuf

Center for International Forestry Research
Mailling address: P.O. Box 6596 JKPWB, Jakarta 10065, Indonesia
Office address: Jl. Cifor, Situ Gede, Sindang Barang, Bogor Barat 16680, Indonesia
Tel.: +62 (251) 622622; Fax +62 (251) 622100
E-mail: cifor@cgiar.org
Web site: http://www.cifor.cgiar.org

Contents

List of Editors

Christopher Barr is a Policy Scientist in the Forests and Governance Program, at the Center for International Forestry Research (CIFOR), located in Bogor, Indonesia.

Ida Aju Pradnja Resosudarmo is a PhD Scholar in the School of Resources, Environment, and Society, at the Australian National University.

Ahmad Dermawan is a Research Assistant in the Forests and Governance Program, CIFOR.

John McCarthy is a Senior Lecturer in the Environmental Management and Development Program, Crawford School of Economics and Government, at the Australian National University.

Moira Moeliono is a Social Scientist in the Forests and Governance Program, CIFOR.

Bambang Setiono is a Financial Analyst in the Forests and Governance Program, CIFOR.

Preface

Indonesia is currently entering a new era of governance. After more than three decades of being under a highly centralized system, the central government has issued several important pieces of legislation aimed at transferring authority to the provincial and district governments, and at allowing resource-rich regions to retain a larger share of the fiscal revenues generated within their jurisdictions. The foundations for decentralizing Indonesia's highly centralized governance system were laid out in Law No. 22/1999 on Regional Governance and Law No. 25/1999 on Fiscal Balancing between the Central and Regional Governments, both of which were issued in May 1999.

Since the late 1990s, the Center for International Forestry Research (CIFOR) has realized the importance of decentralization issues as they relate to forestry in Indonesia. Several research projects carried out since 1997 have shown the increasing role of regional government in decision-making regarding forests. Based on these observations, CIFOR decided to carry out specific studies on decentralization in Indonesia.

The first wave of research was carried out in 2000 under the topic *"Decentralization of policy making and management affecting the forests of Indonesia"*. The research was undertaken in nine districts in four provinces---Riau, West Kalimantan, Central Kalimantan and East Kalimantan; and was mainly focused on documenting the changes during the transition period before decentralization was formally implemented in Indonesia. Since 2002, additional research has been carried out under the theme, *"Can decentralization work for forests and the poor?"*, which applied policy action research intended to help inform policy decision making. In addition to the abovementioned provinces, the research was also carried out in South Sulawesi, Jambi and Papua. CIFOR research has involved working with multi-stakeholder networks in gathering and sharing detailed social, legal, economic and ecological analyses of the impacts of decentralization on forestry and the poor.

Each of the chapters in this book is structured to focus on processes that have occurred at the district and, to a lesser extent, the provincial levels. In the meantime, more general information on the history of forest administration and forestry sector development in Indonesia is provided, as well as significant national policy and legal-regulatory reforms associated with decentralization. This book attempts to describe in general what has been taking place in Indonesia since 1999, based mainly on case studies developed by CIFOR and its partners over the last seven years. The book highlights the historical background preceding formal decentralization in Indonesia as well as discussing key issues in which decentralization delivers impacts on forests and providing some lessons learned.

Decentralization is a dynamic process, in which actors at each level of government interact and find the appropriate balance among the authorities responsible for forests. We expect that the book could be part of this process, contributing to a better understanding of the dynamics of how decision-making affects forests and forest-dependent people.

Acknowledgements

This study is based on research that was funded by the Australian Center for International Agricultural Development (ACIAR) and by the United Kingdom's Department for International Development (DFID). The editors gratefully acknowledge this support. It is noted, however, that the information and analysis presented in this study do not represent an official position held by ACIAR or DFID.

The editors also extend their sincere gratitude to the many government agencies at the central, provincial, district, and village levels within Indonesia that have assisted CIFOR and its partners in conducting the research summarized in this study. Special thanks are extended to the Ministry of Forestry, where numerous individuals have graciously shared their time and made information available. In addition, the editors are grateful to those individuals and agencies (who are too numerous to list individually) who have provided assistance at the Ministry of Home Affairs; Ministry of Environment; Ministry of Finance, Ministry of Forestry, the Provincial Governments of Riau, Jambi, West Kalimantan, Central Kalimantan, East Kalimantan, South Sulawesi, and Papua; and the District Governments of Indragiri Hulu, Kuantan Singingi, Kampas, Pelalawan, Tanjung Jabung Barat, Kapuas Hulu, Sintang, Ketapang, Kotawaringin Timur, Barito Selatan, Kapuas, Malinau, Bulungan, Berau, Kutai Barat, Luwu Utara, and Manokwari.

The editors would also like to thank CIFOR's decentralization research partners who have collaborated on much of the research that is synthesized in this volume. These include School of Resources, Environment, and Society, the Australian National University (ANU); Environmental Management and Development Program, Crawford School of Economics and Government, ANU; Asia Research Center, Murdoch University; Department of Geographical and Environmental Studies, University of Adelaide; Anne Casson; Lesley Potter (ANU); Simon Badcock; Tony Djogo (RECOFTC); Njau Anau (Bappeda Kabupaten Malinau); I Made Sudana (ProAir); Endriatmo Soetarto and MT Felix Sitorus (Institut Pertanian Bogor);Yusup Napiri; Gusti Z. Anshari, Syarief Ibrahim Alqadrie, Ngusmanto, and Erdi Abidin (Universitas Tanjungpura); Tri Budiarto (Bapedalda Kalimantan Barat); Zulkifli and Afifudin (Dinas Kehutanan Propinsi Kalimantan Barat); Ngakan Putu Oka, Amran Achmad, and Kahar Lahae (Universitas Hasanuddin); Ahmad Tako (Lapal), Max J. Tokede, Widodo, Yosias Gandhi, Christian Imburi, Patriahadi, Jonni Marwa, Martha Ch. Yufuai (Universitas Papua); Sudirman and Nely Herlina (PSHK-ODA), Samsu (Pioner-Bulungan), Dt. Iman Suramenggala (Dinas Kehutanan Kabupaten Bulungan), and Yan Ngau (DPRD Kabupaten Bulungan).

The editors gratefully acknowledge the assistance of numerous colleagues within CIFOR, each of whom has contributed to the completion of this study: David Kaimowitz, Doris Capistrano, Carol Colfer, Moira Moeliono, Bambang Setiono, Sian McGrath, Yurdi Yasmi, Heru Komarudin, Krystof Obidzinski, Lini Wollenberg, Godwin Limberg, Ramses Iwan, Nugroho Adi Utomo, Gideon Suharyanto, Ahmad Yusuf, Ambar Liano, Yunety Tarigan, Dede Wiliam and Yulia Siagian.

The editors sincerely hope that this volume supports a more informed and constructive dialogue about how improved coordination among the central, provincial, and district governments can contribute to improved administration of Indonesia's forests. Any errors of fact, interpretation, or omission are those of the editors and authors alone.

Christopher Barr
Ida Aju Resosudarmo
Ahmad Dermawan
John McCarthy

Bogor, August 15, 2006

Abbreviations

AAC	Annual Allowable Cut
ACIAR	Australian Center for International Agricultural Research
ADEKSI	*Asosiasi DPRD Kota Seluruh Indonesia* Indonesian Association of Municipal Legislatures
APBD	*Anggaran Pendapatan dan Belanja Daerah* Regional Government Budget
APHI	*Asosiasi Pengusaha Hutan Indonesia* Association of Indonesian Forest Concession Holders
APKASI	*Asosiasi Pemerintahan Kabupaten Seluruh Indonesia* Indonesian Association of District Governments
Apkindo	*Asosiasi Panel Kayu Indonesia* Indonesian Wood Panel Producers Association
APL	*Areal Penggunaan Lain* Area for Other Uses
APPSI	*Asosiasi Pemerintahan Propinsi Seluruh Indonesia* Indonesian Association of Provincial Governments
BAL	Basic Agrarian Law *Undang-undang Pokok-pokok Pertanahan*
Bawasda	*Badan Pengawas Daerah* Regional Monitoring Agency
Bawasprop	*Badan Pengawas Propinsi* Provincial Monitoring Agency
BFL	Basic Forestry Law *Undang-Undang Pokok-pokok Kehutanan*
BPDAS	*Badan Pengelola Daerah Aliran Sungai* Watershed Management Agency
BPHTB	*Bea Perolehan Hak atas Tanah dan Bangunan* Transfer Fee on Land and Building Rights
BUMD	*Badan Usaha Milik Daerah* Regional Government Enterprises
CDK	*Cabang Dinas Kehutanan* Branch Office of the Provincial Forestry Service
CIFOR	Center for International Forestry Research
DAK	*Dana Alokasi Khusus* Special Allocation Fund
DAU	*Dana Alokasi Umum* General Allocation Fund
DFID	UK Department for International Development
DGF	Directorate General of Forestry *Direktorat Djendral Kehutanan*
Dinas PKT	*Dinas Perhutanan dan Konservasi Tanah* Office for Reforestation and Land Conservation

Ditjen PKPD	*Direktorat Jenderal Perimbangan Keuangan Pusat dan Daerah* Directorate General of Fiscal Balancing between the Central Government and the Regions
DJR	*Dana Jaminan Reboisasi* Forest Guarantee Fund
DPR	*Dewan Perwakilan Rakyat* House of Representatives
DPRD	*Dewan Perwakilan Rakyat Daerah* Provincial/District House of Representatives
DR	*Dana Reboisasi* Reforestation Fund
DTE	Down to Earth
EIA	Environmental Investigation Agency
FAO	Food and Agrcultural Organization of the United Nations
FDC	The Kalimantan Forest Development Cooperation Co., Ltd.
FEER	Far Eastern Economic Review
FOB	Freight on Board
FWI	Forest Watch Indonesia
FY	Fiscal Year
GAM	*Gerakan Aceh Merdeka* Free Aceh Movement
GDP	Gross Domestic Product
GFW	Global Forest Watch
GNP	Gross National Product
Ha	Hectare(s)
HPH	*Hak Pengusahaan Hutan* Right of Forest Exploitation, Commercial Forest Concessions
HPHH	*Hak Pemungutan Hasil Hutan* Forest Product Extraction Permits
HPHHMA	*Hak Pemungutan Hasil Hutan Masyarakat Adat* Customary Community Forest Product Extraction Licenses
HTI	*Hutan Tanaman Industri* Industrial Timber Plantations
IHH	*Iuran Hasil Hutan* Forest Product Royalty (replaced by PSDH)
IHPH	*Iuran Hak Pengusahaan Hutan* HPH License Fee
IHPHA	*Izin Hak Pengelolaan Hutan Adat* Customary Community Forest Management Permits
IHPHTI	*Iuran Hak Pegusahaan Hutan Tanaman Industri* Industrial Timber Plantation License Fee
IMF	International Monetary Fund
INDEF	Institute for Development of Economics and Finance
Inpres	*Instruksi Presiden* Presidential Instruction

IPHHBK	*Izin Pemungutan Hasil Hutan Bukan Kayu* Non-Timber Extraction Permit
IPHHK	*Izin Pemungutan Hasil Hutan Kayu* Timber Extraction Permit
IPJL	*Izin Pemanfaatan Jasa Lingkungan* Environmental Services Utilization Permits
IPK	*Izin Pemanfaatan Kayu* Wood Utilization Permit
IPKR	*Izin Pemungutan Kayu Rakyat* Community Timber Extraction Permits
IPKMA	*Izin Pemungutan Kayu Masyarakat Adat* Customary Community Timber Extraction Permits
IPKTM	*Izin Pemungutan Kayu Tanah Milik* License to Extract Timber from Private Land
IPPK	*Izin Pemungutan dan Pemanfaatan Kayu* Timber Use and Harvest Permit in conversion forest
ITFMP	Indonesia-UK Tropical Forest Management Programme
IUPHHBK	*Izin Usaha Pemanfaatan Hasil Hutan Bukan Kayu* Commercial Non-Timber Forest Products Utilization Permits
IUPHHK	*Izin Usaha Pemanfaatan Hasil Hutan Kayu* Commercial Timber Forest Products Utilization Permits
IUPK	*Izin Usaha Pemanfaatan Kawasan* Commercial Forest Estate Utilization Permit
JATAN	Japan Tropical Forest Action Network
Kanwil	*Kantor Wilayah (Kehutanan)* The central government's regional forestry office at provincial level (abolished in 2001)
Kodam	*Komando Daerah Militer* Regional Military Command
Kopermas	*Koperasi Peran Serta Masyarakat* Participatory Community Cooperatives
KPUD	*Komisi Pemilihan Umum Daerah* Local General Election Committee
LNG	Liquefied Natural Gas
MoF	Ministry of Forestry *Departemen Kehutanan*
MoFEC	Ministry of Forestry and Estate Crops *Departemen Kehutanan dan Perkebunan*
MPI	*Masyarakat Perhutanan Indonesia* Indonesian Forestry Society
MPR	*Majelis Permusyawaratan Rakyat* People's Consultative Assembly
NAD	Nanggroe Aceh Darussalam (formerly Aceh)
NGO	Non-governmental organization
NTFP	Non Timber Forest Product

OPM	*Organisasi Papua Merdeka* Free Papua Organization
PAD	*Pendapatan Asli Daerah* Regionally-generated revenues
PAN	*Partai Amanat Nasional* National Mandate Party
Perda	*Peraturan Daerah* Regional Government Regulation
PBB	*Pajak Bumi dan Bangunan* Land and Building Tax
PDBI	*Pusat Data Business Indonesia* Center for Indonesian Business Data
PKI	*Partai Komunis Indonesia* Indonesian Communist Party
PMDH	*Pembangunan Masyarakat Desa Hutan* Forest Village Community Development
PP	*Peraturan Pemerintah* Government Regulation
PPN	*Pajak Pertambahan Nilai* Value Added Tax
PSDH	*Provisi Sumber Daya Hutan* Forest Resource Rent Provision
PSHK-ODA	*Pusat Studi Hukum dan Kebijakan Otonomi Daerah* Center for Studies on Regional Autonomy Law and Policy
RECOFTC	Regional Community Forestry Training Center
RHL	*Rehabilitasi Hutan dan Lahan* Forest and Land Rehabilitation
RKT	*Rencana Karja Tahunan* Annual Working Plan
RUTR	*Rencana Umum Tata Ruang* General Spatial Plan
RUU	*Rancangan Undang-undang* Draft of Law
SDO	*Subsidi Daerah Otonom* Subsidy for Autonomous Regions
SK	*Surat Keputusan* Decree
SKSHH	*Surat Keterangan Sahnya Hasil Hutan* Official Timber Transport Document
TGHK	*Tata Guna Hutan Kesepakatan* Consensus Forest Land Use Plan
TPI	*Tebang Pilih Indonesia* Indonesian Selective Cutting System
TPTI	*Tebang Pilih Tanam Indonesia* Indonesian Selective Cutting and Planting System

Glossary

Adat, customary or traditional, a rich and complex concept touching on law, tenure, religion, symbolism, practice, and ethnicity
Badan usaha berbadan hukum Corporate bodies
Banjir Kap, Log Flood
Bina Desa, Village Development/Village Guidance, a program should be carried out by timber companies relating to forest communities
Bupati, The Head of District (*Bupatis* in plural)
Cagar alam, Nature reserves
Camat, Head of Sub-District
Daerah Otonom, Autonomous Regions
Dinas Kehutanan, Provincial/District Forestry Service
Hutan Milik, Privately Owned Forest
Hutan Rakyat, Community Forest
Inhutani, A state-owned forest company
Jawatan Kehutanan, Indonesian Forest Service
Kabupaten, District
Kawasan Hutan, Forest Estate
Kotamadya, Municipalities (now called *Kota*)
Nagari, Traditional governance structure in West Sumatera
Otonomi Daerah, Regional Autonomy
Perhutani, A state-owned forestry company
Propinsi, Province
Putera daerah, 'Local son' or 'children of the region', people who was born in one region or has been living in the region for a long time.
Reformasi, Reform
Retribusi, Charges or Fees or Levies
Retribusi Produksi, Production Charges
SK Bupati, Surat Keputusan Bupati, Bupati Decree
Sosialisasi, 'socialization', dissemination of information about a project's objectives, structure and administrative processes to participating communities
Sumbangan Pihak Ketiga, Third Party Contribution
Tanah Adat, Adat Lands
Tim Tujuh, 'Team of Seven', a Team consists of seven people to Revise Draft of Laws on Politics of the Ministry of Home Affairs
Wilayah Adat, Adat Regions
Wilayah Administrasi, Administrative Regions

Chapter 1

Forests and Decentralization in Indonesia: an Overview

Christopher Barr, Ida Aju Resosudarmo, John McCarthy,
and Ahmad Dermawan

1.1 Introduction

Since the collapse of Soeharto's New Order regime in May 1998, Indonesia's national, provincial, and district governments have engaged in an intense struggle over how administrative authority, and the power embedded in it, should be shared. From early 1999 through roughly the middle of 2002, this struggle was characterized by a process of rapid and far-reaching decentralization.

During this period, considerable degrees of administrative and regulatory authority were transferred from the national government in Jakarta to the country's provincial, district (*kabupaten*), and municipal (*kota*) governments. This transfer of authority occurred across broad segments of the nation's economy and sharply redefined the roles and responsibilities of government agencies at each level of the state's administrative apparatus. With the locus of decision-making shifting away from the national government, Indonesia's decentralization process marked a significant departure from the highly-centralized system of governance that had characterized much of the New Order period between1966 and 1998.

In few parts of Indonesia's economy were the initial effects of decentralization felt as dramatically as in the forestry sector. Under the New Order regime, the national government's Ministry of Forestry (MoF) held virtually full authority to administer an area of 143 million hectares (ha) that had been classified as 'Forest Estate' *(Kawasan Hutan)*. Over the space of three decades, the Ministry allocated some 60 million ha of commercial timber concessions to private and state-owned logging companies (Barr 1998). Most of these concessions were distributed to companies with ties to political and military elites at the national level in order to secure their loyalty to the Soeharto regime. The national government also collected most of the fees and royalties that timber concessionaires were required to pay (Brown 2001; Gillis 1988). Provincial and district governments' roles in forest administration were generally limited to implementing decisions made in Jakarta. By extension, regional stakeholders received only a small portion of the very substantial resource rents – amounting to hundreds of millions of dollars each year – that were associated with timber extraction and other forestry sector activities (Devas 1997; Shah and Qureshi 1994. See Chapter 4).

With the introduction of Indonesia's 1999 regional autonomy law, the central government transferred considerable authority, together with lead responsibility for implementing many important governance functions, to district governments in particular. Although the law made little direct reference to the forestry sector *per*

se, the spirit of the law was clearly aimed at devolving wide-ranging administrative powers to district governments, and it certainly did not include forestry in the list of sectors where the central government would continue to hold principal authority. Moreover, the regional autonomy law was introduced just after a series of forestry sector reforms were adopted in late-1998 and early-1999, which gave district governments and local communities a greater role in forest management. Within this context, district officials suddenly found that it was politically feasible to assert far-reaching administrative authority over forest resources located within their jurisdictions, and many moved aggressively to do so.

In most forested regions of Indonesia, district officials initially used their expanded authority to issue large numbers of small-scale timber extraction and forest conversion permits, and to impose new types of fees and royalties on log harvesting (Barr *et al.* 2001; McCarthy 2001a, 2001b). District governments also took steps to carry out their own land-use spatial plans, and to formulate district development strategies which, in many cases, have been based heavily on the exploitation and conversion of forests (Potter and Badcock 2002; Casson 2001a, 2001b). At the same time, forest-dependent communities took advantage of the political space created by Indonesia's regional autonomy law to (re)assert claims over land and forest resources from which they had been displaced or excluded during the New Order period. Collectively, these actions reflected a widespread feeling that after 32 years of centralized control in the forestry sector, the time had now come for district and local actors to get their rightful share of the benefits associated with forest resources.

However much enthusiasm Indonesia's decentralization process has generated among stakeholders at the district and local levels, it has never had the united and unqualified support of the national government. From the beginning of the decentralization process, the MoF has frequently acted as something of an institutional counterweight to the Ministry of Regional Autonomy (and later, the Ministry of Home Affairs), which have held primary responsibility for implementing regional autonomy on behalf of the central government. Since mid-2002, in particular, the MoF has adopted legal-regulatory measures designed explicitly to rescind much of the authority over forest administration that had earlier been transferred to district governments. Ministry officials have generally argued that such steps are necessary to curtail – in their words – the 'excesses' of decentralization, which they claim have had highly damaging effects on the country's forest resources. Whatever the merit of such arguments, their efforts have led to a political pendulum swing back towards Jakarta over the last couple of years in what can only be characterized as a process of *recentralization.*

How this ongoing struggle over administrative authority in the forestry sector will ultimately play out is of considerable significance due to the important role that Indonesia's forests play in supporting rural livelihoods, generating economic revenues, and providing environmental services. With between 90 and 100 million ha currently under forest cover, Indonesia has the world's third largest area of tropical forest, surpassed only by those of Brazil and the Democratic Republic of Congo (GFW/FWI 2002; MoF, cited in Holmes 2001). The forests of Kalimantan and Papua, in particular, have very high levels of floral and faunal endemism and rank among the

most biologically diverse ecosystems on Earth (McKinnon *et al.* 1996). It has been conservatively estimated that at least 20 million people depend on Indonesia's forests for the bulk of their livelihoods (Sunderlin *et al*. 2000). The country's wood-based industries have long ranked second only to petroleum in terms of their contribution to Gross National Product (GNP), and the forestry sector currently generates approximately US$ 6-7 billion in formal revenues on an annual basis. Moreover, informal revenues associated with illegal logging and unreported exports have been estimated to account for an additional US$ 1 billion or so each year (CIFOR 2004).

This study examines the process of forestry sector decentralization that has occurred in post-Soeharto Indonesia, and assesses the implications of more recent efforts by the national government to recentralize administrative authority over forest resources. It aims to describe the dynamics of decentralization in the forestry sector, particularly during the period 1999-2002, and to document major changes that occurred as district governments assumed a greater role in administering forest resources. It examines the preliminary effects of decentralized forest administration, and of more recent steps towards recentralization, in several important areas including: fiscal revenue flows; timber production and marketing; and forest tenure and local livelihood security. Ultimately, the study aims to assess what the ongoing struggle among Indonesia's national, provincial, and district governments is likely to mean for forest sustainability, rural livelihoods, and economic development at multiple levels.

1.2 What is Decentralization?

Over the last 20 years, states all over the world – including those in both developing countries and their industrialized counterparts – have engaged in reform processes that have been referred to, in some form, as decentralization. These processes have occurred in a wide range of sectors, including infrastructure, education, health care, fiscal administration, and natural resource management, among many others. In these sectors, government policymakers and planners have frequently sought to shift elements of administrative authority and responsibility away from highly centralized states. Their stated rationales for doing so have varied widely, depending on the social, political and economic context in which the reform processes are being implemented, and more specifically, on the objectives the reforms have been intended to achieve. Typically, however, such reform initiatives have been attributed to some combination of the following aims: to reduce central government expenditures; to provide social services more efficiently; to distribute public resources more equitably; to promote conservation or sustainable management of natural resources; and to broaden popular participation in governance processes.

In the sizeable body of theoretical literature that has emerged in recent years, decentralization is commonly defined as "any act in which a central government formally cedes powers to actors and institutions at lower levels in a political-administrative and territorial hierarchy" (Larson 2005; Smith 1985, cited in Ribot 2002; Agrawal and Ostrom 2001; Mawhood 1983). For analytic purposes, Jesse Ribot and others argue that it is important to distinguish between administrative and political decentralization. Administrative decentralization, often referred to as

deconcentration, typically involves the transfer of administrative responsibilities from a central government to lower level agencies which are upwardly accountable. In a hierarchical state structure, these might include provincial or district governments to the extent that their leadership is responsible to the central government, or regional offices and local implementing agencies of particular national government ministries.

By contrast, political decentralization – also commonly referred to as democratic decentralization – occurs when decision-making power and control over resources are "transferred to authorities representative of and downwardly accountable to local populations" (Ribot 2002). Democratic decentralization aims to expand the arena for public participation in governance processes by devolving power and authority to institutions at lower levels of a hierarchical state apparatus. As Ribot (2002) explains, "Through greater participation, democratic decentralization is believed to help internalize social, economic, developmental, and environmental externalities; to better match social services and public decisions to local needs and aspirations; and to increase equity in the use of public resources." In this way, democratic decentralization "concerns the domain of rights that local government can exercise on behalf of constituents – it is about enfranchisement and democratization" (Ribot 2002).

With this emphasis on rights and participation, Agrawal and Ribot (1999) argue that meaningful analysis of decentralization processes must focus on three critical elements: actors, power, and accountability. Within their framework, "the local actors, the powers they hold, and the accountability relations in which they are embedded, are the basic elements for analyzing the kind of decentralization taking place" (Ribot 2002). As Ribot (2002) explains:

> *Democratic decentralization, for example, involves representative local actors who are entrusted with real public powers and who are downwardly accountable to the local population as a whole. ... If there are representative actors who have no public powers, then the institutional arrangement is not a decentralization. If there are powers, but the actors receiving them are not representative or downwardly accountable, then perhaps it is privatization or deconcentration.*

Political or democratic decentralization, therefore, implies the existence of locally accountable representative bodies – or at the very least, the creation of such bodies through the process of decentralization. Yet in much of the world, and perhaps especially in countries that historically have been dominated by highly centralized states, such bodies frequently do not exist at the local level. As Ribot (2002) points out, "Rural communities are usually highly differentiated by class, caste, livelihood, gender, age, religion, race, origins, and ethnicity." Within this context, it is not uncommon for local governments to be dominated by elites who have little accountability to the communities they purportedly represent. In assessing the implications of any decentralization initiative, it is therefore essential to examine not only the shifting relationship between central government agencies and those

at the sub-national or local levels, but also the degree of accountability that exists between those lower level agencies and their constituents.

In a similar manner, democratic decentralization always involves a "redistribution of power, resources, and administrative capacities" between central government agencies or actors and those located at a lower level in the political-administrative hierarchy (Agrawal and Ostrom 2001). More specifically, according to Agrawal and Ostrom (2001), democratic decentralization can be viewed as "a strategy of governance, prompted by external or domestic pressures, to facilitate transfers of power closer to those who are most affected by the exercise of power." For analytic purposes, Agrawal and Ribot distinguish four types of power as being crucial to understanding decentralization. These include the following:

> *(1) the power to create rules or modify old ones; (2) the power to make decisions about how a particular resource or opportunity is to be used; (3) the power to implement and ensure compliance to the new or altered rules; and (4) the power to adjudicate disputes that arise in the effort to create rules and ensure compliance (Agrawal and Ribot 1999).*

The redistribution of power and resources can take many forms, depending on the objectives and context of a particular decentralization initiative. Agrawal and Ostrom (2001) emphasize the fundamental importance of property rights being devolved to local actors involved in managing or utilizing a particular resource. Specifically, they argue that "it is necessary for local users and their representative institutions to possess property rights that transform them into claimants and proprietors to achieve effective decentralization" (Agrawal and Ostrom 2001). In their view, the allocation of property rights to local actors is not only an equity concern, but also an issue of pragmatism:

When local users do not exercise significant control over collective and constitutional-level choices related to rule design, management, and enforcement, the impact of decentralization is limited. To create an impact, governments need to allow local users and their representatives at least the rights to manage resources and make decisions about resource use and exclusion (Agrawal and Ostrom 2001).

A similar argument can be made for the devolution of fiscal powers to local governments. In many countries, decentralization efforts have assigned greater responsibility to local governments to provide public services. But they frequently have not expanded the fiscal resources available to local governments, which the latter would need to fulfill their new responsibilities (Ribot 2002; Tanzi 2001). Ribot points out that without adequate fiscal resources, local authorities often have difficulty implementing and enforcing the decisions they make, and this frequently perpetuates a relationship of dependency vis-à-vis the central government:

> *The lack of revenue mechanisms – whether local taxation powers, rights to a fixed portion of national revenues, or block grants from central government – has stymied decentralization everywhere. The failure to empower local government with fiscal resources or revenue-sharing powers undermines its effectiveness in the short run and its legitimacy in the long run (Ribot 2002).*

Given the fact that democratic decentralization involves a redistribution of power and resources to sub-national and/or local institutions, it is perhaps not surprising that it is often interpreted to be a process of reigning in or dismantling the central government. Indeed, national-level actors often resist implementing political decentralization initiatives for precisely this reason. Ribot, however, cautions against this interpretation:

> *Decentralization is more appropriately viewed as a relative term concerning central-local relations. Reforms in its name do not have to be about dismantling central governments in favor of local institutions. They can be about strengthening in ways that support the objectives of both [sic] national unification, democratization, and greater efficiency, and equity in the use of public resources and service delivery. A primary objective is to have governments that are able to perform or support all of these functions with appropriate roles at multiple levels (Ribot 2002).*

Indeed, the empirical literature on decentralization suggests that a supportive and well-functioning central government is often a critical element in determining whether decentralization initiatives lead to successful outcomes (Conyers 2000, cited in Ribot 2002; Crook and Sverrisson 2001). At the same time, Larson (2005) points out that decentralization does not need to be a 'top-down' process – in spite of the fact that it is often conceptualized in this way by policymakers. Rather, many countries have experienced some form of decentralization 'from below', in which local actors assume a stronger role in decision-making "without any specific authority to do so"; and/or *de facto* decentralization, in which "local actors make decisions in a vacuum left by the loss of central government authority" (Larson 2005).

1.3 Decentralization and Forests[1]

Since the 1980s, countries throughout Asia, Africa, and Latin America have taken steps to decentralize the management and administration of natural resources. In 2001, Agrawal estimated that central governments in over 60 countries were then devolving at least some elements of natural resource management to sub-national and local institutions (Agrawal 2001, cited in Larson 2005). In many countries, this has involved the transfer of authority over significant aspects of forest administration from national ministries to forestry agencies at the provincial, district, or municipal levels. In some contexts, it has also included a formal expansion of local communities' roles in managing or conserving forest resources in their areas. Moreover, as Larson (2005) points out, informal types of decentralized forest management are also widespread – "even where forest sector decentralization is not part of national policy, local governments and local people often manage local forest resources, with or without formal mandates to do so."

Proponents of decentralized forest administration have generally argued that it can lead to more sustainable and equitable uses of forest resources (Anderson 2000; Enters *et al.* 2000). On the one hand, it is frequently expected that forests will be

better managed in decentralized settings because decision-makers are physically located closer to where their policies will be implemented (Fisher 2000; Rondinelli *et al*.1983; Conyers 1981). This proximity often brings with it improved understanding of the specific biophysical, social, and institutional conditions influencing forest management at the field level; better capacity to monitor the activities of forest user groups; and greater access to local knowledge about the management and utilization of forest resources – which are sometimes highly specific to particular social groups and/or ecosystems (Carney 1995).

On the other hand, decentralized forest administration can also allow for greater participation on the part of forest communities in decision-making processes, and for more direct accountability of policymakers to peoples whose livelihoods depend on forests (Ribot 2002; Anderson 2000; Fisher 2000; Brandon and Wells 1992). Each of these is particularly important if decentralization is to enhance democratization and enfranchisement in forested regions, as forest-dependent communities are often among the most vulnerable and marginalized of social groups. Citing Edmunds *et al.* (2003), Larson notes that

> *People living in forest areas… have been expected to cope with sometimes drastic limitations on their choices and to yield rights of self-determination commonly enjoyed by others living outside of forests.' This applies to exclusion from protected areas as well as the economic benefits of commercial logging, while, with respect to the latter, often then having to live with the degradation (Larson 2005).*

In theory, if not always in practice, decentralization also implies a more equitable distribution of benefits from forest resources, as local communities and governments in forested regions are able to secure a greater portion of revenues from the extraction of timber and other forest products (Ascher 1995; Ostrom 1990).

In spite of the opportunities it offers for increased equity and improved forest management, decentralization also carries significant risks. For instance, national governments have frequently devolved administrative responsibilities to lower level agencies without transferring any real discretionary powers or decision-making authority. As Larson (2005) explains, "In many cases the central government has out-sourced costs while maintaining control (Edmunds *et al.* 2003). When some powers are, in fact, transferred to the local sphere, these usually involve responsibility without authority (Contreras 2003; Ferroukhi and Echeverria 2003; Kassibo 2003; Larson 2003; Pacheco 2003), such as controlling crime and informal markets or carrying out tasks delegated by the central government."

In particular, it is highly uncommon for central governments to transfer authority over commercial timber extraction to local governments (Larson 2005; Agrawal and Ribot 1999). Far more often, they devolve administrative responsibilities for less lucrative activities such as protection of watersheds or conservation areas, rehabilitation of degraded landscapes, and management of community forests. Larson (2005) points out that when even limited authority over commercial forestry is devolved, "central governments also commonly maintain control over forest

management through extensive bureaucratic procedures such as forest management plans, price controls, marketing and permits for cutting, transport, and processing (Colfer 2005; Edmunds *et al.* 2003)." Central government officials often rationalize such efforts to retain control on the grounds that provincial, district, and municipal governments have limited institutional capacity and, in particular, they commonly lack essential technical skills that are needed to ensure that forests are managed sustainably (Mariasa and Abdillah 2001).

The problem of limited institutional capacity for forest administration at the local level is certainly a significant concern. However, as Larson (2005) correctly points out, it is a concern that is often cited by central government actors as a means to justify the status quo.[2] Forest resources frequently represent an important source of revenue for national governments which they are generally reluctant to relinquish. In addition, state leaders often distribute timber concessions and other types of forest permits as patronage to political elites and powerful institutions, such as the military (Ross 2001; Barr 1998). In many countries, the prevalence of such personal and institutional interests leads central government decision-makers to resist pressures to devolve authority over forest resources to lower levels of government. When such authority is devolved, the process of decentralization invariably is mediated by the interests of individual and institutional stakeholders at multiple levels.[3]

Directly related to the issue of interest is that of accountability. In many countries, decentralization initiatives have transferred authority over key aspects of forest administration to local governments which have little downward accountability to the people living within their jurisdictions. In cases where local elites have been strong and/or traditionally marginalized groups have been unable to organize themselves, decentralization has often strengthened pre-existing power relations, rather than promoting democratic decision-making processes (Agrawal and Ostrom 2001; Utting 1993).Within such contexts, it is not unusual for local forestry bureaucracies to emerge as powerful interest groups that compete with local users for control over forest resources (Larson 2005). Competition of this sort can undermine existing forest management institutions at the local level, and in doing so, can weaken incentives for protecting forests or managing them sustainably. Larson (2005) argues, moreover, that in some countries the imposition of new rules and authority over forest resources brought about by decentralization has, in fact, been "aimed specifically at increasing the presence of the state and its control over certain sectors of the population."

To be effective, decentralized forest administration also generally requires some degree of mutual accountability and operational coordination among government agencies across political-administrative levels. At a minimum, this requires a clear definition of roles, rights, and responsibilities for governments at each level in the state hierarchy. It has been argued by some theorists (and many policymakers) that even in decentralized settings, central governments have an important role to play in administering forest resources by virtue of the expansive nature of many forest ecosystems and their status as public goods. deGrassi (2003), for instance, argues that central governments are "better placed to take into account scale effects, public service obligations, and the protection of trans-boundary and trans-generational public goods, while districts will be tempted to realize the forests' cash value, and

the short-term priorities… will prevail locally over long-term national interest" (Larson 2005).[4] National forestry departments can also play a potentially valuable role in providing technical support, training, and information to their counterparts at the provincial, district, and municipal levels, in addition to ensuring that minimum standards are met across jurisdictions.

In many countries, effective coordination among forestry departments at various levels of the state hierarchy has been undermined by confusing and contradictory legal frameworks (Larson 2005; Sarin *et al.* 2003). In some cases, the rights and responsibilities of governments at different levels have been poorly specified in forestry sector decentralization laws, leading to ambiguity over how authority should be distributed. In other cases, forestry sector regulations have contradicted broader decentralization laws, creating opportunities for actors at various levels to interpret the laws in ways that they find most favorable to their interests. Moreover, coordination among government agencies at different levels of the state hierarchy is also frequently undermined by a lack of transparency surrounding key aspects of forest administration, such as how licenses are issued and how revenues are distributed.

Finally, it should be noted that even when roles are clearly defined, accountability mechanisms are strong, and elite groups do not dominate provincial and district governments, it is often the case that these governments have little interest in conservation or sustainable forest management. It is not uncommon for governments at these levels – like their national counterparts – to show far more interest in maximizing short-term revenues from forests than in managing them for the environmental services they provide or ensuring that productivity levels are maintained over the long term. In some contexts, local communities share this attitude, as forests are often viewed as a highly lucrative and readily accessible source of cash income. Such attitudes may be particularly prevalent in countries where central governments have historically excluded sub-national authorities and local peoples from sharing in the revenues generated from forests; or where protecting conservation areas and/or managing forests sustainably involve significant costs. In such contexts, it is not uncommon for actors at the local level to choose to liquidate forest resources, particularly if their access to these resources is not guaranteed over the long term.

1.4 Decentralization of Forest Administration in Indonesia

The enactment of Indonesia's regional autonomy laws in mid-1999 occurred at a time when the country was undergoing multiple reform processes in response to interlinked political and economic transformations. On the one hand, the push for regional autonomy in late-1998 and early-1999 directly coincided with Indonesia's 'reform' (*reformasi*) process, which emerged in the wake of Soeharto's fall from power. Under *reformasi*, civil society groups and progressive elements within the government sought to redirect or dismantle many of the policies, practices, and institutions associated with the New Order regime. They did so ostensibly to eradicate the 'corruption, collusion, and nepotism' that had so strongly characterized

state behavior during the Soeharto era and to make the government more responsive to the interests of disenfranchised segments of society. At the heart of the *reformasi* process in the forestry sector was a call for a more equitable distribution of forest benefits; this included giving rural communities greater access to forest resources and placing limits on the activities of the timber conglomerates favored by the Soeharto regime (Resosudarmo 2004a).

On the other hand, Indonesia was also engaged in a process of structural adjustment during this period, aimed at reviving the country's economy following the 1997 financial collapse. This involved the implementation of a host of macroeconomic and sectoral reforms prescribed by the International Monetary Fund (IMF), including a number of reforms in the forestry sector (World Bank 2003).[5] The IMF's structural adjustment program did little to explicitly support decentralization in Indonesia – indeed at least initially, the Fund appears to have been blind to the fact that pressures for regional autonomy and decentralization were building when the 1997 financial crisis hit. However, together with the country's *reformasi* process, structural adjustment – and the financial crisis that preceded it – heavily shaped the policy environment within which Indonesia's central government responded to growing demands for greater regional autonomy during 1998 and 1999. Among other things, national policymakers found themselves under pressure to sharply reduce government expenditures, and decentralization of service provision in many sectors provided one mechanism for doing so.

Within this context, Indonesia's decentralization process was largely driven by demands for greater regional autonomy on the part of provincial and district governments whose jurisdictions are rich in timber, petroleum, and other natural resources (World Bank 2003). Officials from resource-rich regions have long complained that the vast majority of the benefits from those assets have flowed away from their regions to the national government and to private sector companies closely associated with decision-makers in Jakarta. During the New Order period, the central government kept a tight lid on calls for greater regional autonomy and local control over natural resource revenues. However, successive post-Soeharto governments – including the administrations of B. J. Habibie (1998-1999), Abdurrahman Wahid (1999-2001), Megawati Soekarnoputri (2001-2004), and now Susilo Bambang Yudhoyono (2004-present) – have not been able to ignore these demands.

Especially during the first years after Soeharto's departure, the country's senior leadership recognized that its ability to maintain Indonesia's integrity as a nation ultimately required the central government to strike a more equitable balance of power with the country's provincial, district, and municipal governments. Consequently during 1999 and 2000, Indonesia's national government issued several important pieces of legislation aimed at transferring authority to governments at those levels, and at allowing resource-rich regions to retain a larger share of the fiscal revenues generated within their jurisdictions. The most significant of these were Law 22/1999 on Regional Governance and Law 25/1999 on Fiscal Balancing between the Central Goverment and Regional Governments (hereafter 'Fiscal Balancing'), both of which were enacted in May 1999. Together, these laws provided the legal basis for regional autonomy in Indonesia, laying out a broad framework for the decentralization of administrative and regulatory authority, primarily to the district level.

Law 22/1999 uses the term 'decentralization' to refer to "the delegation of governance authority" by the central government to 'Autonomous Regions' (*Daerah Otonom*). These are defined to include provinces (*propinsi*), districts (*kabupaten*), and municipalities (*kota*), which are deemed to be related to one another in a non-hierarchical fashion. The law vests these autonomous regions with authority "to govern and administer the interests (*kepentingan*) of the local people according to their own initiatives, based on the people's aspirations, and in accordance with the prevailing laws and regulations." In particular, Law 22/1999 assigns district and municipal governments authority to exercise principal governance functions in a wide range of fields, including public works, health, education and culture, agriculture, communication, industry and trade, capital investment, environment, land, and cooperative and manpower affairs. By contrast, provincial governments are given relatively little new authority, other than vaguely worded responsibility to help manage relations among districts and municipalities.

Law 25/1999 on Fiscal Balancing provides a framework for the redistribution of revenues among Indonesia's national and regional governments. In particular, the law gives district and provincial governments considerably greater authority and responsibility to manage their own budgets, and to raise their own revenues to help offset the added costs associated with decentralization. Significantly, it also authorizes a redistribution of royalties from timber production and most other types of natural resource extraction among the country's national, provincial, and district governments. In the forestry sector, the fiscal balancing law stipulates that provincial and district governments would now receive a combined 80% of the Forest Resource Rent Provision (*Provisi Sumber Daya Hutan,* PSDH) (up from a combined 45% prior to regional autonomy) and that district governments would receive 40% of the highly lucrative Reforestation Fund (*Dana Reboisasi,* DR) (which the central government had retained entirely prior to regional autonomy).

Indonesia's regional autonomy and decentralization initiatives generated an extremely enthusiastic response among stakeholders at the provincial and district levels. Although the two laws were scheduled to take effect on January 1, 2001, many provincial and district governments began issuing their own regulations and asserting their administrative authority in key areas almost immediately after the regional autonomy law was issued. In this way, *de facto* decentralization initially occurred much more rapidly, and in some areas extended much further, than the formal reform process prescribed by the new legislation. This was particularly the case in the forestry sector. As noted earlier, Law 22/1999 made little mention of decentralized forest administration *per se*. However, the law's broad endorsement of regional autonomy in a wide range of other sectors left considerable space for district officials to interpret it as applying to forestry, as well. Their case for doing so was bolstered by the fact that forestry reforms adopted in 1998 and early-1999 in response to calls for *reformasi* in the sector also supported an expanded role for district governments and local communities.

Citing those sectoral reforms together with the regional autonomy law, district officials in most forested regions moved quickly in mid-1999 to assert control over forest resources within their jurisdictions. Many distributed large numbers of 100-ha

logging and forest conversion permits, something they had not been able to do since the early years of the New Order regime. These permits were often issued in areas that directly overlapped with timber concessions that had earlier been allocated by the central government, or within the boundaries of national parks and protected areas. District governments – and, to a lesser extent, provincial governments – also adopted regulations requiring timber companies and wood processing industries to pay a variety of new taxes and fees, in addition to those required by the national government. Many districts and provinces also entered into a very public and often acrimonious dialogue with national policymakers over how the country's Reforestation Fund and other forestry-related fees should be shared among the different levels of government.

In part, these efforts were driven by the fact that Indonesia's new laws on regional governance and fiscal balancing created expectations (perhaps overstated) that district governments would need to generate a larger share of their own revenues in order to replace fiscal allocations that had previously come from the center. More significantly, perhaps, many district governments were motivated by a desire to establish district revenue flows that are independent of Jakarta (World Bank 2003). This desire was particularly strong in relation to timber and other natural resources. As the fervor of regional autonomy spread, district officials expressed indignation over the fact that most of the benefits from Indonesia's forests had been appropriated by national stakeholders during the Soeharto era; and they argued that their own efforts to redirect those benefits to district stakeholders was simply a long-overdue effort to rectify this historical injustice. On a more personal level, many district officials also clearly seized the opportunity to secure substantial informal profits from forestry and plantation companies – an opportunity that was largely denied to them during the New Order period.

The assertion of administrative control over forests by district governments has been accompanied by a sharp resurgence of tenure claims by people living in and around forested areas. Such claims have been made by a wide variety of actors, ranging from single households and farmer cooperatives to whole villages and, in some cases, individuals or organizations claiming to represent entire ethnic groups. The types of claims, and the basis on which they have been articulated, has been equally varied. In most cases, however, they have involved some reference to *adat*, or customary law. Since 1999, many claims of this sort have been made by local actors, with varying degrees of legitimacy, in order to secure logging and/or forest conversion permits issued by district governments. Indeed, district regulations have frequently required timber companies to collaborate with local communities (or, at the very least, with actors claiming to represent those communities) in order to obtain such permits. In many parts of the country, forest communities have also asserted tenure claims by taking direct action against timber or plantation companies operating in their areas. Most often they have done so by blocking logging roads and seizing heavy equipment, although at times such actions have led to violent conflicts.

Through their involvement in small-scale logging and forest conversion activities carried out under district permits, many local communities have obtained substantial benefits from forests that were never available to them during the Soeharto

era. Typically, these benefits have included cash payments from logging companies – frequently in the range of Rp 20,000-50,000 per cubic meter (m^3) – based on the volume of timber harvested by such operations. In some provinces, large-scale timber concession-holders are also now required to pay a compensation fee to communities living in and around their concession sites. While these sources of income certainly represent a tangible benefit for the recipient communities, they are often based on the rapid depletion of forest resources and are, therefore, unlikely to be sustainable over the long-term.

If the allocation of district logging and forest conversion permits has generated unprecedented cash benefits for local communities, the distribution of these benefits has generally been far from equitable. In many forest-rich regions, district officials, timber brokers, and logging companies have obtained a significantly greater share of the benefits generated from such operations than the communities whose forests are being harvested. Even within participating communities, it has often been the case that village elites have secured a disproportionate share of the benefits, all too frequently through surreptitious agreements with district officials and/or external investors. In this way, many of the benefits of decentralization have been captured by elites, albeit at the district and local levels.

To some extent, such practices have been encouraged by the fact that district governments in Indonesia – and sub-provincial forestry departments in particular – historically have been accountable upwards, and have had little direct accountability to local constituents. In many districts, officials continue to make important land-use planning decisions, to allocate timber and forest conversion permits, and to manage the revenues generated from such activities with minimal transparency and little public consultation. This may be changing under decentralization, as both the members of the Regional House of Representatives (*Dewan Perwakilan Rakyat Daerah*, DPRD) at the district level and the Head of the District (*Bupati*) are now chosen through direct elections. Far more significantly, since the fall of Soeharto rural communities throughout Indonesia have gained a great deal of political space to assert their interests, most notably through direct action on the ground. Whereas the New Order regime routinely mobilized the state's repressive apparatus to resolve conflicts between local communities and timber concession-holders, for instance, the government cannot feasibly do so within the current political landscape, except under extraordinary circumstances. As such, many district governments are finding that when conflicts emerge, it is politically necessary to accommodate the interests of rural communities in key decision-making processes – or at the very least to avoid antagonizing them.

In forest administration and many other areas, many of the potential benefits of decentralization have been undermined by the fact that little effective coordination has existed among the national, provincial, and district governments. On the contrary, the various levels of government have engaged in a struggle over how authority and administrative responsibilities should be distributed. This process has been further complicated by the fact that most of Indonesia's district governments were poorly prepared to assume the administrative and regulatory authority transferred to them under decentralization. To a significant degree, this can be attributed to inadequate

planning on the part of the central government and a general lack of guidance and institutional support from Jakarta as decentralization was being implemented. At the same time, many district governments have been constrained by weak institutional structures, limited human resources, and minimal technical capabilities. This has especially been the case in new districts created through the widespread partitioning that has occurred since 1998, as decentralization often coincided with the establishment of basic government institutions.

Efforts to resolve the ongoing tug-of-war among Indonesia's national, provincial, and district governments have been hindered by the fact that the regional autonomy laws are, in many respects, contradictory and unclear. Many district and provincial governments have taken advantage of this legal uncertainty by issuing regulations that would seem to exceed the authority granted to them by Laws 22/1999 and 25/1999 and other pieces of legislation enacted by the central government. At the same time, national policymakers have structured some important pieces of legislation in ways that directly contradict the spirit, if not the letter, of the regional autonomy laws. This has been the case, for instance, with the two most significant pieces of legislation issued in the forestry sector since 1999: Law 41/1999 on Forestry, which superseded Indonesia's Basic Forestry Law of 1967, together with its principal implementing regulation, Government Regulation (hereafter 'Regulation') 34/2002. In outlining the division of administrative authority in the forestry sector under regional autonomy, these statutes were, in fact, designed to restrict the authority of district and provincial governments and to reaffirm the dominant role played by the MoF in Jakarta.

Viewed within the context of a long-term historical struggle over forest resources, Law 41/1999 and Regulation 34/2002 represent critical components in a systematic effort by the MoF to reconsolidate the central government's authority in the forestry sector. In particular, since early-2003 the Ministry has effectively used these statutes to halt the allocation of small-scale logging and forest conversion permits by district governments for areas that fall within the boundaries of the Forest Estate. During this time, the Ministry has also reasserted its own authority by, once again, issuing numerous forest conversion licenses for plantation development and by renewing the contracts of several large-scale timber concession-holders. By any measure, these steps amount to a process of recentralization of authority over a key aspect of forest administration. However, in notable contrast to the procedures employed during the pre-decentralization period, the Ministry now reportedly requires approval from both the district and provincial governments before making such decisions. For example, provincial governments now play a significant role in determining how allocations from the Reforestation Fund will be distributed to districts and municipalities within their jurisdictions. This stands in marked contrast to the Soeharto era, when the central government managed the Reforestation Fund in a highly discretionary manner with allocations generally made through presidential decree.

As the discussion thus far suggests, Indonesia's experience with decentralized forest administration has been framed, above all else, by a struggle to determine who will control the timber rents associated with the country's forest resources. It would appear that few stakeholders at any level have given serious thought to what decentralized administration of forests is likely to mean in relation to the environmental

services that those resources may provide, either currently or in the future. As such, relatively little consideration seems to have been given to the types of institutional arrangements and intra-governmental coordination that will be necessary to manage forests either in critical watersheds or in national parks in a decentralized manner. At the same time, it is becoming increasingly apparent that commercial timber resources in many parts of Indonesia (most notably the lowland forests of Sumatra and Kalimantan) are quickly becoming exhausted. This means that the country's national, provincial, and district governments are engaged in a struggle over a rapidly diminishing resource base. Again, there is little indication that stakeholders at any level are contemplating how best to manage degraded forest landscapes once timber rents no longer exist, beyond converting these areas to plantations or other types of land use.

1.5 Organization of the Book

This book provides a historical analysis of the processes of decentralization and recentralization that have occurred in Indonesia's forestry sector since the late-1990s. The study is organized into seven chapters. Following this introduction, Chapter 2 sketches the sectoral context for the current reforms by tracing forestry development and the changing structure of forest administration from Indonesia's independence in 1945 to the fall of Soeharto's New Order regime in 1998. Chapter 3 examines the origins and scope of Indonesia's decentralization laws, in order to describe the legal-regulatory framework within which decentralization has been implemented (and, to some extent, retracted) both at the macro-level and specifically within the forestry sector. Chapter 4 analyses the decentralization of Indonesia's fiscal system and describes the effects of the country's new fiscal balancing arrangements on revenue flows from the forestry sector. Chapter 5 describes the emergence of district-level timber regimes following the adoption of Indonesia's decentralization laws, and subsequent efforts by the national government to reassert administrative control over key aspects of the nation's commercial forestry sector. Chapter 6 examines the real and anticipated effects of decentralization on land tenure and livelihood security for communities living in and around forested areas. Chapter 7 summarizes the study's major findings and summarizes options for possible interventions to strengthen the forestry reform efforts currently underway in Indonesia.

It should be noted that this book has relied heavily on primary research conducted by numerous scientists both at the Center for International Forestry Research (CIFOR) and its many Indonesian and international partner institutions since 2000. CIFOR has published much of this research separately in a series of case studies on 'Decentralization and Forests in Indonesia'. As of July 2006, these include district-level case studies from seven provinces: Riau, Jambi, West Kalimantan, Central Kalimantan, East Kalimantan, South Sulawesi, and West Papua (see Figure 1). These case studies are referenced at relevant points in the following chapters, and the full citations are provided in the bibliography. However, this book does not attempt to provide an exhaustive synthesis of the findings of the decentralization case studies, each of which provides a rich description of the dynamics occurring within

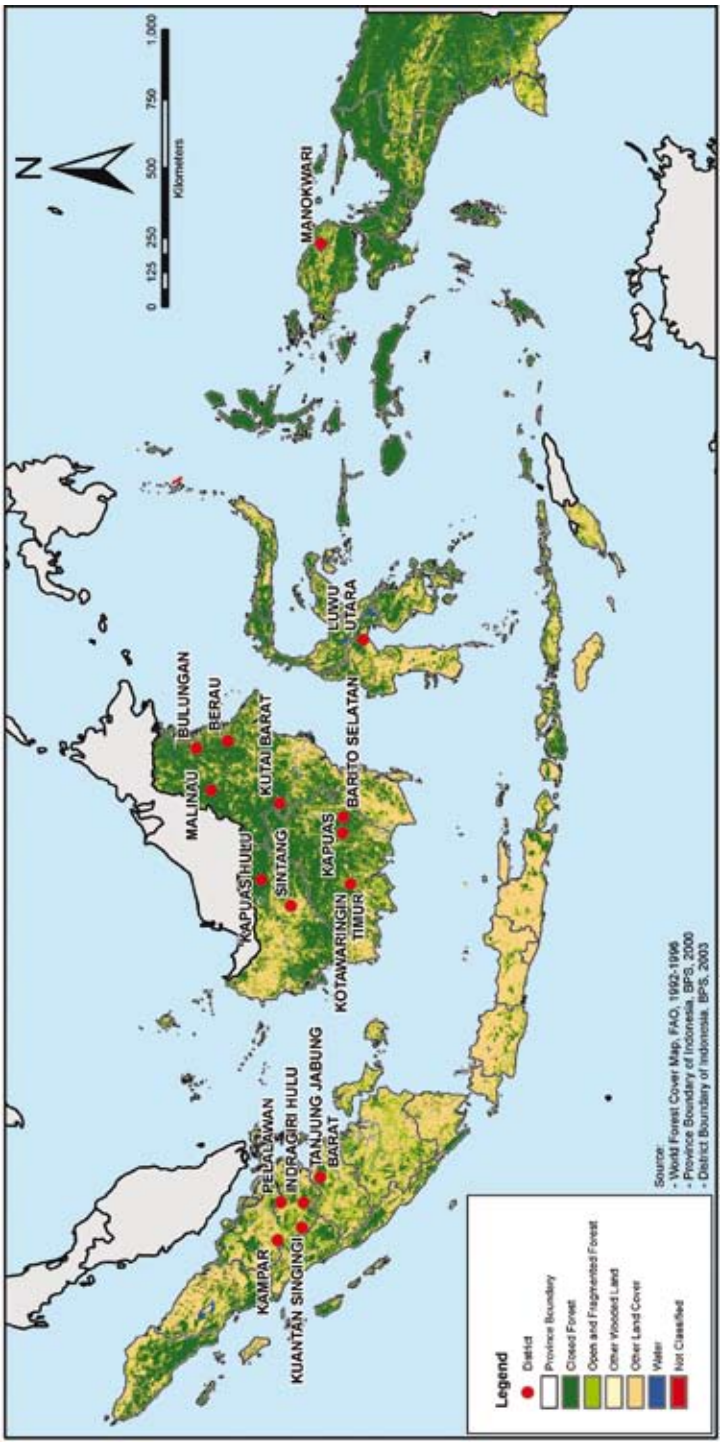

Figure 1. Locations of CIFOR decentralization research in Indonesia

a specific geographic and/or administrative locale at a particular point in Indonesia's decentralization process. Readers who are interested in a more detailed analysis of the changes occurring in particular regions are encouraged to consult these case study reports, all of which can be found at *http://www.cifor.cgiar.org* .

Endnotes

[1] This section draws heavily on Anne Larson's excellent synthesis of the experiences and lessons learned from forestry sector decentralization initiatives in Africa, Asia, and Latin America (see Larson 2005).

[2] Citing Bazaara (2003), Larson notes that "the obvious response to low capacity is to *build* capacity, not recentralize control; another is to retain certain technical decisions, but not *all* decisions."

[3] Agrawal and Ribot (1999) emphasize that in analyzing any decentralization initiative, it is particularly important to understand why some powers are not devolved: "It is precisely by an examination of what is not devolved that the hidden politics of decentralization becomes visible and the influence of these hidden interests becomes amenable to analysis."

[4] Larson notes, however, that deGrassi (2003) makes these arguments in reference to forest administration in Ghana, but does so "without any recognition or admission that central control has in fact failed to protect forests sustainably." Moreover, she points out that "these arguments have been used to justify appropriation of forest resources by the government, elite and domestic and international firms, and are presented in terms of decentralizing *all* powers to all forests versus decentralizing nothing."

[5] The forestry reforms included in the January 1998 Letter of Intent between the IMF and the Indonesian government were largely aimed at promoting sustainable forest management through enforcement of selective cutting regulations, increasing the government's capture of timber rents, and raising efficiency levels in all segments of the timber and wood processing industries. See Barr (2001) for a more detailed discussion of how structural adjustment was implemented in the forestry sector.

Chapter 2

Forest Administration and Forestry Sector Development Prior to 1998[1]

Christopher Barr

2.1 Introduction

In the forestry sector, Indonesia's decentralization process has occurred after three decades of highly centralized control over forest administration and intense timber extraction under Soeharto's New Order regime. When the New Order government came to power in 1966, however, commercial timber extraction in the vast hardwood forests of Indonesia's 'Outer Islands'[2] existed on only a very small scale, and the central government held little authority to administer forests in these regions. The Soeharto government moved quickly to secure the state's legal-regulatory control over the nation's forests with the introduction of the Basic Forestry Law in 1967. After a brief period of sharing administrative authority with provincial and district governments, the New Order leadership concentrated control in the hands of the national forestry bureaucracy and embarked upon a project of large-scale industrial logging.

Over the ensuing decade, the New Order government distributed some 60 million ha of Outer Island forests to private and state-owned timber companies, many of which were closely linked to military and political elites. During the early-1970s, Indonesia emerged as the world's largest exporter of tropical logs, and the forestry sector became the country's second-largest source of GNP. With a national ban on log exports in the early-1980s, the government pushed the sector downstream into plywood production and concentrated the industry into the hands of a few powerful conglomerates. Through the 1990s, the government also provided lucrative subsidies to support a series of major investments in the pulp and paper industry. In adopting such policies, the New Order government transformed the forestry sector into an important engine for national economic development. At the same time, it also effectively transferred several billion dollars in timber rents to a relatively small number of companies associated with the regime's senior leadership.

This chapter traces the changing dynamics of administrative and regulatory control in Indonesia's forestry sector from the period following the nation's independence in 1945 to the end of the New Order regime in 1998. In doing so, it describes the historical context within which the considerable pressures for decentralized control of forests during the post-Soeharto period have emerged. Indeed, the policies and practices employed by the New Order government to secure timber rents for elites at the national level generated deep resentment among stakeholders in forested regions throughout Indonesia. At the same time, the Soeharto regime's emphasis on rapid timber extraction as a means to generate both government revenues and informal

profits has, for better or worse, provided a model that has been adopted by many forest-rich districts under decentralization. Although district governments have been heavily criticized for mis-managing forests in their jurisdictions following the onset of regional autonomy, it is quite clear that the policies and practices of the New Order government had already created a state of crisis in Indonesia's forestry sector well before Soeharto fell in May 1998.

This chapter also shows that the struggle between a centralized state and local actors to control the country's forest resources did not suddenly emerge with the 1999 regional autonomy law. Rather, the roots of this struggle arguably extend from the Dutch colonial government's efforts to control the teak forests of Java. In post-independence Indonesia, it is notable that provincial and district governments held significantly greater authority than the central government to administer forests within their jurisdictions up until the end of the Soekarno era in the mid-1960s. In some fundamental respects, the administrative arrangements that were in place at that time bear striking similarities to those that emerged during the post-1998 decentralization process.

2.2 Forest Administration from Independence through the Soekarno Era, 1945-1966

The Indonesian Forest Service (*Jawatan Kehutanan*) was founded in late-1945, shortly after Indonesia's nationalist forces declared the country's independence from the Dutch colonial regime. In both structure and orientation, the Indonesian Forest Service drew heavily on its origins in the colonial forest bureaucracy, the *Dienst van het Boschwezen* (Peluso 1992). Concentrated in Java, the institution's early leadership – much of which had been drawn from the ranks of the colonial forest administration – had a strong predisposition for managing forests for timber production, according to the principles of 'scientific forestry' as the Dutch (and their German foresters) had done since the late-19th century (Peluso 1992). Moreover, in establishing a legal-regulatory framework for the new republic, the leaders of the Indonesian Forest Service simply translated many of the Dutch forestry laws into Indonesian, often doing so *verbatim*.

In this manner, the post-independence state perpetuated many of the fundamental laws and policies that had guided the Dutch administration of forests in the Indonesian archipelago through the colonial period (Peluso 1992). In particular, the policies of the new republic replicated the colonial state's decision to maintain separate regulatory structures and bureaucracies to administer the forests of Java and those of the Outer Islands. In Java, the Dutch had administered forests in a highly centralized manner, with the state exerting control over "all land that could not be proven to be owned (individually or communally) by villagers" – or effectively all lands except those under small-scale or plantation agriculture (Peluso 1992). By contrast, in the Outer Islands, the Dutch generally exercised indirect control over forest resources, leaving these under the authority of indigenous rulers for most of the colonial period (Djajapertjunda 2002). The Dutch administration did take steps to restrict the authority of 'local autonomous governments' (*Pemerintah Swapraja*)

during the later years of the colonial period; however, the colonial forest service assumed an active role in forest administration in only a few places outside Java (Djajapertjunda 2002).[3]

The laws and policies adopted by Indonesia's post-independence government effectively reinforced the state's control over the entire forest estate in Java, while leaving the state's role in administering forests outside Java largely unspecified. While forest administration in Java remained highly centralized after independence, the jurisdictional status of the Outer Islands' forest resources remained largely decentralized through much of the Soekarno era. In fact, the national legal code hardly defined how forests outside Java were to be administered prior to the issuance of Government Regulation 64/1957 on the Transfer of Partial Authority in the Fields of Sea Fishing, Forestry, and Community Rubber Production to Autonomous Regions, Level I.[4] Signed in December 1957, this regulation was introduced at a time when Jakarta's control over the nation's provincial governments was tenuous, to say the least. Just months earlier, military commanders in several Outer Island provinces had broken with the central government and declared martial law over their jurisdictions in response to Soekarno's efforts to abolish Parliament. Regulation 64/1957 was designed, in large part, to ease these tensions by reassuring the central government's opponents that Jakarta would make no far-reaching claims on the Outer Islands' timber, as it had done on provincial petroleum reserves in 1950.

Under Regulation 64/1957, provincial officials were given broad authority to manage the forest resources within their boundaries, including the right to distribute timber extraction permits to third-parties. Specifically, Regulation 64/1957 allowed provincial governments to issue three types of logging permits: 'Forest Concessions' (*Konsesi Hutan*) for areas up to 10,000 ha and periods of 20 years; 'Logging Parcels' (*Persil Penebangan*) for areas up to 5,000 ha and periods of five years; and 'Logging Permits' (*Izin Penebangan*) for the harvest of timber and non-timber products in specified volumes for up to two years. Provincial governments were also given the authority to extract taxes and royalties from timber extraction activities within their jurisdiction, although Regulation 64/1957 required that an unspecified portion of these be shared with the central government and with district governments. The regulation specified that these taxes could include both land-based taxes defined by the area of the concession and volume-based royalties derived from the volume of the wood and Non Timber Forest Products (NTFPs) harvested.

Regulation 64/1957 assigned the Directorate General of Forestry in Jakarta no direct authority over Provincial Forestry Service (*Dinas Kehutanan Propinsi*), which were accountable instead to their province's governor.[5] The central government would maintain a regional forestry office (*Kantor Wilayah Kehutanan, Kanwil*) in each province. In this way, Regulation 64/1957 marked the beginning of Indonesia's long history of having parallel decentralized and deconcentrated forestry bureaucracies – a system which would last until the *Kanwil* was abolished with the implementation of Indonesia's regional autonomy law in 2001.[6]

Under this system of dual forestry bureaucracies, the Central Government's role was largely defined to be one of providing guidance to provincial forestry officials and controlling the nation's timber exports. Significantly, however, Regulation 64/1957

required provincial governments to adhere to forest management classifications and management units earlier defined by the national government's Forestry Department. Provincial governments were required to obtain approval from the Ministry of Agriculture if they wished to deviate from the macro-level forest management plans established by the Directorate General of Forestry within their jurisdictions. It is not clear what types of sanctions the Ministry could apply in cases where provinces failed to obtain such approval.

Although Regulation 64/1957 was designed to clarify the division of authority between Jakarta and the provinces, it offered only a vague definition of what constituted state-owned forestland in the Outer Islands. Beyond this, sizeable forested areas outside Java were utilized and/or managed by local communities, which in many cases depended on forest products for a significant portion of their livelihoods. Many of these communities had lived in and around these forests for generations, and they generally managed these areas according to customary, or *adat*, legal systems (Fried 1995). Under the Dutch, *adat* legal systems had been allowed to coexist with the colonial administration's statutory law. This dualistic legal system was largely perpetuated during the first two decades following Indonesia's independence.

The Indonesian state's uncertain legal authority to administer forests in the Outer Islands stood in stark contrast to the state's control over forests in Java. Having adopted many of the laws and regulations previously used by the Dutch, Indonesia's post-independence government retained control over Java's entire forest estate, which had been so carefully demarcated by the colonial regime (Peluso 1992). Through the Soekarno era, this proved to be an issue of growing resentment and contention in densely populated Java. Not only were local villagers excluded from sharing in the benefits generated by the state's valuable teak plantations, but these plantations often were located on some of the most productive lands that might otherwise be used for agriculture.

The Soekarno government attempted to simplify things in 1960 by introducing the Basic Agrarian Law (BAL, *Undang-undang Pokok-pokok Pertanahan*) 5/1960, which was aimed at reconciling national and *adat* legal codes governing land rights (Barber 1990). Written at the height of Soekarnoist populism and the political influence of the Indonesian Communist Party (*Partai Komunis Indonesia,* PKI), the BAL recognized *adat* land claims as long as they did not conflict with 'national interest'. Although the BAL offered few details on how conflicts between national law and customary tenure institutions would be resolved, the BAL's recognition of *adat* rights threatened to complicate any attempt on the state's part to exploit Outer Island forests on a large scale. The BAL also placed stringent limitations on the private sector's access to land and put in place legal structures to support a populist land-titling program.

By the early-1960s, the Soekarno government was also under considerable pressure to raise state revenues and to generate foreign exchange earnings through the commercial exploitation of the nation's natural resources, including the rich forests of the Outer Islands. To promote economic growth, the government formulated its first 7-year national development plan in 1960.[7] Forests featured prominently in this plan, which aimed to generate US$ 52.5 million in exchange earnings from the forestry

sector, with much of this coming from commercial logging. In 1960, the government formed Perusahaan Negara Perhutani, a state-owned forestry enterprise, which was given authority to manage the forests and plantations of Central and East Java, as well as some 6 million ha of forests in parts of Kalimantan.

Because the central government was assigned no specific authority under Regulation 64/1957 to administer commercial logging activities in the Outer Islands, the Forestry Department in Jakarta was only able to allocate this vast tract of forestland to Perhutani after first exempting it from the 1957 regulation. National-level policymakers did so by issuing a series of decrees which effectively exempted these areas from being covered by Regulation 64/1957. Although the central government succeeded in securing 6 million ha in this manner, each of these acquisitions was preceded by a political struggle between Jakarta and the provincial government concerned (Magenda 1991).[8]

In an effort to generate export revenues, Perhutani entered into a production-sharing agreement with a consortium of Japanese timber interests in 1963 (Barr 1999). The Kalimantan Forest Development Cooperation Co., Ltd. (FDC) was made up of Japanese trading companies, machinery manufacturers, shipping companies, and plywood producers (JATAN 1992). According to the production-sharing contract, the FDC agreed to provide Perhutani with US$ 30 million in credit to construct logging roads, loading facilities, and timber camps and to obtain the felling equipment and log transport vehicles that Perhutani would need to initiate timber extraction in East Kalimantan. Perhutani, in turn, agreed to export 70% of the logs cut to the FDC at pre-set prices and to allocate 30% of its log exports toward repayment of the credit extended (Gibson 1966).

Under this agreement, Perhutani established seven logging concessions covering a total of 280,000 ha in East Kalimantan between December 1963 and March 1967. The state forestry corporation also opened two concessions totaling 205,000 ha in South and Central Kalimantan under a similar agreement with the Mitsui Overseas Forestry Development Corporation (Directorate General of Forestry [DGF] 1967). These production-sharing operations never met either party's expectations, however, as output consistently fell far short of the 1.6 million m^3 annual production target announced when the original agreement was signed (Gibson 1966).

In 1965, Soekarno's last full year in office, Indonesia exported only 209,000 m^3 of hardwood logs, generating US$ 2.6 million in exchange earnings (FAO Yearbook; Sacerdoti 1979a). This volume accounted for less than 2% of overall timber exports from insular Southeast Asia, as Indonesia's log shipments were far surpassed by those of the Philippines and Malaysia.

2.3 New Order Timber Policy and the Basic Forestry Law of 1967

With the emergence of Soeharto's New Order regime in 1966, the national government's authority to administer forest resources in the Outer Islands expanded dramatically (Barr 1999). This was largely driven by the new government's interest in opening the forestry sector to large-scale commercial logging. At that point, Indonesia's economy

was in a state of near collapse, and national policymakers saw log exports as being one of the fastest ways to generate much-needed capital investment and to increase foreign exchange earnings. New Order decision-makers also viewed forestry investment and log exports as an effective means to channel material resources through all levels of the state apparatus. This was important to strengthen the state institutionally, as hyperinflation and inadequate budgetary allocations during the mid-1960s had led to widespread absenteeism in both the military and civil bureaucracy (Anderson 1990). For Soeharto and the regime's senior leadership, the allocation of valuable timber concessions as political patronage also provided an effective means of securing their own political power base, particularly among key factions within the armed forces (Ross 2001; Barr 1998).

To establish the national government's control over Outer Island forests, the New Order leadership issued the Basic Forestry Law (BFL, *Undang-undang Pokok-pokok Kehutanan*) 5/1967 in May 1967. The BFL designated 143 million ha – or three-quarters of the nation's total land area – as 'Forest Estate' (*Kawasan Hutan*), and provided a comprehensive legal and administrative framework for managing the land and resources encompassed by this area (Barber and Churchill 1987).[9] The designation of 'Forest Estate' according to the terms of the BFL was intended to give "spatial and legal certainty to an area's status as state-controlled forest land" (Barber 1990). In this regard, the BFL delineated four functional categories into which lands designated as permanent Forest Estate could be classified by Ministerial decree: 'Production Forest'; 'Protection Forest'; 'Nature Conservation Forest'; and 'Recreation Forest'. Production Forest was defined to be "forested areas used to produce forest products to meet the needs of society in general and especially the needs of development, industry and export" (Barber and Churchill 1987). When the BFL was introduced, the Directorate General of Forestry estimated that up to 50 million ha would be classified as Production Forest and made available for commercial logging (DGF 1967).

To facilitate the commercial exploitation of such an extensive area, the BFL gave the state forestry bureaucracy authority to grant a 'Right of Forest Exploitation' (*Hak Pengusahaan Hutan*, HPH) to state-owned corporations and to private timber companies. As delineated in Government Regulation 21/1970, the HPH contract provided the concession-holder with non-transferable exploitation rights to a discrete area of 'production forest' for a period of up to 20 years. The HPH contract required concessionaires to adhere to what the government defined to be principles of sustainable forest management under its Indonesian Selective Cutting (*Tebang Pilih Indonesia*) system. Specifically, HPH holders were prohibited from harvesting stems with a breast diameter smaller than 50 cm and were required to manage their concessions according to a 35-year cutting rotation.[10]

With the creation of the HPH timber concession system, the Basic Forestry Law effectively restructured the relationship between the national and provincial arms of the state apparatus. In keeping with the 1957 forestry regulations, the BFL gave provincial governments authority to distribute concession areas up to 10,000 ha to Indonesian companies. The national government's access to Outer Island forests was expanded considerably, however, as the BFL authorized the Directorate General of Forestry under the Ministry of Agriculture to grant concessions larger than 10,000 ha to both domestic and foreign investors.[11]

Under this arrangement, the central government imposed a number of royalties and fees on concession-holders, which were divided among the national and provincial governments according to various formulas. The most significant of these at that time – the 'HPH License Fee' (*Iuran Hak Pengusahaan Hutan,* IHPH) and the 'Forest Product Royalty' (*Iuran Hasil Hutan,* IHH) – were to be split between the central and provincial governments, with 30% going to the Directorate General of Forestry in Jakarta, 30% to the Provincial Forestry Service (*Dinas Kehutanan*), and 40% to the provincial government for development expenditures. By contrast, all of the timber export tax – initially set at 10% of FOB value of log exports, making it the largest of the government's timber fees at that point – was earmarked for the central government budget, giving Jakarta control over the bulk of foreign exchange obtained from HPH-holders.[12] (The administration of the major forestry taxes, and the scale of the revenues generated, will be discussed in greater detail in Chapter 4).

2.4 *Banjir Kap*[13] and the Timber Boom of the Late-1960s

The opening of Indonesia's Outer Islands to commercial timber extraction in May 1967 set off a logging boom in most forest-rich provinces of Sumatra and Kalimantan. Dozens of multinational timber companies and domestic entrepreneurs sought to obtain concessions in areas that were well-stocked with commercial timber species, particularly high-value *Dipterocarps*. Many of these ventures involved partnerships with military officers or politico-bureaucratic power-holders, scores of whom received HPHs from the New Order leadership in order to secure their loyalty to the Soeharto regime (Ross 2001; Robison 1986). In such ventures, the military or bureaucratic stakeholder generally functioned as a 'silent partner', receiving a 20% to 25% equity share in the enterprise by virtue of the fact that it had secured the concession and would provide political protection. The foreign investor or domestic entrepreneur would contribute the bulk of the venture's investment capital, equipment, and day-to-day management of the logging operations. By the end of 1970, the national government's Forestry Department had allocated 81 HPHs covering over 10 million ha (Direktorat Djendral Kehutanan 1972).

While the Directorate General of Forestry in Jakarta was allocating such extensive areas of timber concessions during the late-1960s, provincial and district governments distributed even larger numbers of logging permits to small-scale enterprises (Manning 1971). Indeed, the flood of foreign buyers seeking to purchase Indonesian logs meant that forestry concessions of any size promised rapid returns to investors able to extract timber and transport it to downriver purchasing points. The ready availability of logging permits and highly favorable market conditions for *agathis* (*Agathis spp.*), *meranti* (*Shorea spp*.), and *keruing* (*Dipterocarpus spp.*) logs produced an "overwhelming mobilization of speculators" in many timber-rich provinces, especially East Kalimantan (Peluso 1983). There, this process resulted in the distribution of over two million ha of forest land, with "concessions as small as 100 ha [being] given to friends and political allies of the district heads and the governor, while the subdistrict heads issued licenses to local residents who worked independently or with their families and friends" (Peluso1983; Manning 1971). In

this way, *banjir kap* strongly foreshadowed the widespread allocation of small-scale logging and forest conversion permits by district governments during 1999-2000, at the height of decentralization in the forestry sector.

In contrast to larger concessionaires, the hundreds of small-scale logging ventures that sprung up during 1967-1970 generally employed non-mechanized harvesting techniques and traditional methods of transporting logs along river systems during monsoon floods – hence becoming known as *banjir kap*, or 'log flood' enterprises (Peluso 1983; Manning 1971). In doing so, *banjir kap* ventures generally established logging activities with a minimal amount of start-up capital and operated at only a fraction of the cost of the mechanized foreign or larger domestic timber companies. Through the first four years after the timber sector was opened to private investment, these small provincial and locally based logging operations generated a very significant portion of the nation's overall timber production. During 1968-1970, *banjir kap* enterprises accounted for 60% of the reported log production in East Kalimantan (Manning 1971).

Perhaps not surprisingly, larger concession-holders quickly became irritated with the proliferation of *banjir kap*. Due to weak coordination among the national, provincial, and district governments, HPHs distributed by forestry officials in Jakarta often overlapped with the smaller concessions allocated by provincial and district authorities (Sacerdoti 1979b). Moreover, because the small, provincial and locally based enterprises were able to operate with fixed costs well below those of mechanized operations, they often sold their logs at lower prices than those sought by the larger producers (Peluso 1983).

2.5 Centralized Control and Log Exports in the 1970s

With the encouragement of larger, mechanized timber companies, the national government took steps in 1970 and 1971 to eradicate *banjir kap*. Specifically, President Soeharto issued a decree revoking the authority of provincial governments to distribute even small-scale forest exploitation permits, and requiring that all logging concessions in operation be at least 50,000 ha in area. The national government justified these measures on both environmental and economic grounds. On the one hand, Jakarta's forestry planners maintained that *banjir kap* operations were generally indiscriminate in their logging practices and, due to their size, virtually impossible to monitor.[14] On the other hand, they argued that such small-scale enterprises would not make long-term investments in wood processing (as the HPH contract required of larger timber companies) and that even for the short-term, *banjir kap* could not maintain the levels of profitability that they had held for the previous four years (Peluso 1983).

Within the state apparatus, the centralization of the concession-distribution process substantially increased the leverage that Indonesia's central leadership was able to exert over provincial and district governments. In terms of formal revenue flows, it effectively concentrated control over the HPH license fee, as well as the multitude of lesser fees associated with the licensing process, into the hands of the national forestry bureaucracy. More significantly, the consolidation of Jakarta's

control over Outer Island forests substantially expanded the timber resources available for distribution to national-level state elites and their business partners. This simultaneously increased the accumulation of opportunities open to Jakarta-based powerholders and drastically curtailed the resources flowing through provincial patronage networks. Indeed, the revocation of provincial governments' authority to allocate logging concessions, even of limited size, abruptly reoriented the revenue bases of timber-rich provinces from exploitation of local resources to allocations from the central government (Magenda 1991). In this way, the centralization of timber licensing effectively tightened Jakarta's control over economic and political activity in many parts of the Outer Islands.[15]

With full control over the distribution of logging concessions, the national government accelerated its efforts to make Indonesia's forest resources available to privately-owned logging companies. Through the 1970s, the Directorate General of Forestry repeatedly expanded the area of forest estate designated as 'production forest', raising it to 64 million ha by 1980. With another 30 million ha slated for clearing as 'conversion forest', no less than 50% of the nation's total land area was made available to private investors for timber extraction. During 1971-1980, the Forestry Department distributed 438 HPHs covering 43 million ha, to bring the total area of logging concessions allocated during the New Order regime's first 14 years to 53 million ha (PDBI 1988). While most of these were allocated to privately owned timber companies, the state forestry enterprises Inhutani I, Inhutani II, and Inhutani III collectively held five concessions covering an aggregate of 3.8 million ha.

The New Order government's policy of opening Indonesia's timber sector to private investment quickly generated large volumes of log exports and foreign exchange earnings. The nation's log production rose by 470% during the Soeharto regime's first eight years, climbing from 6.0 million m^3 in 1966 to 28.3 million m^3 in 1973. As significantly, the recorded volume of log exports during this period rose from 334,000 m^3 to 18.5 million m^3. By 1973, Indonesia's logging industry generated US$ 562 million, or 18% of the nation's total exchange earnings (Barr 1999). While the timber sector's contribution to GNP dropped substantially following the 1973 oil boom, Indonesia's log export levels and the revenues they produced reached new heights in the late 1970s. The reported volume of unprocessed timber shipped overseas exceeded 20 million m^3 per year during 1976-1978, when Indonesia supplied 44% of world hardwood log exports. Moreover, annual earnings from log exports exceeded US$ 1.5 billion during the timber boom of 1979-1980. It is possible that the real volume and value of Indonesian timber exports during this period were substantially greater than these official figures suggest.

2.6 Growth of Domestic Wood Processing in the 1980s and 1990s

Through the early 1980s, New Order policymakers phased in a national ban on log exports to push timber concession-holders to invest downstream in plywood production. The ban had two far-reaching effects on the structure of Indonesia's timber industry: On the one hand, it effectively concentrated control over the nation's

HPH timber concessions. Large numbers of foreign timber companies responded to the state's restrictions on log exports by pulling out of Indonesia, and domestic concession-holders unable to invest in wood processing operations either sold their timber rights or aligned themselves with larger firms. In this way, substantial areas of Outer Island concessions became concentrated into the hands of a relatively small number of integrated timber conglomerates, which linked large-scale logging operations with plywood production. By the mid-1990s, the 10 largest of these groups controlled 228 HPHs, covering over 27 million ha or 45% of the 60 million ha that had been allocated to private timber operators up to that point (Brown 1999).

On the other hand, the log export ban and the restrictive regulations leading up to it triggered a significant influx of investment into Indonesia's wood processing industry, and scores of private timber companies brought plywood operations online through the early 1980s. Between 1978 and 1990, the number of plywood producers operating in Indonesia rose from 19 to 132, while the industry's aggregate production capacity shot up from less than 800,000 m^3 to 12.6 million m^3 per year (Apkindo 1990; Bank Bumi Daya 1988). Through the mid 1990s, Indonesian producers exported approximately 9 million m^3 of wood panels per year, accounting for three quarters of the world's tropical plywood exports. The marketing of these panels was controlled by the Indonesian Wood Panel Producers Association (*Asosiasi Panel Kayu Indonesia,* Apkindo), a government-backed cartel managed by Mohamad 'Bob' Hasan, a close associate of President Soeharto (Barr 1998).

In the late 1980s, as Indonesia's wood panel industry was establishing its dominant position in the world's tropical plywood trade, the nation's pulp and paper industries also entered a period of accelerated expansion. Indonesia's pulp production capacity grew from 606,000 to 4.9 million tonnes per year between 1988 and 2000, while the paper industry's processing capacity rose from 1.2 million to 8.3 million tonnes per year (Barr 2001). This expansion, which pushed Indonesia into the ranks of the world's top 10 pulp and paper producers, has involved an aggregate capital investment of at least US$ 12 billion, and perhaps as much as US$ 15 billion (Spek 2000). By 2000, pulp and paper products generated US$ 2.9 billion in export earnings, accounting for over 50% of the country's forest-related exports (Bank Indonesia 2001).

Since the late 1980s, the Indonesian government has promoted the development of 'Industrial Timber Plantations' (*Hutan Tanaman Industri*, HTI) with the stated aim of establishing a sustainable source of fiber for the nation's rapidly growing pulp industry (Groome Poyry 1993). The government has done so by allocating large tracts of conversion forest to each of the country's major producers, as well as to several prospective investors in the pulp and paper subsector. HTI license-holders are permitted to clear-cut their concession areas, and to use the wood generated from such harvests until the plantations are fully online. To date, the Forestry Department has distributed 23 pulpwood plantation licenses covering an aggregate area of 4.3 million ha. Under the HTI program, the MoF has allowed license-holders to use at minimal cost the trees cleared from their plantation sites, under a 'Wood Utilization Permit' (*Izin Pemanfaatan Kayu*, IPK) (Departemen Kehutanan and PT Herzal Agrokarya Pratama 1991). Through the 1990s, the Ministry has also made available IPK permits

for the clearing of large forested areas slated for conversion to oil palm and other estate crops. The government's stated rationale for doing so has been to provide a temporary 'bridging supply' of wood to pulp producers until their plantations are fully operational (Manurung and Kusumaningtyas 1999).

2.7 Indonesia's Forestry Crisis

Well before the country's ongoing decentralization process began in late-1998, Indonesia entered what some observers have called a 'forestry crisis'. By the early-1990s, it had become apparent that the country was experiencing unprecedented rates of deforestation and forest degradation (Sunderlin and Resosudarmo 1996). Although estimates vary, it is now widely acknowledged that approximately 1.6 million ha of forest cover were lost annually during the period from the mid-1980s to 1999 (Toha 2000). During 1985-1997, the islands of Sumatra, Kalimantan, and Sulawesi each lost between 25% and 30% of their forest cover (GFW/FWI 2002). On a national scale, the MoF estimated that total forest cover stood at 95.8 million ha in 1997, although other studies have suggested that this figure may, in fact, have been an underestimate (MoF, cited in Holmes 2001). In any case, it appears likely that by the end of the New Order period, Indonesia had lost roughly one-third of the forest cover that existed when the Soeharto regime initially assumed control over the nation's forests in 1967.

Overcapacity in the nation's wood processing sector has been a major factor driving these high levels of deforestation and associated forest degradation. Through the mid-1990s, Indonesia's sawnwood, plywood, and pulp industries collectively consumed between 60 million and 80 million m^3 of wood per year (Barr 2001; Scotland 1999). Log consumption on this scale stood well above the Indonesian government's own widely-cited sustainable timber harvest threshold of 22-25 million m^3 per year – a figure the MoF has subsequently revised sharply downward. Moreover, with the government exerting little effective regulation, domestic demand for timber resulted in large volumes of wood being harvested illegally (ITFMP 1999). Through the New Order period, undocumented harvesting was often carried out by licensed concession-holders who extracted logs above their annual allowable cut or by logging in areas that had not been approved by the MoF (Kartodihardjo 1999). Organized syndicates of illegal loggers have also long been active in most timber-producing provinces (Telapak Indonesia and EIA 1999).

By the late New Order period, there were also growing signs that the nation's HPH timber concession system had begun to decline. Through the 1990s, there was a sharp drop in log production levels from selective harvesting at multiple-rotation timber concessions (Barr 2001). This was partially offset by an increase in the volumes of wood obtained through the clearing of natural forests, often in conjunction with the development of oil palm estates and other forms of agroindustrial plantations. In 2001, the World Bank projected that these pressures would result in the exhaustion of Sumatra's remaining lowland natural forests by 2005 and those of Kalimantan by 2010 (World Bank 2001). While these projections may not be entirely precise for all areas of Sumatra and Kalimantan, they highlight the undeniably rapid pace of

lowland forest loss in once heavily-forested parts of Indonesia. Within this context, the nation's wood processing industries are facing growing short-falls of raw materials, and it has become clear that a process of industrial restructuring and downsizing – whether carried out in a planned or unplanned manner – is inevitable.

From a chronological perspective, it is salient to note that Indonesia's forestry crisis was well underway during the mid-1990s, while Soeharto was still in power. Indeed, many aspects of the crisis have been a direct outcome of the New Order regime's policies of large-scale timber extraction and industrial development, with relatively little commitment to sustainable forest management. Widespread corruption and ineffective law enforcement have also contributed significantly to the problems in the forestry sector. While it may be true that forest degradation and loss have accelerated in some parts of Indonesia since the onset of decentralization, there can be little basis for claiming – as some Jakarta-based stakeholders have done -- that the nation's forestry crisis is principally a result of regional autonomy. Rather, as they following chapters will demonstrate, Indonesia's regional autonomy and decentralization processes have added new dimensions to the pre-existing forestry crisis, as well as new opportunities for managing the country's forests more equitably and sustainably.

Endnotes

[1] Much of this chapter is extracted from Barr (1999) and Barr (2001). Readers are encouraged to consult these sources for additional details on the processes described here.

[2] The term 'Outer Islands' is used to refer to all islands in the Indonesian archipelago other than the densely populated islands of Java, Bali, and Madura.

[3] For instance, in 1934, the colonial government banned the use of *opkoop* (or 'buy-up') logging schemes in Southeast Borneo (an area that now includes the provinces of East and South Kalimantan). At that time, the Dutch administration prohibited logging companies from operating under arrangements made with the local sultan, and instead required all logging enterprises to obtain official concession licenses. This effectively curtailed the role of the local sultanates in timber production and shifted authority to the Dutch forest administration, which then issued concessions covering over 750,000 ha (Obidzinski 2005).

[4] Government Regulation 64/1957 on the Granting of Some of Central Government's Authority over Matters Concerning Coastal Fisheries, Forestry, and Community Rubber Sectors to First-level Regional Governments (*Peraturan Pemerintah No. 64/1957 tentang Penyerahan Sebagian dari Urusan Pemerintah Pusat Dilapangan Perikanan Laut, Kehutanan dan Karet Rakyat kepada Daerah-daerah Swatantra Tingkat I*), issued December 18, 1957.

[5] At the national level, Indonesia's forest resources were administered by the Directorate General of Forestry in the Ministry of Agriculture until 1964, when the Forestry Department was given Ministerial status. In 1967, following the emergence of the New Order regime, the Forestry Department was again downgraded to Directorate in the Ministry of Agriculture. It retained this status until Presidential Decree 45/1983 placed the forestry bureaucracy under its own Ministry, which was assigned cabinet-level status in the Fourth Development Cabinet.

[6] As noted in Chapter 1, the term 'deconcentration', also known as administrative decentralization, refers to the transfer of administrative responsibilities from a central government to lower level agencies which are upwardly accountable.

[7] Decree of People's Consultative Assembly No. II/MPRS/1960 on Guidelines of State

Development Planning, First Phase 1961-1969 (*Ketetapan MPRS No. II/MPRS/1960 ttg Garis-garis Besar Rencana Pembangunan Nasional Semesta Berencana Tahap Pertama 1961-1969*).

[8] See Magenda (1991) for details on how this struggle played out between Jakarta and the provincial apparatus in East Kalimantan.

[9] The procedures for conducting an inventory, survey, boundary determination and marking, and subsequent classification of the Forest Estate were detailed in Government Regulation 33/1970. Systematic classification of the nation's Forest Areas was not implemented, however, for over a decade. Barber (1990:12) notes that "systematic national implementation of the Basic Forestry Law's classification and planning mandate only began in 1980, when the Minister of Forestry [sic] sent a memorandum to the Governors of all Provinces, informing them that the Department would prepare a 'Consensus Forest Land Use Plan' (*Tata Guna Hutan Kesepakatan,* TGHK) for each province, in cooperation with all agencies involved with land use at the provincial level."

[10] In formulating these requirements, forestry policymakers assumed that logged-over forest would naturally regenerate at an average rate of 1-2 m^3 per ha per year, and as such would be able to sustain a selective harvest on average every 35 years. To promote concessionaire compliance with the HPH contract, the Forestry Department required that private timber operators submit for approval 20-year, 5-year, and annual work plans. Approval of the yearly work plan was supposed to involve cruising of the applicant's logging block by provincial forestry officials in order to determine the company's annual allowable cut (AAC).

[11] At the national level, Indonesia's forest resources were administered by the Directorate General of Forestry in the Ministry of Agriculture until 1983, at which point the Ministry of Forestry was given cabinet status.

[12] FOB refers to 'freight on board', or the price of goods sold with transport costs excluded.

[13] 'Cutting during the flood', a term to describe the nonmechanized logging technique. The operators cut logs by hand and floated them out of the forest on swollen rivers during the monsoon season, using no roads, trucks, or bulldozers (Ross 2001).

[14] Much more recently, the same argument has been made by MoF officials seeking to halt the allocation of small-scale logging and forest conversion permits issued by district governments under Indonesia's post-1999 decentralization process.

[15] In East Kalimantan, for instance, Banjarese officials who had controlled the province and *kabupaten*-level bureaucracies through the first years of the New Order period, lost their main source of finance for both business ventures and political endeavors (Magenda 1991). They were replaced in many key positions by members of the Regional Military Command (*Komando Daerah Militer*, Kodam) for East Kalimantan, which was dominated by Javanese officers connected to the Ministry of Defense in Jakarta through both the formal chain of command and informal patronage networks.

Chapter 3

Origins and Scope of Indonesia's Decentralization Laws

John McCarthy, Christopher Barr,
Ida Aju Pradnja Resosudarmo, and Ahmad Dermawan

3.1 Introduction

The Asian monetary crisis first hit Indonesia in July of 1997, and by the end of that year, the Indonesian currency *rupiah* had lost 70% of its value. This led to skyrocketing inflation, massive job losses, and ultimately, failure of the nation's banking sector. The depth and enduring nature of the country's economic instability sharply undermined the domestic political legitimacy of Soeharto's New Order regime, which had presented itself as the 'engine of economic development' since the late-1960s. In May 1998, following several days of violent civil unrest, President Soeharto was forced to resign after 32 years in office.

The collapse of the Soeharto regime led to widespread calls for fundamental changes in Indonesia's system of governance and intense political struggles on a number of levels. At the national level, much of the political discourse during this period of transition has focused on 'reform' (*reformasi*), referring to the dismantling of the vast system of financial and political patronage that Soeharto and his family built up during their three decades in power. By contrast, in the regions away from Jakarta, provincial and district-level actors have become increasingly vocal in calling for 'regional autonomy' (*otonomi daerah*). In some parts of the archipelago – most notably in Aceh, Papua (formerly Irian Jaya) and East Timor – separatist movements have waged armed struggles in efforts to gain outright independence from Indonesia.

Within this context, each of Indonesia's leaders during the post-Soeharto period – including presidents B. J. Habibie (1998-1999), Abdurrahman Wahid (1999-2001), Megawati Soekarnoputri (2001-2004) and now Susilo Bambang Yudhoyono (2004-present) – has recognized that some form of autonomy for the nation's regional governments is an unavoidable tradeoff for maintaining Indonesia's status as a unitary republic. As Soeharto's immediate successor, President Habibie came under immense political pressure to revoke the New Order regime's highly centralistic laws on regional governance (particularly Law 5/1974 on Principles of Governance in the Regions) and to transfer greater administrative authority away from Jakarta.

Habibie did so by enacting two landmark pieces of legislation: Law 22/1999 on Regional Governance[1] and Law 25/1999 on Fiscal Balancing.[2] Together, these laws define Indonesia's provinces (*propinsi*), districts (*kabupaten*), and municipalities (*kota*) as autonomous regions (*daerah otonom*); and, in doing so, they provide the fundamental legal basis for Indonesia's decentralization process. In particular, these

laws emphasize the decentralization of authority to the district and municipal levels, rather than to the province.

In the early months of the post-Soeharto period, the national government issued a series of regulations aimed at transferring some aspects of forest administration to Indonesia's provincial and district governments.[3] Perhaps most significantly, this included the authority for district governments to issue small-scale timber extraction and forest conversion permits. From a legal-regulatory perspective, however, these initial steps towards decentralized forest administration proved to be short-lived. In September 1999, the Habibie administration introduced Law 41/1999 on Forestry which was structured, in important respects, to reaffirm the MoF's dominant role in administering the nation's forests.[4] This was taken several steps further with the issuance of Government Regulation 34/2002 – the principal implementing regulation for Law 41/1999 – by the Megawati government in June 2002. Among other things, Regulation 34/2002 has effectively *recentralized* regulatory control over the harvesting, processing, and marketing of forest products, particularly timber.

This chapter traces the historical factors that set in motion Indonesia's decentralization process, and analyzes the political context within which the nation's decentralization laws were formulated. It examines in some detail Law 22/1999 on Regional Governance and its main implementing code, Government Regulation 25/2000. It then discusses how administrative authority in the forestry sector has effectively been recentralized with the enactment of Law 41/1999 and Regulation 34/2002. The chapter concludes with a discussion of the Megawati government's ratification of a revised law on regional autonomy, Law 32/2004, to promote a broader recentralization process, at the end of the administration's tenure in October 2004.

3.2 Momentum for Decentralization

The economic and political crises of 1997-1998 generated a new openness in Indonesia's policy arena, prompting frank discussion of problems deemed too sensitive for public dialogue under the New Order regime. After student demonstrations in Jakarta and other urban centers forced Soeharto to resign, the process of *reformasi* at the national level focused on the formation of new political parties, the rewriting of key laws and regulations, and the investigation of Soeharto family wealth. In the 'regions' (*daerah*), especially in natural resource-rich provinces outside Java, the fervour for political transformation emphasised other issues.

In many parts of Indonesia, the New Order regime had left a legacy of bitterness towards Jakarta and the Javanese-dominated bureaucracy. Local figures complained that, as most decisions of any significance had been made in Jakarta, government officials and business groups with influence at the center had become rich while local communities had been deprived of their land and natural resources. District and provincial actors wanted a greater role in running their own affairs, particularly with respect to the administration of timber harvesting, mining, and other forms of natural resource extraction within their jurisdictions. Coupled with this, they demanded that a greater proportion of the profits generated from local natural resources stay within the region (Cohen 1998). It was widely held that leaders representing local interests

– preferably 'sons and daughters of the region' (*putera daerah*) – should now take key positions in provincial and district governments and in companies active in the regions (*Suara Pembaruan*, September 19, 1998).

Actors in the districts and provinces sought to reverse the injustices and inequitable development left behind by Soeharto's three decades in power. In many areas, villagers demanding the return of land and forest resources appropriated by timber, mining, and plantation companies began taking direct action by blocking roads, seizing heavy equipment, and demanding compensation from firms involved. In some cases, these actions escalated into violence, including for instance the burning of logging camps or physical assaults on timber and mining company employees (Wulan *et al.* 2004; Cohen 1998).

District and provincial politicians, students and business-people also began to focus on policy and legal reform, demanding the decentralisation of decision making and fiscal powers and the revision of land and forestry laws. Non-governmental organizations (NGOs) took up these calls, seeking the creation of new laws that would revitalise land reform, recognise *adat* institutions and customary land tenure, and facilitate community based forest management. Many groups demanded the cancellation of forest concessions and agricultural and timber plantation licenses. In addition, there were calls for an end to the national government's long-standing transmigration program, in which large numbers of people had been moved from the densely-populated islands of Java and Madura to less-populated islands such as Sumatra and Kalimantan (McCarthy 2000).

As the clamour for reform gained momentum, many provincial leaders demanded immediate autonomy. Some announced that they were considering steps to require companies operating within their jurisdictions to pay directly to the provincial governments the corporate taxes and natural resource royalties that had theretofore been collected by the central government. In the most resource rich and disenchanted provinces of Aceh, Riau, East Kalimantan, and Papua (formerly Irian Jaya), some even discussed ceding from the unitary republic of Indonesia. By late-1998, the central government leadership began to discuss the fear of national disintegration (*Suara Pembaruan,* September 19, 1998).

In counterpoint to the sound and fury of popular politics, academics, officials and NGO activists considered the underlying problems in seminars and newspaper articles. Commentators described how, from the Soekarno period onwards, the political culture of the Indonesian state had developed a monolithic approach to governance that, in the name of national unity, subsumed the very diversity celebrated in the national motto, 'unity in diversity' (Warren and McCarthy 2002). As one writer noted, 'centralism' (*sentralisme*) was "a special feature of the New Order [regime]" (*Suara Pembaruan,* April 5, 1999). This term was used to describe how powerful decision-makers in Jakarta made decisions and created regulations regarding significant issues without consultation with the regions and with little, if any, transparency and accountability to the people they purportedly represented. Such practices created a uniform governance structure that impaired the ability of regional interests to openly negotiate for their own priorities, thereby diminishing opportunities for the expression of regional aspirations and otherwise improve their well-being (*Kompas,* April 30, 1999; *Suara Pembaruan,* April 5, 1999).

During 1998, debate concerning how to address the problems raised by the centralistic governance practices of the New Order regime focused on two problems. One immediate problem involved creating a more equitable and just division of revenue between the central and regional governments. Yet, reform needed to do more than just revise the formula for dividing revenues among the various levels of government. A second problem involved creating a form of government that would enable regional governments and local communities – in a transparent and accountable fashion – to make decisions regarding their own affairs in a way that reflected their own interests and aspirations.

At that time, it appeared that the first problem could be resolved by arriving at a new formula for sharing fiscal revenues. With respect to the second problem, the Nasional Mandate Party (*Partai Amanat Nasional,* PAN), led by future-Parliamentary Speaker Amien Rais, attempted to open a discussion regarding whether the concept of a federal state was better suited to Indonesia than that of a unitary state. However, senior policymakers, party leaders and other key figures were generally cynical about the Dutch imposed experiment with federalism under Soekarno, and many were spooked by a fear of national disintegration. Within a very short period, this model was deemed to be politically taboo and discussion of it was carefully foreclosed (*Suara Pembaruan*, December 15, 1999; *Kompas,* February 22, 1999).[5] Legislators and planners would only consider the problem in terms of how, within the framework of the unitary republic, the post-Soeharto state could redistribute political power and government authority to the regions. In other words, the question narrowed to one of decentralization. As an existing national law regarding regional government (i.e. Law 5/1974) already provided for some limited degree of decentralisation, national policymakers decided to focus their efforts on 'perfecting' this law.

In this context, in November 1998 in the midst of forceful student demonstrations, Indonesia's People's Consultative Assembly (*Majelis Permusyawaratan Rakyat,* MPR) – the highest legislative body in the country – held a special session to determine the national priorities that needed to be addressed most immediately. The MPR particularly stressed the need to "organise regional autonomy, in an equitable fashion regulating the distribution of national resources and the division of revenue between the centre and the regions, to be carried out through the formation of new laws" (MPR 1998). The MPR passed a special 'Decree' *(ketetapan)* setting out the principles for "the organization of regional autonomy; the equitable arrangement, division and utilization of national resources; and fiscal balancing among the central and regional governments within the context of the unitary state of the Republic of Indonesia."[6] As regional autonomy was now seen to be a way to avoid national disintegration, decentralization had become a matter of national urgency.

3.3 Designing the 1999 Regional Autonomy Laws

In early-1998 Hartono, the Minister for Home Affairs in the last Soeharto cabinet, initiated a process of legal reform in response to pressures from students and other groups for broad-based political change. On May 14, 1998, just days before Soeharto resigned, Hartono promulgated a decree (*surat keputusan*) setting up an internal

departmental team to revise key political laws known as Team to Revise Draft of Laws on Politics of the Ministry of Home Affairs (*Tim Revisi RUU Politik Departemen Dalam Negeri*). As the departmental team involved seven people, it was nicknamed 'Team Seven' (*Tim Tujuh*). While Soeharto was forced to resign before this team could hold its first meeting, *Tim Tujuh* soon set to work designing new laws. Initially, the most pressing of these laws, known as *RUU Politik*, concerned the political parties, the holding of fair elections and the composition of the national government's two state institutions (*Lembaga Negara*) – that is, the House of Representatives (*Dewan Perwakilan Rakyat,* DPR) and People's Consultative Assembly (MPR). However, as the Law 5/1974 regarding regional government was by then deemed to be 'too centralistic', the team also began to draft a new law on regional government (*RUU Pemerintah Daerah*).

The team started working quickly, presenting the *RUU Politik* to President Habibie by July 27, 1998 (*Kompas,* February 15, 1999). In June 1998, officials within the Ministry of Home Affairs were also discussing the general design of the overall regional autonomy reform (*Suara Pembaruan,* September 19, 1998). The proposed legislation drew heavily on the concept of regional autonomy developed in the 1974 law regarding regional government and later elaborated during the late-1980s and early-1990s. Specifically, Law 5/1974 relied on three fundamental concepts – decentralisation, deconcentration and co-administration (*tugas pembantuan*).[7] This law did not delineate the degree of autonomy to be given to the regions, only suggesting that in principle regional autonomy would be 'concrete and responsible' (*nyata dan bertanggung jawab*).

In 1992, almost 20 years after Law 5/1974 was first passed, the Ministry of Home Affairs developed implementing regulations for the regional governance law (Government Regulation 45/1992) (*Suara Pembaruan*, October 30, 1998). Law 5/1974 had placed the centre of gravity (*titik berat*) for regional autonomy with the districts (*kabupaten*) and municipalities[8] (*kotamadya*) – referred to as the Level II Regions (*Daerah Tingkat II*) – and Regulation 45/1992 repeated this emphasis. On April 25, 1995, the Ministry also adopted a regulation (Government Regulation 8/1995) that provided for the creation of pilot projects for improving administrative arrangements in 26 districts. Although these pilot projects were later deemed to be insufficiently successful, they were important in that they placed the 'centre of gravity' of decentralization at the Level II Regions – that is, at the level of districts and municipalities, rather than provinces (*Suara Pembaruan,* October 30, 1998).[9] This emphasis would be continued in the more far-ranging decentralization reforms of 1998-1999.

In the Habibie administration's efforts to adopt a more decentralised system, *Tim Tujuh* at the Ministry of Home Affairs called for autonomy at the level of district and municipality rather than the province. Support for this model also came from politicians "concerned that autonomy at the provincial level would fuel local desires for separation from the unitary republic" (Hull 1999). As there was a perception that the districts were too small for separatist or federalist aspirations to take root, government planners favoured decentralization at this level (Niessen 1999). It was also likely that the central government would have "more influence over relatively

weak districts compared with strong provinces" (Ahmad and Mansoor 2000). Central government planners also argued that, as the district and municipal governments were in the closest contact with local people, they were best placed to make decisions and to provide public services. As "smaller territorial jurisdictions deal with activities of a relatively limited scope", they argues, districts had a greater opportunity of governing effectively (Niessen 1999).

While *Tim Tujuh* was formulating the proposed decentralization reforms, actors both within and outside the government voiced a number of major concerns with the model being considered. In September 1998, for instance, participants at a seminar hosted by the Institute for Development of Economics and Finance (INDEF) in Jakarta criticised the government for placing most of the new discretionary powers at the district rather than the provincial level. While supporting the move towards decentralization within the present system rather than a federal state, economist Faisal Basri argued that many districts were not prepared to assume far-reaching administrative authority. He feared that they lacked the necessary human resources, and this could lead to the emergence of 'little kings' (*raja-raja kecil*), or local elites who would dominate the political and economic processes within their districts. In other words, he worried that the reforms would fail to achieve their objectives because powerful local elites would capture the opportunities that regional autonomy would create. Moreover, it was argued that placing regional autonomy with the districts would not achieve economies of scale in the management of fiscal and commercial activities (*Suara Pembaruan,* September 6, 1998). The Indonesian Economists Association echoed these criticisms, arguing that *kabupaten* might not be economically self-sufficient or "might lack the appropriate size for practicing regional economic planning" (Tambunan 2000).

While *Tim Tujuh* worked on this law, the Ministry of Finance and other government agencies, both in the centre and the regions, were involved in drafting a new financial law. At that time, the division of revenue between the central and regional governments still conformed with laws passed in 1956.[10] Since the early 1980s, the government's financial policymakers had discussed the problems associated with this law; and with the push for decentralization in 1998, they decided to draft a new law regarding the fiscal balancing among the national, provincial, district, and municipal governments (Booth 1999).[11] The Finance Minister in the transitional Habibie cabinet presented the draft law to the DPR in August 1998. (*Suara Pembaruan*, August 27, 1998). In September that year, the Minister of Home Affairs also held discussions with several governors regarding the division of finances between the central government and the regions (*Suara Pembaruan,* September 19, 1998).

Through late-1998 and early-1999, different parties in the regions, including governors, advanced their claims over the state budget, suggesting various percentages or formulas for dividing revenue. This, in turn, stimulated a discussion between the central and regional governments over how this might occur. In immediate response to these demands, it was reported that the central government had decided that, for the 1999/2000 financial year, the state budget would return 25% of all revenues to the regions (*Suara Pembaruan,* October 30, 1998).[12] However, Nawir, the Director of INDEF, argued that the debate should primarily focus on the division of powers

rather than the division of finance. It would be better, he suggested, to decide first which 'tax objects' became the right of the regions and which remained the right of the central government, and only then move on to discussing percentages (*Suara Pembaruan,* October 30, 1998).

In April 1999, press reports revealed that the DPR had drafts of 40 major laws to consider. This was just two months before the national elections, at a time when parties were extremely busy with the campaign. As the legislation was being considered in great haste, many commentators complained that the process was neither democratic nor transparent. Many argued that the process of drafting the laws had not involved public consultation, and that there had been insufficient input from the communities that would be most affected by the new legislation. Others questioned the legitimacy of passing the new laws before free and fair elections could be held in June 1999, given that President Habibie had assumed his position following the resignation of Soeharto before a democratic election had been held. However, as Hull (1999) points out, "the main justification for moving quickly on the issue during the time of the Habibie government was the fear that the window of opportunity for regional autonomy would be lost if there was not an immediate action to entrench power in the districts before a new and possibly centralist government came to power".

On April 21, 1999, the DPR passed Law 22/1999 on Regional Governance. On the same day, the DPR also passed Law 25/1999 on Fiscal Balancing. These important pieces of legislation were signed into law by President B.J. Habibie on May 1999. Together, they provided a legal framework for Indonesia's decentralization process, thereby formalizing the swing of Indonesia's political pendulum towards regional autonomy. Law 22/1999, and its implementing regulations, will be examined in some detail in the pages that follow, while Law 25/1999 will be discussed in Chapter 4, which focuses on fiscal balancing and the redistribution of forestry revenues.

3.4 Law 22/1999 on Regional Governance

Law 22/1999 on Regional Governance was formulated to accommodate both the wishes of those demanding far-reaching change as well as the more cautious inclinations of central government planners. As the legislation attempts to reconcile a number of different agendas, it bears traces of this compromise. The law maintains many of the assumptions of the centralized legislative regime of the New Order period, in which the national government plays a dominant role in the legislative process. At the same time, the law also provides a legal basis for the transfer of considerable administrative authority to the district level and the empowering of district legislatures. In some important respects, the regional autonomy law leaves matters either ambiguous or open to determination by subsequent implementing regulations.

According to Law 22/1999, decentralization involves "the delegation of governance authority" by the central government to autonomous regions (*daerah otonom*). Such regions are defined to include provinces (*propinsi*), districts (*kabupaten*), and municipalities (*kota*), the three of which are deemed to be related to one another in a non-hierarchical fashion. Regional autonomy then consists of the authority of these autonomous regions "to govern and administer the interests

(*kepentingan*) of the local people according to their own initiatives, based on the people's aspirations, and in accordance with the prevailing laws and regulations" (Art. 1).

The regional autonomy law transfers authority to autonomous regions in "all fields of governance, except authority in the fields of international policies, defense and security, the judiciary, monetary and fiscal matters, [and] religion." (Art. 7). It also specifies that the central government should retain authority in a number of "other fields", defined to include "policies on national planning and national development processes at the macro-level; fiscal balancing; systems of state administration and state economic institutions; human resource development; and utilization of natural resources; as well as strategic technology, conservation, and national standardization" (Art. 7).

In delineating the parameters for decentralized governance, Law 22/1999 emphasizes the transfer of authority to districts and municipalities to a significantly greater degree than to provinces. Article 11 states that "the authority of Districts and Municipalities will encompass all governing authority other than the authority exempted in Article 7" – or in other words, all areas of authority beyond those explicitly reserved for the central government. Article 11 goes on to specify several particular areas where authority is directly transferred to autonomous regions at the district and municipality level:

> *Fields of governance that must be performed by district and municipality shall include public works, health, education and culture, agriculture, communication, industry and trade, capital investment, environment, land, co-operative and manpower affairs (Art. 11).*

By contrast, Law 22/1999 defines the authority of provinces as autonomous regions in a far more circumscribed manner, with Article 9 specifying provincial authority on three levels. First, provinces are given "authority in the field of inter-district and municipality governance, as well as authority in certain other fields of governance."[13] Second, provinces will have "authority that is not or not yet able to be exercised by district and municipality." Third, provinces will retain their status as 'administrative territories' (*wilayah administrasi*) through which they will "hold authority in areas of governance that are delegated to the Governor in his role as representative of the [Central] Government."

This third clause reflects a fundamental tension within the decentralization process, as framed by Law 22/1999. Indeed, during the Soeharto era, the New Order regime's regional government legislation had developed "a rather complex arrangement of parallel administrations for autonomy and deconcentrated regional government", which was "clearly indicative of the effort to devise counterweights for autonomous government" (Niessen 1999). Under the New Order system of regional governance, both provinces and districts were defined to be simultaneously 'autonomous regions' and 'administrative territories'. In each case, the Head of the Region (*Kepala Daerah*) – i.e. the Governor for provinces, the *Bupati* for districts, and the Mayor for municipalities – was responsible to the President through the

Minister of Home Affairs. Moreover, regional government offices reporting to the heads of Level I Regions (the Governor) and Level II Regions (the *Bupati* or Mayor) often existed in parallel to "two levels of regional branches of the central government, the so-called administrative territories" (Niessen 1999). Through such arrangements, the central government during the New Order period was able to exert far-reaching control over the decisions and activities of governments at both the provincial and district levels.

Under Law 22/1999, the districts and municipalities are no longer to be considered 'administrative territories', and in most respects, their subordinate relationship to the central government has effectively been severed.[14] However, the provinces continue to be considered both 'autonomous regions' and 'administrative territories'; and in their latter capacity, governors continue to act as representatives of the central government in the regions. In this way, the provinces are vested with only limited autonomy, as well as whatever authority the central government chooses to delegate to them. Many observers have noted that the regional autonomy law's emphasis on transferring authority to the districts and not to the provinces "was designed to avoid encouraging separatist tendencies which might be more prominent at [the] provincial level" (Down to Earth [DTE] 2000a).

In promulgating wide-ranging decentralization of authority, Law 22/1999 also greatly expanded the role of the Regional House of Representative (*Dewan Perwakilan Rakyat Daerah,* DPRD) at the provincial, district, and municipality. Under the New Order regime, the DPRD was something of a toothless tiger – largely functioning, according to one newspaper editorial, as a "mouthpiece of the regional government" (*corong dari pemerintah daerah*) (*Suara Pembaruan,* November 2, 1999). Law 22/1999 vested the DPRD with a series of new powers by assigning to it the authority to elect the regional executive (i.e. the Governor, *Bupati*, or Mayor, depending on the level) and to play a more active role in determining the policy of the executive branch of provincial, district, or municipal governments.

Ostensibly, the new legislation aimed to empower regional and local stakeholders and thereby to ensure that the district governments functioned in accordance with the aspirations of the people in their jurisdictions (*Suara Pembaruan,* November 2, 1999).[15] In this way, district governments would be accountable downwards through elections, rather than upwards through the provincial government to the Ministry of Home Affairs. As noted in Chapter 1, the transfer of authority to downwardly accountable local or district governments is a critical element of democratic decentralization, as opposed to administrative decentralization or deconcentration (Larson 2005; Ribot 2001).

With these changes, Law 22/1999 significantly altered the structure of regional government and institutional power relations at each level. The New Order regime's laws on regional governance – most notably Law 5/1974 – had defined regional governments as being composed of the DPRD and the regional executive. At the district level, power was concentrated into the hands of the *Bupati*, who as Head of the Region (*Kepala Daerah*) was responsible to the President through the Minister of Home Affairs. The *Bupati* was also designated as sole authority (*penguasa tunggal*) in the district, meaning that he was "in charge of general government

affairs on behalf of the central government." Under these arrangements, the *Bupati* had little accountability to the DPRD, and the DPRD had only limited ability to act independently.

By contrast, Law 22/1999 separates the DPRD from the regional executive (Governor, *Bupati*, or Mayor) providing that the DPRD will "have equal position and shall become a partner of [the executive branch of] the Regional Government" (Art. 16). By detaching the legislative and executive branches of regional government, the DPRD has attained more of a controlling function and, depending on the level of government, is now able to check the authority of the Governor, *Bupati*, or Mayor. As a full partner with the executive, the DPRD can also formulate regional government regulations, amend legislation, stipulate the budget, and supervise the implementation of district government policies and laws.

Law 22/1999 specifies that the DPRD will have the power to elect the Head of the Region at each level (Art. 18). The new law also gives the DPRD the power to ask for the Governor, *Bupati*, and Mayor to account for his/her policies and activities. If the executive's actions are considered unacceptable on two occasions, the DPRD can dismiss him/her from office, although they must obtain the approval of the President to do so (Art. 50). To support this, the DPRD can also request information and conduct its own investigations, and DPRD members are legally protected from being prosecuted for expressing their opinions.

Significantly, Law 22/1999 also stipulates that the central government will retain considerable powers in some areas. Briefly, these include the following:

- Without seeking the approval of the DPRD, the President can dismiss the Head of Region – i.e. a Governor, *Bupati*, or Mayor – who commits 'a criminal act' or who is "suspected of conducting a *coup d'etat* and/or for actions that can divide the Unitary State" (Art. 52). The law fails to specify what is meant by this article, "leaving it open to wide interpretation and the potential for politically motivated abuse" (Erawan 1999).
- Although the regional governments may obtain international loans for "funding their governance activities", they are only permitted to do so with the approval of the central government (Art. 81).
- The head of an autonomous region must inform the central government regarding local regulations and official decisions within 15 days. The central government retains the power to cancel regulations enacted by the region as well as decisions of the head of region that are deemed "contradictory to public interests or higher regulations and/or other regulations"(Art. 114).
- In the course of gubernatorial elections, the regional autonomy law requires that the legislature consult the President over potential candidates (Art. 38). To a significant degree, this provision reinforces the dual role of regional heads that existed under the New Order regime – that is, as head of an autonomous region and as representative of the central government. Some observers have argued that this dual role created an element of ambivalence which became "the source of and justification for central political involvement in regional political and governmental affairs" (Erawan 1999).

3.5 Government Regulation 25/2000

On May 6, 2000, exactly one year after Law 22/1999 was enacted, President Abdurrahman Wahid signed the regional autonomy law's first implementing regulation. Government Regulation 25/2000 on the Authority of the Government and the Authority of Provinces as Autonomous Regions specifies the division of responsibilities between the national and provincial governments on a sector-by-sector basis.[16]

It is striking that Regulation 25/2000 says very little about the specific areas where district governments will assume authority and responsibility, given the emphasis on decentralization to the district level in the 1999 regional autonomy law. The official elucidation accompanying the implementing regulation accounts for this lack of attention as follows:

> *The authority of districts/municipalities is not covered in the Government Regulation because Law 22/1999 effectively places all governing authority in the districts/municipalities, with the exception of authority that is covered in this Government Regulation.*

In this way, Regulation 25/2000 implies that the authority of district governments is to encompass whatever authority is not specifically assigned to the national and provincial governments. Significantly, Article 4 of the implementing regulation also defines the mechanism by which the central government can resume authority or responsibility over areas where autonomous regions (provinces, districts, and municipalities) are deemed incapable of carrying out certain tasks. Some observers have interpreted this as an effort on the part of the central government to establish a means for regaining control and authority in key areas if it later chooses to do so (DTE 2000a).

In many respects, the specific areas of authority and responsibility assigned to the central government under Regulation 25/2000 effectively reaffirm the MoF's theretofore dominant role in guiding forestry sector policy and planning. In general, the central government is assigned authority and responsibility for setting criteria and standards for various aspects of forest administration, while the provinces are responsible for handling elements of forest administration that extend across the boundaries of districts and municipalities within their jurisdictions (see Box 3.1) Districts, in turn, are assigned authority and responsibity for carrying out day-to-day functions of forest administration. This presumably includes the authority to issue permits for commercial timber extraction and to formulate district regulations for forest management as long as they do not contradict higher laws.

In the important area of spatial planning, Regulation 25/2000 assigns the central government authority for formulating Indonesia's national spatial plan based on the spatial plans produced by districts, municipalities, and provinces. The central government is given explicit authority to set criteria for formulating spatial plans for ecosystem in water catchment areas, and for facilitating inter-provincial coordination in the spatial planning process. Provincial governments are given authority for

Box 3.1: Aspects of Forest Administration Assigned to the Central and Provincial Governments Under Regulation 25/2000

Regulation 25/2000 gives the central government lead responsibility and authority to:

- Determine the areas to be classified as Forest Estate and changes in their status and function;
- Formulate national macro-level plans for forestry and estate crops, with general schemes for land rehabilitation and land conservation;
- Determine the criteria and standards for licensing utilization of forest areas, environmental services, and nature recreation areas; utilization and extraction of forest products; and management of hunting parks;
- Determine the criteria and standards for tariffs on forest utilization license fees, forest royalties, reforestation funds, and investment funds for the costs of forest conservation;
- Determine the criteria and standards for the production, processing, quality control, marketing, and distribution of products from Production Forests;
- Determine the criteria and standards for natural resource and ecosystem conservation in the fields of forestry and plantations.
- Manage the allocation of commercial permits for the utilization of forest products and inter-province nature tourism; and
- Manage nature conservation and hunting parks, including rivers flowing through these areas.

Key elements of forest administration assigned to provincial governments include the authority and responsibility to:

- Formulate macro-level plans for forestry and estate crop areas that extend across district and municipality boundaries;
- Formulate guidelines for conducting forest inventory and mapping; forest classification; reconstruction and definition of boundaries for Production Forests and Protection Forests; rehabilitation and reclamation of Production Forests and Protection Forests; and the formation and management of forest conservation parks;
- Manage the establishment and enforcement of boundaries for Production Forests and Protection Forests;
- Manage the formation of estate crop areas that extend across district and municipality boundaries;
- Manage the allocation of permits for the utilization of wood-based forest products; utilization of non-protected flora and fauna; estate crop enterprises; and processing of forest products that extend across district or municipality boundaries;
- Manage forest conservation parks that extend across district or municipality boundaries;
- Determine the guidelines for setting tariffs for the harvesting of non-timber forest products across district or municipality boundaries;
- Participate actively with the [Central] Government in determining the boundaries of the Forest Estate, along with the change of function and status of forests, in the context of the provincial spatial planning process, which is based on agreement between the province and the districts and municipalities; and
- Protect and secure forest areas that extend across district or municipality boundaries.

formulating spatial plans at the provincial level, based on agreements between the province and the various districts and municipalities; and for overseeing the implementation of the provincial spatial plans. In accordance with earlier regulations, district governments retain the authority to coordinate the spatial planning process within their jurisdictions. They are also obliged to work with the provincial government to reconcile the district and provincial spatial plans – a process which, in practice, has rarely proceeded smoothly

In August 2000, the MPR recommended that Indonesia's decentralization regulations go into effect as of January 1, 2001 for regions that were capable of implementing them, as determined by the size of each regional government's budget. The MPR also recommended that all implementing regulations for the decentralization laws be completed by the end of 2000.[17] This timetable gave the provincial, district, and municipal governments only a very short period of time to prepare for the point where they would be required to function as autonomous regions, and to exercise the authority and responsibilities being transferred to them under the decentralization process.

3.6 Decentralization and Recentralization in Forestry Legislation

During late-1998 and early-1999, as Law 22/1999 on Regional Governance was in the early stages of being drafted, the Habibie administration issued two regulations aimed at decentralizing some aspects of forest administration. The first of these was Government Regulation 62/1998 on the Delegation of Partial Authority in the Forestry Sector to the Regions. This gave district governments authority to oversee the management of areas classified as 'Privately Owned Forest' (*Hutan Milik*)[18], including "tree planting, maintenance, harvesting, utilization, marketing, and development [of these areas]." Notably, these are areas that fall outside the government-controlled Forest Estate (*Kawasan Hutan*).

The second of these regulations was Government Regulation 6/1999 on Forestry Enterprises and the Extraction of Forest Products in Areas Designated as Production Forest.[19] With this, the central government authorized district governments to allocate small-scale Forest Product Extraction Licenses (*Hak Pemungutan Hasil Hutan*, HPHH) in areas located within Forest Estate. The implementing regulations related to HPHH's were detailed in a series of decrees from the Ministry of Forestry and Estate Crops (MoFEC) in May 1999.

Almost immediately after these regulations were enacted, district governments in many parts of Indonesia used Regulation 62/1998 and Regulation 6/1999 – as well as Law 22/1999 when it was introduced – to seize a much more active role in administering forests within their jurisdictions than they had held since the early days of the New Order period. In particular, many districts began allocating large numbers of small-scale timber extraction permits, a phenomenon which will be discussed in detail in Chapter 5.

Although Law 22/1999 on Regional Governance stated that sectoral laws would need to be modified to be brought into line with the regional autonomy law, this never

happened in the forestry sector. On the contrary, with the decentralization process in the forestry sector moving far more rapidly than they had perhaps anticipated, policymakers at the MoFEC soon began taking steps to *recentralize* forest administration. They did so initially by structuring Law 41/1999 on Forestry, issued in September 1999, to reaffirm the Ministry's dominant role in administering the nation's forest resources. This process of forest sector recentralization was taken further with the enactment of Government Regulation 34/2002, which revoked Regulation 6/1999 and reinforced the MoF's primary authority to administer commercial timber extraction, the sector's principal source of revenues. The sections that follow examine these two important pieces of forestry sector legislation in some detail.

3.7 Law 41/1999 on Forestry

Law 41/1999 on Forestry was signed by President Habibie on September 30, 1999, nearly five months after Law 22/1999 on Regional Governance was enacted and seven months before Regulation 25/2000 was put into effect. Officially presented as a new legal framework for the administration of Indonesia's forest resources, Law 41/1999 superseded the Basic Forestry Law 5/1967. The preamble to Law 41/1999 explains the need for a new law in Indonesia's forestry sector by stating that the Basic Forestry Law – enacted in the early months of Soeharto's New Order regime – "is no longer in accordance with the principles of forest administration and authority and with the demands of the developing situation, and thus needs to be replaced." In this way, the Habibie government arguably sought to use Law 41/1999 to distance itself from the New Order government's forestry sector policy, together with its legal and administrative underpinnings.

In many respects, however, Law 41/1999 appears to have been structured to limit the extent to which administrative authority in the forestry sector would actually become decentralized. Indeed, the new forestry law largely focuses on defining – and, to a significant degree, reaffirming – the role of the central government in administering the nation's forest resources. Law 41/1999 assigns the central government primary authority in each of the substantive areas of forest administration that it covers:

- Defining the status and function of forests (Art. 2);
- Carrying out forest inventories (Art. 4);
- Determining the boundaries and classification of forest lands (Art. 4);
- Forming forest management units (Art. 4);
- Conducting forestry planning (Art. 5);
- Overseeing the use of forests and utilization of the forest estate (Art. 5);
- Managing forest protection and conservation (Art. 5).

The far-reaching authority vested in the national government by Law 41/1999 is summarized in the official elucidation that accompany the law, as follows:

> *[T]he Nation gives the [Central] Government authority to organize and regulate everything associated with forests, the forest estate, and forest products; to define the forest estate and/or change the status of the forest estate; to define and regulate legal relationships between people and forests*

> *or the forest estate and forest products; and to control the formulation of laws related to forestry. Therefore, the [Central] Government has authority to allocate rights and permits to other parties to carry out activities in the field of forestry.*

Within this context, Law 41/1999 assigns very little authority to Indonesia's regional governments. As one legal analyst has concluded, "what little role exists for regional governments is essentially administrative with no meaningful decision-making authority given to them" (Patlis 2002). To the extent that regional governments are mentioned in the new forestry law, it is in relation to responsibilities they must fulfill or areas where the central government may delegate limited authority to them. Article 7, for instance, assigns both the central government and regional governments responsibility for carrying out forest supervision; however, the law also requires that the central government supervise any forest-related activities carried out by regional governments. Article 8 also states that the central government may delegate authority in some areas of forest administration to the regional governments "in order to raise the effectiveness of forest administration in the context of regional autonomy." The elucidation to the new forestry law. further specify that the central government may delegate responsibility for "the implementation of some operational aspects of forest administration" to provincial and district/municipality governments, whereas the central government will retain responsibility for forest administration "at the national and macro levels."

Implicitly recognizing the potential for a popular backlash against the highly-centrist nature of Law 41/1999 in Indonesia's 'era of regional autonomy', the authors of the new forestry law acknowledge the need for some mechanism to check the authority of the central government in the forestry sector. However in addition to being vaguely-worded, the mechanism they offer is, itself, situated at the national level and offers little in the way of power-sharing between Indonesia's central and regional governments. Specifically, the explanatory notes to Law 41/1999 state that "under particular circumstances of great importance, large-scale impacts, and strategic significance, the [Central] Government will need to recognize the aspirations of the people by entering into an agreement with the DPR."

In both letter and spirit, Law 41/1999 stands in sharp contrast to Law 22/1999, which provided a general legal framework for the transfer of administrative authority and responsibility to Indonesia's regional governments, especially to the district level. In the period since the two laws were enacted, this legislative dissonance has allowed government policymakers at various levels of the Indonesian state to claim legitimacy for policy positions that are often diametrically opposed to one another. For instance, district governments, on the one hand, have interpreted Law 22/1999 and Regulation 25/2000 to mean that they have primary authority for administering forest resources that fall within their district boundaries. MoF officials in Jakarta, on the other hand, have argued that Law 41/1999 gives the central government legal authority over most aspects of forest administration, unless the Minister has explicitly delegated these to the districts or provinces.

Such competing claims have been symptomatic of the intense political struggles that have framed the decentralization process in Indonesia's forestry sector over the last several years. Although Law 22/1999 was meant to be a cross-sectoral law providing broad guidelines for decentralized governance, the concept of regional autonomy was never fully embraced by forestry sector policymakers at the national level. The apparent lack of coordination between the MoF as it was revising the basic legislation of the forestry sector and the Ministry of Home Affairs – which was overseeing the decentralization process – led to unintegrated and contradictory laws, reflecting very different sets of interests. The struggles embodied in these contradictions have been complicated by the fact that Indonesia's legal system has had no effective mechanism for resolving even fundamental inconsistencies in the nation's legal code.

3.8 Government Regulation 34/2002

On June 6, 2002 President Megawati Soekarnopoetri – Indonesia's third president since the collapse of the Soeharto regime in May 1998 and a leader often viewed as less sympathetic to regional autonomy than her two immediate predecessors – signed into law Government Regulation 34/2002 on Forest Administration and the Formulation of Plans for Forest Management, Forest Utilization, and the Use of the Forest Estate.[20] This was designed to be the implementing regulation for three parts of Law 41/1999: Article 5 (on Forest Management); Article 7 (on Supervision); and Article 15 (on Compensation and Administrative Sanctions). In the context of Indonesia's decentralization process, Regulation 34/2002 is particularly significant in that it provides the first substantial elaboration since the enactment of Law 41/1999 of the national government's regulatory framework for such important forest-related activities as the classification of state-controlled forest lands and the harvesting, processing, and marketing of forest products.

When it was enacted in June 2002, Regulation 34/2002 was widely seen as an effort on the part of Indonesia's national government to *recentralize* administrative and regulatory authority in the forestry sector. In virtually all aspects, Regulation 34/2002 shares the centrist tone of Law 41/1999, assigning primary authority in most significant areas of forestry planning and management to the central government. To the extent that Regulation 34/2002 delegates authority to regional governments, it generally does so in areas of secondary importance and makes this authority contingent on coordination with and approval of the MoF. Moreover, the delegation of such authority is largely restricted to provincial governments. As in Law 41/1999 and Regulation 25/2000, the administrative authority of district and municipal governments is hardly mentioned in Regulation 34/2002.

In its treatment of forest classification and the formulation of forest management plans, for instance, Regulation 34/2002 states that government-controlled forests will be divided into three categories: Conservation Forests; Protection Forests; and Production Forests (Art. 2). Responsibility for formulating long-term (i.e. 20-year) and medium-term (i.e. 5-year) management plans for forests within each category is assigned to the Provincial Forestry Service (*Dinas Kehutanan Propinsi*), although ultimate authority to approve these plans is assigned to the MoF. Responsibility for

formulating short-term (i.e. 1-year) management plans is assigned to the Provincial Forestry Service, with authority for approving these plans vested in the Governor. The MoF is given authority to issue the guidelines that are to be used in formulating these forest management plans.

Far more significantly from the perspective of revenue generation, Regulation 34/2002 assigns the national government far-reaching authority to control timber extraction in areas designated as Production Forest. Specifically, the regulation gives the Minister of Forestry sole authority to issue a 'Commercial Timber Utilization Permit' *(Izin Usaha Pemanfaatan Hasil Hutan Kayu,* IUPHHK*)*, a new license which replaces the Right of Forest Exploitation (*Hak Pengusahaan Hutan,* HPH) permit introduced by the Basic Forestry Law of 1967. This new license will be used to regulate all activities related to the harvesting, processing, marketing, planting, and management of timber species in areas classified as Production Forest (Art. 3). The Minister may allocate these permits to individuals, cooperatives, private sector companies, or state-owned enterprises associated with the national or regional governments. The permits have a maximum duration of 55 years for concession areas where logging will occur in natural forest and 100 years for areas where timber will be harvested from plantations.

In effect, the Commercial Timber Utilization Permit has been structured to reaffirm the administrative authority that the MoF held through the New Order period, when commercial timber extraction was organized around HPH timber concession licenses issued in Jakarta. In a nod to Indonesia's regional autonomy process, however, the Minister is required to take into consideration recommendations from the *Bupati* (or Mayor) of the district (or municipality) and the Governor of the province, respectively, in which the relevant forest area is located when issuing these permits (Art. 42). In theory, this arrangement should give the *Bupati* some leverage over the Minister's decision, but it remains to be seen how this plays out in practice.

Regulation 34/2002 also defines five additional, and arguably 'lesser', types of permits that Indonesian government agencies at the district, provincial, and national level can issue for activities associated with areas classified as Production Forest (see Table 3.1). As a group, these 'lesser' permits are structured to cover activities that are far less lucrative than large-scale commercial timber extraction; that occur on much smaller areas; and that have far more stringent limitations in terms of duration and maximal harvest levels than those prescribed for the Ministry's Commercial Timber Utilization Permit. These additional permits include the following:

- Commercial Non-Timber Forest Product Utilization Permit *(Izin Usaha Pemanfaatan Hasil Hutan Bukan Kayu)*: covers activities related to the harvesting, processing, marketing, planting, and management of Non Timber Forest Products (NTFP) for up to 10 years in natural forests and 100 years in plantation forest.
- Environmental Services Utilization Permit *(Izin Pemanfaatan Jasa Lingkungan)*: covers use of an area's environmental services without damaging its natural ecosystem or environment (i.e. ecotourism, carbon trading, etc.) for up to 10 years on areas up to 1,000 ha.
- Commercial Forest Estate Utilization Permit *(Izin Usaha Pemanfaatan Kawasan)*: covers use of a forest area's living space (i.e. for cultivation of medicinal plants,

understory crops, etc.) without disrupting the area's principal function, for up to 5 years on areas up to 50 ha.
- Timber Extraction Permit *(Izin Pemungutan Hasil Hutan Kayu)*: covers timber harvesting to meet needs of individuals or forest communities, for up to 1 year with a maximal volume of 20 m^3 for noncommercial purposes.
- Non-Timber Forest Product Extraction Permit *(Izin Pemungutan Hasil Hutan Bukan Kayu)*: covers NTFP harvesting to meet needs of individuals or forest communities, for up to 1 year with a maximal volume of 20 tonnes.

In each case, Regulation 34/2002 gives district (or municipality) governments authority for issuing these 'lesser' permits for forest areas that fall fully within a district's (or municipality's) boundaries. It gives provincial governments authority for issuing permits for areas that cross district boundaries but lie within a single province. Authority to issue permits for areas that cross provincial boundaries is assigned to the MoF.

In addition to reaffirming the MoF's authority over large-scale timber extraction, Regulation 34/2002 also extends the Ministry's administrative control over Indonesia's wood processing industries. In the past, the Ministry of Industry and Trade held the authority to issue commercial operating licenses for sawmills, plywood mills, and facilities producing other processed wood products such as chipboard, veneer, and laminated veneer lumber. This frequently led to inefficient resource utilization, as the MoF and Trade often approved applications for new or expanded wood processing units without first communicating with the MoF to ensure these facilities had a secure and sustainable supply of raw materials. This, in turn, led to the large imbalance that currently exists between the demand for logs on the part of Indonesia's domestic wood processing industries and the volumes of timber that can be sustainably harvested from the nation's forests, as discussed in Chapter 2.

Under Regulation 34/2002, the MoF is given authority to allocate commercial operating licenses and to approve the expansion of existing mills in each of these industries for processing units with a capacity above 6,000 m^3 per year (Art. 4).[21] Authority to allocate operating licenses and to approve expansions for mills with a capacity up to 6,000 m^3 per year is assigned to the Governor of the province in which a particular mill is located. In exercising such authority, however, the Governor is required to "take into account the recommendations or technical evaluation of the authority responsible for the forestry sector at the district/municipality level *and to obtain the agreement of the Minister*" [emphasis added].

Another important area where Regulation 34/2002 reaffirms the authority of the national government is in the distribution and trade of forest products (Art. 7). The regulation gives the MoF full authority to regulate the transport and marketing of both timber and non-timber forest products in Indonesia's domestic market. Authority to regulate the export of timber and non-timber forest products is assigned to the Ministry of Industry and Trade. Provincial and district governments are given no specific authority in this area.

In its final sections, Regulation 34/2002 states that HPH timber concessions and HPHH timber extraction permits, as well as wood processing industry licenses, issued prior to this regulation will remain in effect until their existing terms expire

Table 3.1 Types of permits under Government Regulation 34/2002

Permit Type	Maximum Area or Volume	Maximum Duration	Types of Permit-Holders	Activities	Issuing Authority
Commercial Timber Utilization Permit *(Izin Usaha Pemanfaatan Hasil Hutan Kayu)*	n.a.	55 years for natural forest; 100 years for plantation forest	Individuals; cooperatives; private sector companies; national or regional state-owned enterprises	All activities related to the harvesting, processing, marketing, planting, and management of timber species in designated areas	Minister of Forestry, based on recommendations from the *Bupati*/ Mayor and Governor
Commercial Non-Timber Forest Product Utilization Permit *(Izin Usaha Pemanfaatan Hasil Hutan Bukan Kayu)*	n.a.	10 years for natural forest; 100 years for plantation forest	Individuals; cooperatives; private sector companies; national or regional state-owned enterprises	All activities related to the harvesting, processing, marketing, planting, and management of non- timber forest products (NTFPs) in designated areas	a) *Bupati* or Mayor, for areas within one district or municipality; b) Governor, for areas crossing district or municipality boundaries; c) Minister of Forestry, for areas crossing provincial boundaries
Environmental Services Utilization Permit *(Izin Pemanfaatan Jasa Lingkungan)*	1,000 ha	10 years	Individuals; cooperatives; private sector companies; national or regional state-owned enterprises	Activities utilizing an area's environmental services without damaging its natural ecosystem or environment [i.e. ecotourism; extreme sports; water use; carbon trading; environmental conservation]	a) *Bupati* or Mayor, for areas within one district or municipality; b) Governor, for areas crossing district or municipality boundaries; c) Minister of Forestry, for areas crossing provincial boundaries

Permit Type	Maximum Area or Volume	Maximum Duration	Types of Permit-Holders	Activities	Issuing Authority
Commercial Forest Estate Utilization Permit *(Izin Usaha Pemanfaatan Kawasan)*	50 ha	5 years	Individuals; cooperatives	Activities that utilize a living space without disrupting the area's principal function [i.e.cultivation of medicinal plants; decorative plants; understory crops; mushrooms; bees; birds nests]	a) *Bupati* or Mayor, for areas within one district or municipality; b) Governor, for areas crossing district or municipality boundaries; c) Minister, for areas crossing provincial boundaries
Timber Exploitation Permit *(Izin Pemungutan Hasil Hutan Kayu)*	20 m^3	1 year	Individuals; coorperatives	Harvesting of timber to meet individual needs and/or public facilities of communities in forested areas	a) *Bupati* or Mayor, for areas within one district or municipality; b) Governor, for areas crossing district or municipality boundaries; c) Minister of Forestry, for areas crossing provincial boundaries
Non-Timber Forest Product Exploitation Permit *(Izin Pemungutan Hasil Hutan Bukan Kayu)*	20 tonnes	1 year	Individuals; cooperatives	Harvesting of non-timber forest products to meet individual needs and/or public facilities of communities in forested areas	a) *Bupati* or Mayor, for areas within one district or municipality; b) Governor, for areas crossing district or municipality boundaries; c) Minister of Forestry, for areas crossing provincial boundaries

Source: Government Regulation 34/2002

(Art. 99).[22] Significantly, Regulation 34/2002 also explicitly revokes Regulation 6/1999 on Commercial Forestry and the Extraction of Forest Products in Production Forest (Art. 100). As will be discussed in Chapter 5, Regulation 6/1999 was used by district governments to issue large numbers of small-scale HPHH timber extraction permits and forest conversion licenses. In this way, it has played an important role in undermining the MoF's control over commercial logging, and its revocation by Regulation 34/2002 represents the clearing of a major legislative hurdle for the national government in its efforts to recentralize authority in the forestry sector.

3.9 Revision of the 1999 Regional Autonomy Law

Among stakeholders at the national level, concerns about Indonesia's decentralization process have hardly been limited to policymakers in the MoF. Indeed through 2001, as Regulation 25/2000 and other implementing regulations for the regional autonomy law took effect, a growing chorus of officials within the central government – as well as many civil society groups and private sector actors – expressed concerns about the manner in which decentralization and regional autonomy were occurring in Indonesia. Many of these actors complained about what they called the 'excesses' of district governments, many of which had issued regulations or adopted policies that appeared to exceed the powers granted to them under the nation's regional autonomy law. In the view of many central government officials, Indonesia's regional autonomy process had resulted in a situation in which district governments were operating with very little accountability, either 'downward' to local constituents or 'upward' to 'higher' levels of government. Many also expressed concerns that district governments frequently had very limited institutional capacity to carry out the administrative responsibilities they had assumed.

Whatever the merits of these arguments may be, they inevitably led to calls for revision of Law 22/1999. These calls gained momentum when Megawati Soekarnoputri became President in July 2001. The daughter of Soekarno, Indonesia's first President, Megawati was widely known to favor a strong central government and to be deeply suspicious of regional autonomy, tending to view it as potentially opening the door to a process of national disintegration (Van Zorge Report 2002). By early 2002, the Megawati government had begun drafting a set of revisions to the regional autonomy law (*Kompas*, January 30, 2002). In public statements about this process, central government officials generally claimed that legal re-drafting was necessary to resolve the many contradictions and inconsistencies that existed in Law 22/1999 and its implementing regulations. They argued that Law 22 had been too heavily oriented towards defining the rights of district governments under regional autonomy, without adequately specifying their corresponding responsibilities. Moreover, it said little about the rights of either municipal or provincial governments. In addition, they called for a system of checks and balances to support more effective accountability and better coordination among the various levels of government (*Kompas,* February 5, 2002).

As early drafts of a revised law on regional governance circulated during 2002 and 2003, there emerged a lively national dialogue on how the regional autonomy process should be reformed. In August 2003, for instance, the Indonesian Association

of District Governments (*Asosiasi Pemerintah Kabupaten Seluruh Indonesia*, APKASI) agreed that the law needed to be revised, but only if the revisions would strengthen and empower the regional governments and would not lead to recentralization. APKASI recommended that the revised law should specify more clearly how authority would be distributed among the various levels of government; how authority would be shared between district executives and the DPRD; a process in which *Bupatis* could be chosen through direct local elections, and clear mechanisms of accountability of the DPRD to local constituents (*Kompas,* August 27, 2003). On the other hand, the Indonesian Association of Provincial Governments (*Asosiasi Pemerintahan Propinsi Seluruh Indonesia*, APPSI) stressed the importance of enhancing the role of the provinces within Indonesia's decentralized system of regional governance, and of clarifying the relations between the provincial and district governments in order to prevent situations where Governors are bypassed by the *Bupatis* in important decision-making processes (*Kompas,* September 25, 2003). For its part, the Indonesian Association of Municipal Legislatures (*Asosiasi DPRD Kota Seluruh Indonesia*, ADEKSI) voiced concerns that many of the proposed revisions would limit the authority of municipal governments generally, and of local legislatures in particular.

In December 2003, the DPR formed a special task force (*panitia khusus*) to coordinate revision of Law 22/1999 and of Law 25/1999. The task force submitted the revised laws to the DPR on May 10, 2004 and set a target for the laws to be ratified by the end of September 2004, just before the Megawati administration's term expired. Although this left only four months for the legal review process, the revised laws – Law 32/2004 on Regional Governance and Law 33/2004 on Fiscal Balancing Between the Central Government and Regional Governments – were ratified by the DPR on September 29 and signed by President Megawati on October 15, 2004, just five days before she left office.

The stated purpose of Law 32/2004 is to promote regional autonomy that is both 'concrete' (*nyata*) and 'responsible' (*bertanggung jawab*). According to the law's explanatory notes, this requires that regional autonomy be structured in a manner that "is always oriented towards improving the welfare of society and is continually attentive to the interests and aspirations that arise from within society." Significantly, the elucidation emphasizes that regional autonomy must "guarantee harmonious relations between one region with another in order to raise their welfare and to avoid disparity between regions." "Just as importantly," the text continues, "regional autonomy must guarantee harmonious relations between the Regions and the [central] Government, meaning that it must be able to maintain and protect the integrity of the Nation's territory and continually uphold the Unified Republic of Indonesia within the framework of promoting the national goals" (Law 32/2004, Elucidation, art. I).

Law 32/2004's emphasis on promoting cooperative relations among regional governments and on ensuring effective coordination between regional governments and Jakarta stands in marked contrast, in both letter and spirit, to Law 22/1999. The 1999 regional autonomy law, it will be recalled, focused almost exclusively on "the delegation of governance authority" to autonomous regions – particularly to

district and municipal governments – which were given far-reaching authority "to govern and administer the interests (*kepentingan*) of the local people according to their own initiatives, based on the people's aspirations, and in accordance with the prevailing laws and regulations." By contrast, Law 32/2004 articulates not only areas where regional governments can exercise autonomy, but also areas where they are expected to engage in 'co-administration' *(tugas pembantuan)* functions, together with governments at other levels.[23]

Directly related to this, Law 32/2004 seeks to clarify not only the rights and authority of governments at each level of Indonesia's administrative apparatus, but also the respective roles and obligations of those governments. Embedded in this redefinition of roles, rights, and responsibilities is a reinstatement of a significant degree of hierarchy within Indonesia's state apparatus. In particular, Law 32/2004 gives the central government far-reaching authority to influence and control the activities of regional governments at each level – and, in doing so, effectively advances a process of recentralization. Specifically, Law 32/2004 reaffirms the status of provincial governments – which were defined under Law 22/1999 to be autonomous regions – as arms of the central government with significant deconcentration functions. In this capacity, provincial governments are also given expanded powers vis-à-vis district and municipal governments, as compared to the rather peripheral role assigned to them under the 1999 Regional Governance law.

Moreover, the President is given the authority to dismiss the Heads of Region – including Governors (at the provincial level), *Bupatis* (at the district level), and Mayors (at the municipality level) – or their assistants, without seeking approval from the regional legislature, under any of the following circumstances:

- If the Head of Region is convicted of a criminal act carrying a penalty of at least 5 years in prison (Art. 30);[24]
- If he/she is accused of engaging in corruption, terrorism, treason, or criminal acts undermining national security (Art. 31);[25]
- If convicted of treason or other acts that can lead to the disintegration of the Unified Republic of Indonesia (Art. 31).

By contrast, the DPRD at each level is authorized to replace the Head of Region, or his/her assistant, only if he/she dies; if he/she resigns; if his/her term has ended; or if he/she is unable to fulfill the duties of office for a period of six continuous months.

On a more routine basis, Law 32/2004 gives the central government considerable authority to supervise and monitor the decisions, policies, and regulations adopted by regional governments at each level. The explanatory notes to Law 32/2004 state that such oversight by the central government is needed to "guarantee that regional governments operate in accordance with the plans, regulatory decisions, and [national] laws that are in effect." The law specifies a two-tiered system through which this supervision and monitoring will be carried out: the Minister of Home Affairs is authorized to review policies and decisions made by provincial governments; and Governors – in their capacity as representatives of the central government – are authorized to review policies and decisions made by district and municipal governments within their jurisdictions.

More specifically, the Minister of Home Affairs is given authority to review draft regulations from the provincial level related to regional taxes, regional fees, provincial government budgets, and the general spatial plan (*Rencana Umum Tata Ruang*, RUTR) *before* they can be approved by the Governor in the province in which they have been formulated. Likewise, Governors are authorized to review drafts of such regulations from district and municipal governments before they can be approved by the *Bupati* or Mayor. For all other types of regional regulations (i.e. those that do not pertain to budgetary or fiscal matters), district and municipal governments must submit to the Governor a copy of each regulation *after* it is ratified; and provincial governments must submit a copy to the Minister of Home Affairs. Law 32/2004 states that regional regulations that are, through this review process, determined to contradict higher laws will be revoked. In this way, the provincial government is effectively given 'veto power' over decisions, policies, and regulations that are made at the district and municipal levels; and the central government is given 'veto power' over those made at the provincial level (Cahyat 2005). To ensure full compliance on the part of regional governments, Law 32/2004 authorizes the central government to impose sanctions against regional government officials who are found to be violating or circumventing the central government's supervision and monitoring process. Specifically, potential sanctions include re-gazettement of an autonomous region; demotion or dismissal of an official; delay or revocation of a regional government policy, regulation, or decision by the Head of Region; and/or criminal prosecution.

Law 32/2004 appears to further strengthens the central government's power over regional governments by partially reinstating Jakarta's authority over the state administrative bureaucracies at the provincial, district, and municipal levels. While offering few details in this area, the law emphasizes that the regional civil service is a 'subsystem' of the national civil service and part of the same national bureaucratic network. Law 32/2004 acknowledges that due to the regional autonomy process, Indonesia does not have a single unified system that integrates the civil service bureaucracies at all levels. However, the law also emphasizes that neither are the regional and national bureaucracies totally separate – as the 1999 regional autonomy law implied. Rather, Law 32/2004's explanatory notes state that the country now has a "combination of a 'unified system' and a 'separated system', meaning that there are some tasks that are the responsibility of the [central] government and some that are the responsibility of the regional governments." While the *Bupati* is generally responsible for managing the civil service within his/her district, Law 32/2004 specifies that any promotions, transfers, and dismissals of civil servants at that level must be approved by the Governor. Moreover, the law states that the President ultimately holds the right to dismiss civil servants (presumably at any level); however, for practical purposes, this authority has been partially delegated to the regional authorities charged with supervising the bureaucracies within their jurisdictions.

In strengthening the power of the central government vis-à-vis regional governments at the provincial, district, and municipal levels, Law 32/2004 simultaneously weakens the authority of regional legislatures (Cahyat 2005). Whereas the DPRD at each level previously held the authority to choose the Head of Region, Law 32/2004 specifies that Governors, *Bupatis*, and Mayors will now be

chosen through direct popular elections. Moreover, Law 32/2004 emphasizes that the Head of Region and the DPRD now occupy positions of equal status, "in order to encourage mutual cooperation." However, as noted earlier, the DPRD has little real authority under the new law to hold the Head of Region accountable, as the power to dismiss Governors, *Bupatis*, and Mayors largely has been assigned to the central government. Moreover, while the Head of Region is required to keep the DPRD informed of his/her actions, provinces hold effective 'veto power' over policies and regulations made at the district and municipal levels, while the central government holds such power over those made at the provincial level.

Endnotes

[1] Law 22/1999 on Regional Governance (*Undang-undang No. 22 Tahun 1999 tentang Pemerintahan Daerah*).

[2] Law 25/1999 on Fiscal Balancing Between the Central Government and the Regional Governments (*Undang-undang No. 25 Tahun 1999 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah*.)

[3] For example, Ministry of Forestry and Estate Crops (MoFEC) Decrees No. 310/1999 to No. 317/1999. The widely recognized decree was No. 310/1999 on the guidelines for granting forest product harvesting rights (*pedoman pemberian hak pemungutan hasil hutan*).

[4] This probably has to do with the fact that Law 41/1999 had been long prepared not in response to decentralization. Discussion on Law 41/1999 dated back to 1995/96 where nobody at that time anticipated the rapid decentralization processes that followed after the step down of Soeharto (personal communication with Yurdi Yasmi, July 10, 2006).

[5] As an editorial in the daily newspaper, *Suara Pembaruan,* noted: "The idea of federalism is clearly not the solution to the regions' dissatisfaction with the central government. On the contrary, it could represent the seeds of disintegration. The formation of a federal state, as is well known, requires the existence of a certain maturity on the part of the regions, the absence of the seeds of separatism, as well as an economy that is sufficient strong to support limited self-reliance" (*Suara Pembaruan*, November 11, 1999).

[6] This legislative stipulation was recorded as Decree of People's Consultative Assembly of the Republic of Indonesia on the implementation of local autonomy and the arrangement, distribution, and equitable utilization of national resources; and the fiscal balancing of central and regional governments in the frame of the State Unity of the Republic of Indonesia (*Ketetapan MPR RI No. XV/MPR/1998 tentang Penyelenggaraan Otonomi Daerah, Pengaturan; Pembagian, dan Pemanfaatan Sumber Daya Nasional, yang Berkeadilan; serta Perimbangan Keuangan Pusat dan Daerah dalam Kerangka Negara Kesatuan Republik Indonesia*).

[7] According to Law 5/1974, co-administration included "tasks to participate in carrying out governmental affairs assigned to regional governments by the central government, or any higher level regional government". Law 22/1999 extended the scope of co-administration to also include villages, in which it was defined as "the assignment from the central government to regional government and from the regional government to villages to carry out certain tasks which are accompanied by financing, infrastructure and human resources with the obligations to report to and to be accountable to those who assign these tasks."

[8] In Law 22/1999, the term *Kotamadya* is replaced by *Kota*.

[9] The primary reason was that transferral of functions to district governments was not followed by a shift of both decision-making authority and financial resources (Erawan 1999). Moreover, in the end, as Devas (1997) argued, this amounted to a process of simplifying

administrative arrangements by integrating the parallel apparatuses for autonomous and deconcentrated tasks (*Kanwil* and *Dinas*) (cf. Niessen 1999: 110).

[10] Emergency Law and Law on Fiscal Balancing 1956. (*Undang-undang Darurat and Undang-undang Perimbangan Keuangan 1956*)

[11] Draft of Law on Fiscal Balancing Between the Central Government and Regions *(Rancangan Undang-undang Perimbangan Keuangan Pusat dan Daerah*)

[12] The final legislation established "a floor of 25% domestic revenues (including all oil and gas revenues) for transfers to regions through a General Allocation Fund (*Dana Alokasi Umum,* DAU) aimed at supplementing local revenues and equalising regional needs and revenue capacities (Ahmad and Mansoor 2000).

[13] The severance of the hierarchical relationship between provinces, on the one hand, and districts and municipalities, on the other hand, is a critical part of the decentralization process defined by Law 22/1999. As an editorial in the Jakarta daily *Suara Pembaruan* noted, if the legislation was to ensure that the districts and municipalities achieve true autonomy, it will be important that governors, as the representative of the central government, no longer have the ability to 'interfere' in the business of the districts and municipalities as they had up until the present (*Suara Pembaruan,* November 2, 1999). On this point Law 22/1999 states that autonomous regions "shall respectively be independent and shall not have a hierarchical relationship to each other" (Art. 4). However, the degree to which district and municipal governments would indeed be free of provincial 'interference' under the law remained limited. Subsequently, Law 32/2004 gave some authority to provincial governments to intervene in the affairs of district and municipal governments.

[14] It should be noted, however, that Article 13 of Law 22/1999 does stipulate that co-administration (*tugas pembantuan*), defined to include "the performance of certain tasks by the administration of autonomous region, but under the full authority and responsibility of the central government", would continue to occur at the district level (Niessen 1999). In other words, districts and municipalities would continue to carry out particular tasks under the authority of the central government, and with its financial and other support (Art. 13).

[15] In practice, members of the DPRD at each level are elected indirectly through political parties. General elections determine what portion of the DPRD seats will be allocated to each party, and the party then selects the individuals who serve as DPRD members.

[16] For clarity, it should be noted that the title of Regulation 25/2000 uses the term 'the Government' to refer to the national or central government.

[17] Decree of People's Consultative Assembly IV/MPR/2000 on Policy Recommendation on the Implementation of Regional Autonomy (*Ketetapan Majelis Permusyawaratan Rakyat No. IV/MPR/2000 tentang Rekomendasi Kebijakan dalam Penyelenggaraan Otonomi Daerah*).

[18] *PP 62/1998 tentang Penyerahan Sebagian Urusan Pemerintahan di Bidang Kehutanan kepada Daerah*. The regulation defines 'Hutan Milik' as "forests that grow on land assigned as private property, also commonly referred to as 'community forest'" (*Hutan milik adalah hutan yang tumbuh di atas tanah yang dibebani hak milik yang lazim disebut hutan rakyat*).

[19] *Peraturan Pemerintah No. 6/1999 tentang Pengusahaan Hutan dan Pemungutan Hutan pada Hutan Produksi.*

[20] *Peraturan Pemerintah No. 34/2002 tentang Tata Hutan dan Penyusunan Rencana Pengelolaan Hutan, Pemanfaatan Hutan dan Penggunaan Kawasan Hutan*.

[21] Regulation 34/2002 says nothing about authority to allocate commercial operating licenses for the pulp and paper industry, which remains with the Ministry of Industry and Trade.

[22] Article 10 stipulates that applications for HPH timber concessions and HTI timber plantation licenses that had reached the point of 'approval in principal' *(persetujuan prinsip)* before Regulation 34/2002 was enacted would continue to be processed.

[23] The explanatory notes for Law 32/2004 explain that co-administration functions "basically represent the involvement of Regions or Villages, including their people, in delegated tasks or authority from the [central] Government or regional governments to implement a governmental matter in a specific area."

[24] Article 30 states that the President can *temporarily* remove the Head of Region from office if he/she is accused of committing a criminal act carrying a penalty of at least five years in prison. The President can *permanently* dismiss the Head of Region if he/she is convicted of such a crime in a court of law.

[25] Article 31 states that the President can *temporarily* remove the Head of Region from office if he/she is accused of engaging in such acts.

Chapter 4

Fiscal Balancing and the Redistribution of Forest Revenues

Ida Aju Pradnja Resosudarmo, Christopher Barr,
Ahmad Dermawan, and John McCarthy

4.1 Introduction

To a very significant degree, Indonesia's decentralization process was driven by the demands of regional stakeholders for a greater share of the fiscal revenues associated with natural resource extraction activities in their jurisdictions. Through the New Order period, a substantial majority of the taxes and royalties generated by timber extraction, mining, and oil and gas production in Indonesia flowed to the national government in Jakarta. However, since the fall of Soeharto in 1998, officials at both the provincial and district levels have engaged in a tug-of-war with national policymakers to secure a greater portion of these revenues. They have argued, in many cases, that their regions remained underdeveloped during the New Order period while providing the central government with a steady stream of fiscal resources.

A general framework for the redistribution of revenues between Indonesia's national and regional governments was provided by Law 25/1999 on Fiscal Balancing, which was enacted together with Law 22/1999 on Regional Governance in May 1999. Significantly, Law 25/1999 delineated how petroleum, timber, and mining royalties are to be re-divided among Indonesia's national, provincial, and district governments under regional autonomy. As significantly, Law 25/1999 specified how district governments are to obtain the fiscal resources needed to pay for the large number of new administrative responsibilities assigned to them by Law 22/1999. Indeed, the fiscal balancing law appears to give district governments significant responsibility to raise their own funds to cover the added costs passed on to them by the central government in the context of decentralization. On the other hand, the law opened up opportunities for district governments not only to identify new sources of potential revenues, but also to spend the income generated according to local development needs and priorities.

This chapter briefly outlines the fiscal system framing regional government finance during the New Order period, including the mechanisms for distributing forestry sector revenues. It then examines how Indonesia's fiscal system was restructured under decentralization with the enactment of Law 25/1999 – and, more recently, with the adoption of Law 33/2004 on Fiscal Balancing between the Central Government and Regional Governments (which was ratified in October 2004 together with Law 32/2004, the revised regional autonomy law). In particular, the chapter describes how forestry revenues have been redistributed under the new fiscal balancing arrangements, and assesses what this has meant in terms of both forest administration

and the equitable sharing of forest benefits. It also describes the pressures district governments are now under to secure locally generated revenues in order to finance their expanded administrative responsibilities, as well as the new opportunities for income generation that district governments have under decentralization.

4.2 Regional Government Finance during the New Order Period

During the New Order period, Indonesia had one of the most highly centralized fiscal systems in the world. From the early 1970s until the regime's collapse in 1998, regional governments at the province and district/municipality levels derived the overwhelming majority of their revenues through transfers from the central government in the form of loans and grants (Devas 1989). During the years immediately prior to the introduction of Law 25/1999, provincial governments generated, on aggregate, approximately 30% of their annual revenues from a combination of local taxes and fees and of revenue sources that were shared between the regions and Jakarta. Much of the remaining 70% came from two grants administered by the central government: the 'Subsidy for Autonomous Regions' (*Subsidi Daerah Otonom,* SDO) and the 'Presidential Instruction' (*Instruksi Presiden*, Inpres) grant program. District governments were even more dependent than provincial governments on allocations from Jakarta. Prior to decentralization, it was common for districts to derive over 80% of their revenues from grants and loans administered by the central government (Shah 2000; Shah and Qureshi 1994; Devas 1989).

Under Soeharto, the SDO was allocated to provincial and district governments to cover staff costs and other routine budget expenditures. The amount distributed at each level was based on the numbers of staff employed by government agencies, as approved by the National Civil Service Board (Devas 1989). Provincial and district governments generally had very little flexibility or discretion over how these funds were used, as they were tied directly to staffing levels and salary structures which were entirely determined by the central government (Direktorat Jenderal Perimbangan Keuangan Pusat dan Daerah [Ditjen PKPD] 2004).[1] Moreover, there was significant variation across regions in terms of the amounts of SDO funds allocated (Devas 1989). This was largely due to the differences in approved numbers of civil servants that the central government was willing to support.

At both the provincial and district levels, the SDO represented the single largest source of revenues for most regional governments. Devas (1989) notes that in the 1980s, SDO grants often accounted for as much as 60% of provincial revenues, on aggregate, and roughly 25% of overall district revenues. For most years during the 1990s, SDO grants accounted for 55%-65% of total Central Government allocations to the regions; during some years in the late-1980s, they exceeded 70% of the total amount transferred by Jakarta. Silver *et al.* (2001) point out that "in 1996/97, SDO grants totaled more than Rp 10 billion, compared with Rp 7 billion in the more discretionary Inpres program."

The Central Government established the Inpres grants in the early-1970s to generate employment through rural infrastructure projects. Initially, Inpres transfers

were structured in the form of block grants to provincial and district governments, which gave regional governments considerable flexibility in determining how these funds would be administered. Beginning in the late-1970s and extending through the 1980s, however, the New Order government added numerous earmarked grants to the program. By the early-1990s, policymakers in Jakarta were using Inpres transfers to pursue the national government's development priorities in a number of specific areas, including the construction of roads, schools, and public markets; public health initiatives; 'regreening'; infrastructure finance and technical assistance to poor villages; capacity building for local planning; and urban development. Collectively, these earmarked grants were known as 'Special Inpres' (Inpres *Khusus*), whereas the block grants were referred to as 'General Inpres' (Inpres *Umum*).

During the 1990s, the central government came under pressure to expand the block grant component of the program. According to Silver *et al.* (2001), this pressure largely came from proponents of decentralization who called for "enlargement of the block grant component… both to counter the growing influence of central government ministries and to return to the initial structure of Inpres as a locally directed grant." The New Order leadership responded to this pressure by introducing modest increases in the annual amount of the Inpres *Umum* transfers, while also taking steps to significantly restrict the discretion that regional governments had in administering these funds. Many provincial and district governments, for instance, "were compelled to use Inpres *Umum* [funds] to finance projects when earmarked grants were insufficient… or when counterpart funds were required by foreign donors for projects initiated by the central government." Moreover, national policymakers began to require provincial and district governments to use a growing portion of the general use Inpres funds for road development and irrigation projects. Silver *et al.* (2001) note that "by the mid 1990s, Inpres was no longer a general discretionary grant program but a highly prescribed, Central Government controlled, multi-purpose development fund."

During the New Order period, the central government exerted firm control over the most lucrative natural resources. Most significantly, the Ministry of Petroleum Mining issued all permits for oil and gas production, and all taxes in the sector flowed to Jakarta (see Table 4.1). The central government also exercised control over the allocation of permits for the mining of coal and precious metals; whereas the authority of provinces was limited to the issuance of small-scale and minor mining permits, including sand and gravel extraction. Similarly, the MoF in Jakarta also determined the tax rates for commercial forestry activities, granted timber exploitation licenses, and collected a large portion of revenues generated by the forestry sector.

Table 4.1: Revenue Sharing Among Central, Provincial, and District/Municipality Governments Prior to 1999 Decentralization and Fiscal Balancing Laws (by percentage)

Revenue Source	Central Government	Provincial Government	District or Municipality
Oil	100	0	0
LNG[a]	100	0	0
Mining: Land-rent	20	16	64
Mining: Royalty	20	16	64
Forestry: IHPH[b]	30	56	14
Forestry: PSDH[c]	55	30	15
Fishery	100	0	0
Land and Building Tax	19	16.2	64.8
Land/Building Transfer Fee	20	16	64
Personal Income Tax	100	0	0

Sources: Ditjen PKPD (2004), Ford (2000), Prakosa (1996), Shah and Qureshi (1994), various government regulations
Note:
[a] LNG = Liquefied Natural Gas
[b] IHPH = *Iuran Hak Pengusahaan Hutan* (HPH License Fee)
[c] PSDH = *Provisi Sumber Daya Hutan* (Forest Resource Rent Provision)

During the New Order period, regional governments had only limited opportunities for raising their own revenues. Through the 1980s and much of the 1990s, for instance, governments at both the provincial and district levels imposed numerous taxes and fees, although very few of these had much revenue potential (Devas 1989).[2] In 1997, the central government further restricted the capacity of regional governments to generate their own revenues with the introduction of Law 18/1997 on Regional Taxes and Levies**.** Law 18/1997 stipulated that provincial and district governments could only impose taxes and levies that were included on a specified list formulated by the Ministry of Finance and that any changes to this list would only take effect if they were approved by the Ministry (World Bank 2003). For district governments, the list of authorized taxes covered six relatively minor sources of revenue: C-grade mining (for sand, gravel, etc.); surface and ground water; advertisements; hotels and restaurants; entertainment; and street lighting.

Provincial and district governments were also permitted to obtain their own revenues through the operation of regional government enterprises (*Badan Usaha Milik Daerah,* BUMD). Many provincial and district government formed BUMD to manage commercial operations (such as hotels and entertainment facilities) and public utilities (such as water supply) (Devas 1989). However, most of these enterprises were notorious for being poorly managed and, in many cases, for generating economic losses rather than positive revenues.

4.3 Distribution of Forestry Revenues before Decentralization

The New Order state's framework for resource rent capture in Indonesia's timber sector involved the collection of a variety of fees and royalties, which were modified both quantitatively and qualitatively over time. Although the central government controlled a majority of the tax revenues collected from forestry producers, the distribution of these revenues among the national, provincial, and district governments was arguably far more equitable than that found in other natural resources sectors. For instance, Jakarta maintained firm control over 100% of the taxes paid by producers in the oil and gas sector, although the central government redistributed a substantial portion of these revenues through its development spending in the regions. By contrast, in forestry the central government received just 55% of the revenues from timber royalties and only 30% from timber concession licenses (see Table 4.1).

During the New Order period, the government collected three major taxes and fees that were specific to the forestry sector. These taxes and fees are still levied under decentralization, and forestry companies continue to pay them directly to central government accounts. These included the following:

1) HPH License Fee (*Iuran Hak Pengusahaan Hutan,* IHPH): a one-time area-based fee paid at the time the HPH timber concession contract is initially issued. The fee is based on the size of the concession area and on whether the HPH permit is new or being renewed. In 1998, the fee for a new HPH concession in Kalimantan was Rp 50,000 per ha, equivalent to a one-time payment of US$ 500,000 for a 100,000 ha concession.[3]
2) Forest Resource Rent Provision (*Provisi Sumber Daya Hutan,* PSDH): a volume-based royalty on each cubic meter of timber harvested. In 1998, the rate was set at 6% of a reference price defined biannually by the Ministry of Industry and Trade. In 1999, the rate increased to 10% and has since remained unchanged.[4] The reference price for *Shorea spp.* logged in Sumatra, Kalimantan, Sulawesi and Maluku, for example, was set at US$ 59.00 per m^3 during the second half of 1998.[5] Timber companies were, therefore, required to pay 6%, or $ 3.54 per m^3, regardless of the actual market price achieved. Prior to 1998, the PSDH was known as the 'Forest Product Royalty' (*Iuran Hasil Hutan,* IHH).
3) Reforestation Fund (*Dana Reboisasi,* DR): a volume-based fee on each cubic meter of timber harvested. This fee was initially introduced in 1980 as a bond to support reforestation and forest rehabilitation activities.[6] In 1989, however, it was restructured as a nonrefundable forest levy. The size of this fee varies according to the type, grade, and location of the wood harvested. The rate is set in US dollars (except in 1998, when it was denominated in *rupiah*). For example, prior to 1998 (and currently), the DR fee for *Shorea spp.* with a diameter of 50 cm and above, harvested in Kalimantan, was US$ 16 per m^3.[7]

Timber concession-holders were also required to pay a 'Forest Village Community Development' fee (*Bina Desa* or *Pembangunan Masyarakat Desa Hutan,* PMDH, after 1995). This was a volume based fee of approximately US$ 5.00 per m^3 in 1998, which was to be spent on community development initiatives for villagers living

in or near the concession site. Most timber concessionaires generally fulfilled their *bina desa* (literally, 'village guidance') obligations by providing material assistance directly to local communities through allocations of seed or farming equipment or through the construction of schools, mosques or village facilities. Initiatives and benefits varied significantly.

As Table 4.2 shows, the three main taxes and fees collected by the government in the forestry sector accounted for between US$ 578 million and US$ 810 million annually during the last five years of the New Order regime (i.e. FY 1993/94 – 1997/98). Of all forestry payments, the DR was by far the most significant in monetary terms, generating some US$ 486 million on an annual basis. The PSDH/IHH and IHPH, by comparison, together generated approximately US$ 230 million annually.

Table 4.2: Government Revenues from Major Forestry Taxes and Fees During FY 1993/94 – 1997/98

Tax or Fee Type	Annual Revenues (Million Rp)				
	FY 1993/94	FY 1994/95	FY 1995/96	FY 1996/97	FY 1997/98
IHPH[a]	21,690	38,367	29,268	20,690	22,147
PSDH/IHH	383,650	473,293	585,134	622,145	814,967
DR[b]	996,257	1,069,703	1,233,185	1,253,783	1,844,077
Total	**1,401,597**	**1,581,363**	**1,847,586**	**1,896,619**	**2,681,190**
US$ equivalents (million)[c]	**US$ 665.55**	**US$ 724.12**	**US$ 810.14**	**US$ 800.88**	**US$ 578.15**

Source: Derived from MoF (various years)
Note:
[a] Consists of HPH License Fees (IHPH) and timber plantation license fees (*Iuran Hak Pengusahaan Hutan Tanaman* Industri, IHPHTI)
[b] Consists of DR receipts and interest
[c] Based on Bank Indonesia's average monthly exchange rate for the period covered

The degree to which forestry revenues were shared across the various levels of government varied quite considerably among the three main forestry fees and taxes. The central government exerted virtually full control over the Reforestation Fund, for instance, with all payments to the fund managed outside the national budget by the Minister of Forestry in Jakarta. Formally, DR were to be used to finance activities related to reforestation or forest rehabilitation outside HPH areas; development of timber plantations in forest areas deemed to be 'degraded' and/or 'commercially unproductive'; and land rehabilitation in areas designated by the MoF. Informally, however, the New Order leadership also used the Reforestation Fund as a significant source of finance for numerous off-budget expenditures that had little to do with improving the quality of forests (Christanty and Atje 2004; Ernst & Young 1999).[8]

In 1997, the central government began to restructure the management of off-budget funds and revenues through the passage of Law 20/1997 on Non-Tax State Revenues. This law stipulated that non-tax revenues from natural resources were to be included in the state budget.[9] This meant that forestry funds, particularly the DR, would now be administered by the Ministry of Finance, and their allocation

and use would be subject to the approval of the House of Representatives (DPR). Moreover, as part of Indonesia's January 1998 Letter of Intent with the International Monetary Fund (IMF), the government agreed to commission an independent audit of the Reforestation Fund and to manage the fund more transparently (Ernst & Young 1999).

The less lucrative PSDH (and before it, the IHH) was distributed much more equitably. Under Presidential Decree 67/1998, revenues from the PSDH were divided as follows: 30% went to the originating provincial government, to be used as development funds; and 15% to the originating district or municipality (town council), also to be used as development funds. The remaining 55% went to the central government (with 40% earmarked for national forestry development and 15% for regional forestry development). The central government, likewise, retained only 30% of the IHPH, with 56% going to the provincial government and the remaining 14% to the district or municipal government (Prakosa 1996) (see Table 4.1).

In addition to forestry royalties and fees, timber producers have been required to pay a number of lesser fees and taxes that were not specific to the forestry sector. These have included Corporate Income Tax (*Pajak Penghasilan Perusahaan*), Land and Building Tax (*Pajak Bumi dan Bangunan,* PBB), Value Added Tax (*Pajak Pertambahan Nilai*), and a Charge for Motorized Vehicles (*Retribusi Kendaraan Bermotor*). Of these, the Charge for Motorized Vehicles was the only source of revenue that district governments were authorized to collect, based on the number and size of vehicles using public roads.

4.4 Fiscal Balancing Under Decentralization

Under decentralization Indonesia's regional governments have assumed significantly greater authority and responsibility to manage their own budgets than they had during the New Order period. Law 25/1999 on Fiscal Balancing specifies that costs associated with the implementation of decentralization shall be covered by regional government budgets (*Anggaran Pendapatan dan Belanja Daerah*, APBD). This law also indicates that 'regional' governments (Law 22/1999 defines a *region* as provinces, districts, and municipalities) can obtain the funds needed to finance decentralization from any of the following sources:

- Balancing Funds (*Dana Perimbangan*)
- Regionally Generated Revenues (*Pendapatan Asli Daerah,* PAD)
- Regional borrowing (*Pinjaman Daerah*)
- Other legal sources of income

The following sections describe the principal components of each of these.

Balancing Funds (*Dana Perimbangan*)

Law 25/1999 specifies three types of Balancing Funds: 1) the General Allocation Fund (*Dana Alokasi Umum,* DAU); 2) the Special Allocation Fund (*Dana Alokasi Khusus,* DAK); and 3) shared revenues from land and natural resource taxes.

The General Allocation Fund – DAU

The core of Indonesia's new system of inter-governmental transfers, as defined by Law 25/1999, is the DAU. This fund is allocated from the national government budget, according to a specified formula, "with the objective of equalizing the financial capacity across regions to fund their respective expenditure needs within the context of implementing decentralization" (Art. 1). The fiscal balancing law requires the DAU to amount to at least 25% of total domestic revenues, as recorded in the national budget (Art. 7). It also specifies that the central government will allocate 10% of the DAU to provincial governments and 90% to district and municipal governments (Art. 7). For all practical purposes, the DAU has effectively replaced the SDO and Inpres *Umum* block grants that the central government transferred to regional governments during the New Order period, although the DAU is structured heavily in favour of districts over provinces. The DAU is generally used by recipient governments to cover routine expenditures, particularly the salary of civil servants.

Law 25/1999 and its implementing regulations have established a process that is meant to ensure that revenues transferred through the DAU are distributed equitably (though not necessarily evenly) among rich and poor regions. In principle, this is to guarantee that resource-poor regions are also able to participate in development, in spite of the fact that the country's regional autonomy laws give resource-rich regions greater control over the revenues generated within their jurisdictions. To this end, the DAU is calculated in accordance with a 'balancing formula' in which each district and province is given a weighting. The formula is designed to take into account the 'fiscal gap' (*celah fiskal*), i.e. each region's relative expenditure needs, on the one hand, and its relative economic potential (or fiscal capacity), on the other hand. Indicators used to assess a region's relative needs include population, area, geographical location and average income, with particular attention given to the poorer strata of the population. Indicators used to assess the economic potential of a region include industrial base, natural and human resources, as well as Gross Regional Domestic Product (Art. 7, Elucidation).

In October 2004, the government made a number of changes to Indonesia's regional autonomy and fiscal balancing laws with the adoption of Law 32/2004 on Regional Governance and Law 33/2004 on Fiscal Balancing Between the Central Government and Regional Governments. Under Law 33/2004, the DAU will amount to at least 26% of total domestic revenues as recorded in the national budget. The amount of DAU each region will receive depends on the 'fiscal gap' and 'base allocation' (*alokasi dasar*) - which depend on the number of civil servants in the region.

The Special Allocation Fund – DAK

A second category of revenues under the Balancing Fund umbrella is the Special Allocation Fund, or DAK. This consists of revenues from the central government budget that are allocated to regional governments to assist in financing 'special needs' (Art. 8). In principle, these include needs that cannot be predicted using the general allocation formula, as they are specific to a particular region. These may include,

for example, activities related to fulfilling needs in transmigration areas, investment in new infrastructure, road development in isolated areas, construction of irrigation and primary drainage channels (Art. 8, Elucidation). These 'special needs' can also include 'national commitments or priorities'. However, the DAK is allocated from the central budget depending on the availability of fiscal resources.

Notably, Law 25/1999 specified that the Reforestation Fund is to be administered under the DAK, and specifically used for activities related to forest and land rehabilitation (*Rehabilitasi Hutan dan Lahan*, RHL). Law 25/1999 stipulated that 40% of DR monies shall be made available to the region(s) in which these revenues were generated. The remaining 60% is allocated to the central government. The allocation and uses of DR are described in the next section.

Under Law 33/2004, the Reforestation Fund was reclassified so that it would be administered as 'Shared Revenues' (*Dana Bagi Hasil*). As such, it is now no longer treated as part of the DAK. The share of the central government and region(s) remain the same.

Shared Revenues from Land and Natural Resource Taxes

In addition to establishing the system of inter-governmental transfers involving the DAU and DAK, Indonesia's fiscal balancing law substantially revised the manner in which natural resource royalties and land-related taxes are shared among the central government, provinces, districts, and municipalities. These revenues range in scale from the relatively modest Land and Building Tax (*Pajak Bumi dan Bangunan,* PBB) and Transfer Fee on Land and Building Rights (*Bea Perolehan Hak atas Tanah dan Bangunan,* BPHTB) to a host of far more substantial royalties associated with natural resource extraction, including forestry. The legislation explicitly seeks to address the demands of resource rich regions to enjoy a larger proportion of the revenues derived from the resources extracted within their boundaries. As indicated in Table 4.3 below, the law sets out the specific percentage of revenues generated from oil, gas, mining, forestry and fisheries exploitation to be divided among the national, provincial, and district governments.

Under this formula, the regions' share of royalties associated with most types of natural resource extraction has significantly increased since the fall of the New Order regime. In the case of royalties associated with petroleum and gas, the national government now retains 85% and 70% respectively - compared to 100% during the New Order period. In the forestry sector, both the HPH License Fee (IHPH)[10] and the Forest Resource Rent Provision (PSDH) are divided so that 20% goes to the national government and 80 % is returned to the regions. With respect to the IHPH fee, the 80% earmarked for the regions is divided between the province (16%) and the district/municipality in which the timber concession is located (64%). Similarly, the regions' share of the PSDH is divided among the province (16%), the producing district or municipality (32%), and other districts or municipalities in the province (32%).

In 2001, the Indonesian government approved a special natural resource sharing arrangement for the provinces of Nanggroe Aceh Darussalam (NAD, formerly Aceh) and Papua (formerly Irian Jaya). Law 18/2001 on Special Autonomy for NAD

entitles that province to receive 55% of petroleum taxes and 40% of natural gas taxes (as compared to the standard 15% and 30%, respectively, that other provinces receive). Law 21/2001 on Special Autonomy for Papua gives that province 70% of both petroleum and gas taxes (see Box 4.1).

Table 4.3: Revenue Sharing Among Central, Provincial, and District/Municipality Governments Under Law 25/1999 on Fiscal Balancing and its implementing regulation (by percentage)

Revenue Source	Central Government	Provincial Government	Originating District or Municipality	Other Districts and Municipalities in the Same Province	All Districts and Municipalities in Indonesia
Oil	85	3	6	6	0
LNG	70	6	12	12	0
Mining: Land-rent	20	16	64	0	0
Mining: Royalty	20	16	32	32	0
Forestry: IHPH	20	16	64	0	0
Forestry: PSDH	20	16	32	32	0
Fishery	20	0	0	0	80
Land and Building Tax	9	16.2	64.8	0	10
Land/Building Transfer Fee	0	16	64	0	20
Personal Income Tax	80	8	12	0	0

Sources: World Bank 2003 (citing Law 25/1999; Government Regulation 104/2000; and Bambang Brodjonegoro 2001).

Note:

a. Under special autonomy arrangements, the provincial government of Nanggroe Aceh Darussalam receives 55% of oil taxes and 40% of LNG taxes; the provincial government of Papua receives 70% of oil taxes and 70% of LNG taxes.

b. Under Law 33/2004, the share of oil revenue has been changed so that as of 2009, the center would receive 84.5% and 69.5% of oil and gas revenues, respectively, while the share of the regions remain the same. The difference of 0.5% of the oil and gas revenues will be allocated for basic education, in which the province will receive 0.1%, originating district 0.2% and other district within province 0.2%.

c. Under Law 33/2004, Reforestation Fund (*Dana Reboisasi*, DR) is categorized as shared revenues. The center would receive 60% and originating region would receive 40%.

Regionally-Generated Revenues – PAD

The fiscal balancing law emphasizes that under decentralization, regional governments at the provincial, district, and municipal levels will be responsible for securing a significant portion of their income from regionally-generated revenues (commonly referred to by its Indonesian acronym, PAD, for *Pendapatan Asli Daerah*). Broadly defined, this category refers to sources of revenue that a regional government can directly obtain from within its own jurisdiction, as opposed to transfers from the national government or loans from external sources. Law 25/1999 identifies three main types of PAD, including revenues from: regional taxes; regional levies (i.e. fees and surcharges); and regional government enterprises (*Badan Usaha Milik Daerah,* BUMD).

Box 4.1: Special Autonomy for Nanggroe Aceh Darussalam and Papua

Demands from regional stakeholders for a more equitable share of natural resource revenues have been a significant driving factor behind Indonesia's decentralization process. In the years leading up to the 1999 regional autonomy law, some of the most vociferous demands came from stakeholders in the resource-rich provinces of Nanggroe Aceh Darussalam and Papua (which has now been divided into three provinces) – located, respectively, in the furthest western and eastern reaches of the archipelago. Indeed, when the regional autonomy laws were adopted, each of these provinces had a long-standing separatist insurgency: namely, the Free Aceh Movement (*Gerakan Aceh Merdeka,* GAM) and the Free Papua Organization (*Organisasi Papua Merdeka,* OPM).

In a bid to prevent the secession of these two important provinces from the unitary republic, the central government negotiated with each province an arrangement for 'special autonomy'. Law 18/2001 delineates special autonomy for Nanggroe Aceh Darussalam, while Law 21/2001 does so for Papua. Both laws focus largely on the relationship between the provincial and central governments, and they say little about how authority should be shared between the provincial and district governments. In each case, the province is given wide-ranging authority to manage its own affairs. In recognition of local cultural institutions, the special autonomy laws give political legitimacy to both traditional councils and regional parliaments. In the case of Aceh, the special autonomy law allows the province to organize both the legal and educational systems around Islamic principles.

Significantly, the special autonomy laws give Nanggroe Aceh Darussalam and Papua a much larger share of oil and gas revenues than other provinces. Under the special autonomy arrangement, Aceh receives 55% of oil taxes and 40% of LNG taxes for a period of eight years after the agreement was signed. Thereafter, the region's share of oil and gas revenues will be reduced to 35% and 20%, respectively. For Papua, the special autonomy agreement stipulates that the region shall receive 70% of the oil and gas revenues generated within the region for a period of 25 years, after which the portion shall decline to 50%. The special autonomy agreements for both provinces stipulate that at least 30% of the region's natural resource revenues, including the special-autonomy related oil and gas revenues, should be allocated for education, and 15% should be allocated for health and nutritional development.

The authority of provincial and district governments to impose their own taxes and levies was further strengthened by Law 34/2000, which amended the highly restrictive 1997 regional tax law. Law 34/2000 defined a set of procedures for provincial and district governments to issue their own Regional Regulations (*Peraturan Daerah,* commonly referred to as *perda*) related to taxes. In brief, provincial and district governments are permitted to issue new tax regulations as long as these fully adhere to existing laws; do not duplicate existing taxes administered by the central government; do not affect the economy and the environment negatively; are 'socialized' prior to their issuance; and are ratified by the DPRD at the appropriate level. Under Law 34/2000, the Ministry of Home Affairs has the authority to review

provincial and district tax regulations, and to cancel these if they fail to meet the requisite criteria. However, the Ministry must work within a tight deadline if it wishes to cancel a *perda*.

Law 34/2000 also delineated a broader list of areas where provincial and district governments are authorized to collect taxes and levies. Provincial governments are allowed to collect taxes on motor vehicle use; river and maritime shipping; transfer of ownership for motor vehicles and shipping; fuel purchase; and the exploitation and use of ground water and surface water. District governments are authorized to collect taxes on hotels; restaurants; entertainment; advertising; street lighting; parking; and the exploitation of category C-grade mining (for sand, stones, etc.). Regional governments are also authorized to apply three types of levies: public service levies, business service levies (*retribusi jasa usaha)*, and specific licensing levies. As discussed below, this law enabled forest-rich district governments to apply levies on the issuance of district logging licenses during 1999 and 2000.

Regional Borrowing

The fiscal balancing law authorizes regional governments to borrow funds from domestic sources in order to cover some portion of their expenditures.[11] It allows regional governments to borrow funds from foreign sources only through the central government. Regions may take out long-term loans "to finance infrastructure development that represents a regional asset and to generate income to pay back [outstanding] loans, as well as to provide public service benefits" (Art. 11). In cases where regional governments fail to repay loans from the central government, the latter is authorized to recover the loans by deducting these from grants made to the region under the General Allocation Fund.[12] (Since Law 25/1999 was ratified, however, the Ministry of Finance has issued several decrees that prohibit regional governments from taking out long-term loans, arguing that these would undermine the country's financial recovery process).[13]

Under Law 33/2004, regions are not allowed to borrow funds from foreign sources directly. Regions are allowed to borrow from the central government, other regions, financial instituions and to public (by issuing bonds). The central government sets out the maximum amount of regional borrowing, up to 60% of the Gross Domestic Product at the corresponding fiscal year.

Other Legal Sources of Income

Other legal sources of income include emergency funds and grants. In cases where regional governments face sudden and unforeseen budgetary needs, Law 25/1999, as well as its revision Law 33/2004, stipulate that emergency funds may be made available from the national government budget.

4.5 Forest Revenue Sharing

In the years immediately following Indonesia's fiscal decentralization process, aggregate government revenues generated by the forestry sector's major taxes, fees, and levies have ranged from a high of Rp 4.8 trillion (or US$ 471 million) in 2001 to a

low of approximately Rp 2.0 trillion (or US$ 240 million) in 2003 (Table 4.4). In real terms, these figures reflect a sharp decline in government receipts from the forestry sector as compared to those generated during the years preceding decentralization. As shown earlier in Table 4.2, government forestry revenues exceeded US$ 800 million annually during fiscal years 1995/96 and 1996/97.

Table 4.4: Distribution of Forestry Revenues, 2001-2004

Type of Revenue	Level of Government	Annual Revenues (Million Rp)			
		2001	2002	2003	2004
IHPH + PSDH	Center[14]	939,030	807,720	399,000	670,400
	Provinces	166,920	157,250	66,570	126,960
	Districts	666,850	629,010	266,280	504,470
DR	Center[15]	2,365,450	2,120,690	868,900	2,029,600
	Provinces + Districts[16]	700,560	620,680	462,830	800,000
Total		**4,838, 810**	**4,335,360**	**2,063,580**	**3,331,430**
US$ Equivalents (Million)		**US$471.35**	**US$468.12**	**US$240.75**	**US$ 372.64**

Sources: Various sources[17]

It is likely that this drop in government revenues reflects a number of factors, most of which are not directly related to decentralization. These include, for instance, the broad decline in production on the part of Indonesia's forestry sector industries following the 1997-98 economic crisis; a surge in illegal logging over the last several years; and the MoF's efforts, since 2003, to implement a 'soft landing' policy for sectoral restructuring by sharply restricting the annual timber harvest.

The figures shown in Table 4.4 suggest that the distribution of forestry revenues during 2001-2004 may have diverged from the guidelines specified by Indonesia's fiscal decentralization laws. In each year, for instance, the central government's share of the IHPH and PSDH has exceeded 50% of the total – which is substantially higher than the 20% allocated to the central government by Law 25/1999 and Law 33/2004. Similarly, the central government's share of the Reforestation Fund revenues has ranged between 65% and 77%, which exceeds the 60% specified by Law 25/1999 and Law 33/2004. These figures should be treated with caution, however. They have been compiled from a variety of sources (including the MoF, Ministry of Finance, and the National Budget), and may therefore reflect methodological differences or inconsistencies in the data. It should also be noted that in the case of the DR figures reported in Table 4.4, the central government's portion includes both receipts and interest, which would likely account for at least a portion (if not all) of the amount by which the figures exceed 60% of total receipts.

Table 4.5 presents a more detailed picture of how the main shared revenues from the forestry sector – the PSDH and the IHPH – were distributed among Indonesia's 30 provinces and 407 districts and municipalities in 2004 (see Appendix 3 for more detailed information). In aggregate terms, combined PSDH and IHPH revenues distributed to regional governments in 2004 totaled Rp 631 billion, equivalent to US$

Table 4.5: Distribution of Shared Forestry Revenues (PSDH + IHPH) to Regional Governments, 2004

Region	No. of Districts and Municipalities	Revenues to Districts/ Municipalities (Rp)	Revenues to Province (Rp)	Total Revenues (Rp)	Forestry as % of Total Shared Natural Resource Revenues
Kalimantan Timur	13	162,633,742,906	40,658,435,726	203,292,178,632	3.67
Kalimantan Tengah	14	88,819,684,543	22,204,921,135	111,024,605,678	93.10
Riau	11	66,867,264,676	16,716,816,169	83,584,080,845	1.78
Maluku Utara	5	28,563,204,087	7,140,801,146	35,704,005,233	44.40
Sumatera Barat	16	22,654,796,122	5,663,699,030	28,318,495,152	75.34
Papua	19	19,895,028,329	4,973,757,082	24,868,785,411	11.61
Jambi	10	18,555,143,529	4,638,785,882	23,193,929,411	17.23
Irian Jaya Barat	9	15,908,219,747	4,373,209,770	20,281,429,517	43.61
Maluku	5	10,770,689,462	2,692,672,365	13,463,361,827	73.93
Kalimantan Barat	10	10,355,866,936	2,588,954,234	12,944,821,170	72.15
Jawa Tengah	35	9,703,540,326	2,425,885,081	12,129,425,407	43.08
Sulawesi Tengah	9	8,358,759,037	2,089,689,759	10,448,448,796	71.41
Kalimantan Selatan	13	7,433,568,511	1,858,392,127	9,291,960,638	4.22
Jawa Timur	38	6,882,800,260	1,720,700,064	8,603,500,324	23.27
Sumatera Utara	23	5,795,570,544	1,448,892,636	7,244,463,180	16.54
Sumatera Selatan	11	5,527,485,226	1,381,871,306	6,909,356,532	0.69
Sulawesi Selatan	28	4,494,787,750	1,123,696,937	5,618,484,687	7.34
Jawa Barat	25	2,747,663,062	686,915,765	3,434,578,827	0.68
Gorontalo	5	2,610,872,511	652,718,127	3,263,590,638	60.50
Sulawesi Tenggara	7	2,476,415,736	619,103,933	3,095,519,669	19.01
Nang. Aceh Darus.	20	830,060,032	652,190,024	1,482,250,056	0.14
Nusa Tenggara Barat	8	873,662,180	218,415,544	1,092,077,724	0.67
Sulawesi Utara	8	726,772,103	181,693,025	908,465,128	9.31
Bengkulu	7	284,139,230	71,034,807	355,174,037	6.25
Kepulauan Riau	5	187,771,046	46,942,761	234,713,807	0.07
Nusa Tenggara Timur	17	185,454,255	46,363,564	231,817,819	3.27
Bangka Belitung	11	148,467,972	37,116,992	185,584,964	0.15
Banten	6	131,204,334	32,801,083	164,005,417	5.80
Lampung	10	54,592,368	13,648,092	68,240,460	0.03
Bali	9	0	0	0	0.00
Total		**504,477,226,820**	**126,960,124,166**	**631,437,350,986**	**4.26**
US$ Equivalents (Rp 8,940 per US$)		**US$ 56,429,220**	**US$ 14,201,356**	**US$ 70,630,576**	

Source: Directorate of Balancing Fund, Ministry of Finance (processed)

70.6 million. Of this total, Rp 126 billion (or US$ 14.2 million) went to provincial governments, while Rp 504 billion (or US$ 56.4 million) was transferred to district and municipal governments. Overall, the PSDH and IHPH accounted for less than 5% of total natural resource revenues that were transferred to regional governments in 2004,[18] as forestry revenues amounted to only a small fraction of the shared revenues generated in the oil and gas sector.

The distribution of PSDH and IHPH revenues is highly concentrated among the country's major timber-producing regions, as the amounts transferred are largely based on the volumes of logs harvested (for the PSDH) and, to a lesser extent, the area of timber concessions allocated (the IHPH). In 2004, the three largest recipient regions – East Kalimantan, Central Kalimantan, and Riau – accounted for some 63% of the total PSDH and IHPH revenues shared with regional governments. The top 10 recipient regions accounted for 88% of the total revenues shared with regional governments.

The relative dependence of individual regions on PSDH and IHPH revenues varies dramatically among regions, depending on both the value of shared forestry revenues and the region's access to other forms of shared natural resource revenue. As Table 4.5 shows, for East Kalimantan – by far the largest recipient of shared forestry revenues – PSDH and IHPH receipts accounted for only 3.7% of the region's overall natural resource revenues in 2004, as the province has large amounts of revenue from oil and gas production. By contrast, PSDH and IHPH receipts accounted for 93.1% of total natural resource revenues for Central Kalimantan.

4.6 Redistribution and Use of the Reforestation Fund

Under Law 25/1999, the single largest source of forestry revenue – the Reforestation Fund (DR) – is not grouped with the PSDH and the IHPH (and natural resource royalties from other sectors) as shared revenue. Rather, it is treated as part of the Special Allocation Fund (DAK, sometimes the terms are combined to become DAK-DR), with 40% assigned to the regions in which the revenue is generated (*daerah penghasil*) and 60% assigned to the central government. This effectively has meant that the portion of the funds assigned to the regions has not be treated as routine revenues in those regions' general budgets. Those funds have, instead, been transferred to the regions with the specific purpose of financing activities related to rehabilitation of degraded forests and land.

The status of the DR changed, however, with the adoption of Law 33/2004 on Fiscal Balancing Between the Central Government and Regional Governments, signed by President Megawati Soekarnoputri on October 15, 2004. Under Law 33/2004, the DR is reclassified as shared revenue, together with the PSDH and the IHPH. This change was presumably made to facilitate the more efficient administration and transfer of DR together with other forms of shared natural resource revenue. It is, nevertheless, still specified that these funds are to be used to support land and forest rehabilitation, and the basic administrative framework for administering the DR has remained largely unchanged. As such, the following paragraphs outline the regulatory framework established for the administration of the DR prior to the adoption of Law 33/2004.

Government Regulation 35/2002 on the Reforestation Fund, issued in June 2002, specifies how the funds generated from DR fees are to be collected, administered, and utilized. Issued simultaneously with Regulation 34/2002, the main implementing regulation for Law 41/1999 on Forestry, the new guidelines state that all holders of Commercial Timber Utilization Permits (IUPHHK) are required to make DR payments based on estimates of potential production at their concession sites and real production levels (Art. 2). DR fees continue to be denominated in US dollars (although payments are made in rupiah) and based on the volume of timber harvested, with the size of the fee varying according to the type of wood produced.

In stipulating how DR money may be used, Regulation 35/2002 states that regional governments can only utilize allocations from the Reforestation Fund to support activities directly related to 'land and forest rehabilitation'. It defines this to include: reforestation; regreening; forest management; enrichment planting; and establishment of soil conservation techniques on degraded and unproductive lands. Activities related to reforestation and forest management are eligible for DR funding if they are carried out in areas classified as Production Forest, Protection Forest, and/or Conservation Forest, with the exception of nature reserves (*cagar alam*) and national parks (Art. 17).

Regulation 35/2002 allows the MoF, in consultation with the Ministry of Finance, to use the central government's share of the DR revenues not only for activities that are directly related to 'land and forest rehabilitation', but also for *activities that support* these rehabilitation efforts (Art. 18). District and provincial governments, by contrast, are expressly forbidden from using DR for such 'supporting activities'. Supporting activities are defined to include: forest protection; fire prevention and mitigation measures; forest boundary delineation; monitoring and oversight, collection, receipt, and use of DR; nursery development; research; teaching and education; extension and mobilization of local communities in forest rehabilitation activities (Art. 17). In this way, the Reforestation Fund guidelines allow the central government to use DR to cover a wide range of operational costs, while prohibiting regional governments from doing so.

Regulation 35/2002 specifies that the 60% of the DR revenues assigned to the central government should be allocated to the MoF as the technical agency responsible for forest administration at the national level. By contrast, Regulation 35/2002 stipulates that the 40% of DR revenues assigned to the originating regions are to be placed in a newly-created Forest Development Account managed by the Ministry of Finance. Every year provincial governments coordinate proposals for land and forest rehabilitation activities submitted by district and municipal governments to obtain their 40% share of the DR (Art 11). Funds are to be distributed in the form of a loan to corporate bodies (*badan usaha berbadan hukum*), farmer groups, or cooperatives (Art 13, section 3).

Significantly, Regulation 35/2002 does not specify clearly how the term 'originating region' (*daerah penghasil*) is defined. In this way, it leaves considerable ambiguity as to whether eligibility to receive DAK-DR allocations (i.e. a portion of the 40% of DR allocated to the regions) applies to both provincial governments and district/municipality governments in timber-producing regions, or only to the

latter. Moreover, it provides only general guidelines for how DAK-DR should be distributed among districts and municipalities within any given province. This ambiguity has sparked considerable dissatisfaction on the part of officials in timber-producing districts, who have argued that the 40% of DR earmarked for 'originating regions' (i.e. the DAK-DR) should largely be distributed among the districts where the logs are harvested (Resosudarmo 2004b; Oka and Ahmad 2003).

In practice, the allocation of DAK-DR from the central government to Indonesia's regional governments follows what is essentially a four-stage process. First, the MoF sends a team to each province to reconcile the provincial data on DR payments from timber companies operating in the province and their own data (Resosudarmo 2004b). Second, the Ministry of Finance then uses the data from the MoF to determine the amount of DAK-DR that should be allocated to each province (Resosudarmo 2004b). The Ministry of Finance's allocation of the DAK-DR is formalized in a Ministerial Decree, which authorizes each provincial government to distribute an assigned amount among the districts and municipalities within its jurisdiction (Resosudarmo 2004b). Table 4.6 summarizes the central government's DAK-DR allocation to the provinces for fiscal years 2001-2003.

Third, the provincial government, after consultation with districts/municipalities, then determines an allocation of DAK-DR for each district and municipality within the province. The DAK-DR money is allocated according to central government guidelines based on the following criteria: 1) projected DR receipts of each district/municipality; 2) the area of degraded forests and critical lands in priority watershed or sub-watersheds; 3) the level of degraded watersheds/sub-watershed ecosystems; and 4) the probability of the continuity of rehabilitation activities carried out in the previous year.[19] Finally, the DAK-DR are transferred directly from the Ministry of Finance to the individual districts and municipalities according to the allocations determined at the provincial level.

Table 4.6 shows how the allocations of DAK-DR to regional governments were distributed during the fiscal years 2001-2003. During this period, the amount of DR transferred to provinces and districts annually ranged between Rp 462 billion (or US$ 53 million) and Rp 700 billion (or US$ 68 million). The distribution of these funds was highly concentrated, with provincial and district governments in East Kalimantan, Central Kalimantan, and Riau receiving 75% of the total amount distributed to regional governments in 2003.

It is significant that the DAK-DR transfers from the central governments to districts and municipalities do not pass through the provincial government. Nevertheless, this process does give provincial governments significant influence over how DAK-DR are distributed among districts and municipalities. Provincial governments are able to determine, for instance, the relative weighting of each criterion under the central government guidelines; and the application of these guidelines therefore differs from province to province. As an example, the provincial government of South Sulawesi structured the criteria in a manner that placed greater weight on levels of land and watershed degradation than on the amount of DR revenues a district had generated (Oka and Ahmad 2003).[20] Officials from forest-rich districts complained that this method of distributing the DR did not return the

reforestation revenues to the originating districts in an equitable manner, as Law 25/1999 had intended (Oka and Ahmad 2003). On the other hand, non-producing districts with more critical and degraded areas have received proportionately greater benefits.

By contrast, one Kalimantan provincial government has placed greater weight on

Table 4.6: Central Government DAK-DR Allocations to the Provinces for Fiscal Years 2001-2003

Region	2001		2002		2003	
	billion Rp	%	billion Rp	%	billion Rp	%
Nanggroe Aceh Darussalam	22.8	3.26	2.5	0.40	0.7	0.15
Sumatera Utara	26.4	3.76	13.2	2.13	3.2	0.69
Sumatera Barat	14.3	2.04	19.7	3.17	13.5	2.92
Riau	81.7	11.66	113.2	18.24	100.5	21.71
Jambi	16.8	2.39	25.7	4.14	10.1	2.18
Bengkulu	4.1	0.58	0.2	0.04	0.3	0.06
Sumatera Selatan	6.5	0.93	0.2	0.04	0.3	0.07
Bangka Belitung	0.4	0.05	0.0	0.00	0.3	0.06
Banten	0.0	0.00	0.0	0.00	0.0	0.00
Kalimantan Barat	21.0	3.00	11.9	1.91	5.2	1.13
Kalimantan Tengah	174.3	24.88	123.3	19.86	82.7	17.87
Kalimantan Selatan	10.4	1.48	7.0	1.12	13.6	2.94
Kalimantan Timur	190.7	27.23	220.6	35.55	163.8	35.38
Gorontalo	3.0	0.44	0.6	0.10	0.6	0.13
Sulawesi Utara	2.2	0.31	1.3	0.21	0.2	0.05
Sulawesi Tengah	14.3	2.04	4.1	0.66	3.6	0.78
Sulawesi Tenggara	3.0	0.43	1.1	0.18	1.3	0.28
Sulawesi Selatan	9.8	1.40	4.2	0.68	3.6	0.77
Bali	0.0	0.00	0.0	0.00	0.0	0.00
Nusa Tenggara Barat	0.4	0.05	3.1	0.50	1.9	0.41
Nusa Tenggara Timur	0.0	0.00	0.0	0.00	0.0	0.00
Maluku	11.7	1.68	11.6	1.87	22.1	4.77
Maluku Utara	18.1	2.58	18.0	2.91	12.3	2.66
Papua	68.7	9.81	39.0	6.28	23.0	4.96
Total	**700.6**	**100.00**	**620.7**	**100.00**	**462.8**	**100.00**
US$ Equivalent (Million)	**US$ 68.2**		**US$ 67.0**		**US$ 54.0**	

Source: adapted from Resosudarmo (2004b)
Note: Average exchange rate from Bank Indonesia: Rp. 10,266 (2001); Rp. 9,261 (2002); and Rp. 8,571 (2003)

projected DR receipts (Resosudarmo 2004b). This has meant that producing districts enjoy a greater portion of DR payments originating from their districts compared to their South Sulawesi counterparts.[21] Aside from the equity issues involved, it is likely that the way in which DAK-DR are allocated to districts within a particular province may have significant effects on how forests are managed. Placing more weight on critical lands rather than on DR receipts, for example, creates a disincentive for producing districts to maintain their forests and to prevent them from being degraded into critical lands. On the other hand, putting too much weight on DR receipts may motivate forest-rich districts to fell even more forests.

The frustration that officials in timber-producing districts and provinces have expressed over how the DAK-DR have been allocated has been exacerbated by the non-transparent and often irregular manner in which the new framework has been implemented thus far. In particular, officials in many districts have complained that DAK-DR disbursements over the past three years – as well as transfers of PSDH and IHPH – have occurred quite late in each budget year.[22] During 2001-2003, the Ministry of Finance allocated the regions' shares of the DAK-DR to the provinces late in the year, between September and November.[23] Moreover, in 2002 DAK-DR allocations were made and transferred to the regions in two stages, with the first transfer occurring in November 2002 and the second transfer only occurring in June 2003 (Resosudarmo 2004b). MoF officials have attributed the delays to difficulties in reconciling the amount of fees that producing regions reported and the amount actually received by the central government.[24]

As DAK-DR allocations (and PSDH transfers) are important components of many district budgets, the late disbursement of funds complicates fiscal administration at that level. In addition, it can adversely affect the implementation of forest rehabilitation and district development projects. This is of particular importance when those involve seasonal activities such as tree planting, which may need to be conducted in the dry season during the early and middle months of the year. It should be noted, however, that whilst many district stakeholders were dissatisfied with the timing of DAK-DR transfers, they are nevertheless allowed to roll over the funds to the following year. That is, DAK-DR redistributed to the regions in a particular budget year can be used to finance forest and land rehabilitation activities in the following budget year, if necessary.

In practice, DAK-DR for a particular budget year are typically used to finance rehabilitation and reforestation activities in the following year. For example, in two case study districts in Kalimantan, these funds were recorded in the following budget year due to uncertainties over the magnitude and the timing of their actual allocation/ disbursement. For example, DR for 2002 were used to finance rehabilitation and reforestation activities in the year 2003, and 2003 funds were used to carry out activities implemented in 2004. Allocations for year 2003 were recorded as a revenue component in the districts' 2004 budgets, rather than the 2003 budgets.

During 2001 and 2002, dissatisfaction with the manner in which the DAK-DR and other forestry revenues were redistributed under decentralization led some district governments to temporarily circumvent the fiscal arrangements specified in Law 25/1999 and its implementing regulations. Instead of adhering to the fiscal balancing law's requirement that forestry royalties and reforestation funds be paid directly to the central government's accounts in Jakarta, some district governments instructed logging companies to pay all or a portion of their PSDH and DR obligations directly to them. These district governments then sought to retain these fees rather than submit them to central government accounts.[25]

The MoF has actively warned these district governments to comply with national regulations and to transfer the PSDH and DR payments they have retained. In addition, the MoF has worked closely with the Ministry of Home Affairs, the Judiciary and the Regional Monitoring Agency (*Badan Pengawas Daerah,* or

Bawasda) to carry out investigations into 'problem' districts.[26] As a result, by mid-2004 at least a portion of the outstanding payments had reportedly started to flow into the central government's accounts.

For district governments that have sought to follow the national guidelines and provincial directives framing the distribution of DAK-DR, significant administrative challenges remain. For example, Regulation 35/2002 stipulates that districts can only use DAK-DR to finance forest and land rehabilitation projects; it explicitly prohibits district governments from using DAK-DR to finance 'supporting activities' for those projects. This means that financing 'supporting activities' for forest and land rehabilitation projects must be provided from non-DAK-DR sources in the district budget. The most important of these 'supporting activities' include 1) socialization (*sosialisasi)* of the project (that is, dissemination of information about a project's objectives, structure and administrative processes to participating communities); 2) the provision of extension or technical guidance to local communities, and 3) monitoring of project activities and outcomes. District forestry officials have identified the lack of funding for such activities as being a significant obstacle to the successful implementation of DAK-DR funded forest and land rehabilitation activities.

In two districts in Kalimantan, for instance, the amount of the supporting funds allocated by two districts where case study research was conducted is small compared to the amount of funds allocated for the core rehabilitation activities funded by DAK-DR.[27] The amounts provided by one district to finance the related supporting activities were only 3.6%, 6.0% and 1.6% of the amount available for the rehabilitation activities in 2002, 2003, and 2004, respectively. The other district dug into its budget to provide only 2.0% and 3.4% of the total amount allocated for the core activities for 2003 and 2004, respectively.

At the same time, these two districts used DAK-DR to finance forest and land rehabilitation projects that place heavy emphasis on the involvement and active participation of local communities. It would seem that the involvement of these communities would make the dissemination of information, the provision of technical guidance, and monitoring of project activities critical to the success of such projects. Indeed, participating villages are widely dispersed across the districts and many are located in remote areas where transportation infrastructure is still quite basic. As such, dissemination of project information and technical guidance is quite costly, as are monitoring activities related to the forest and land rehabilitation projects.

For many district governments, the substantial value of the DAK-DR transferred from the central government poses a challenge in itself. This has been particularly true in the two case study districts noted above, where district officials have reported finding it challenging to administer – and to spend – the funds in accordance with the central government guidelines. In particular, district governments with limited personnel have often found it difficult to channel billions of *rupiah* through community-run forest and land rehabilitation activities. For example, one district in Kalimantan could only spend a fraction of the entire amount of DAK-DR allocation for 2002 (implemented in 2003). By early 2004, the district had accumulated Rp. 55 billion of unspent funds in its DAK-DR account (Resosudarmo 2004b).[28]

The process of actually implementing the forest and land rehabilitation activities funded by the DAK-DR has also been challenging for many district governments. In some districts, this is due to the program's heavy emphasis on community involvement and on generating tangible benefits for participating communities. At times, the objective of rehabilitating critical lands appears to be only a secondary consideration, as some districts have prioritized planting and rehabilitation activities in areas with a high potential for project 'success'. This frequently means that rehabilitation activities are carried out in the most accessible areas and on lands that have relatively clear ownership status and are not associated with tenure conflicts, rather than those areas that are the most degraded. In the two case study districts in Kalimantan, for instance, much of these rehabilitation activities are carried out on community-owned lands, such as community gardens. Only a very small portion of the area planted is within the government-controlled Forest Estate.

Although the uses of DAK-DR are restricted to forest and land rehabilitation purposes, the funds are generally included in the district budget once they are (re)distributed to the districts. In spite of the restrictions elaborated in Regulation 35/2002, district governments are able to exercise significant control over how the DAK-DR are used. The *Bupati* has ultimate responsibility to ensure the overall success of the forest and land rehabilitation projects and that the funds are used for the intended purposes. The formal control mechanism is the *Bupati's* annual accountability report to the district legislature, the DPRD. This report covers a wide range of issues related to the performance of the executive branch of the district government, and is not only specifically related to DAK-DR. The provincial government, through the Provincial Forestry Service, the Watershed Management Agency (*Badan Pengelola Daerah Aliran Sungai*, BPDAS), the Provincial Monitoring Agency (*Badan Pengawas Propinsi*, Bawasprop) and the Provincial Agency for Monitoring Finance and Development (*Badan Pengawas Keuangan dan Pembangunan Propinsi)*, has monitoring and supervisory responsibilities to ensure that the DAK-DR are properly used by the district governments.

At least in some districts, it would appear that the DPRD has not rigorously assessed the performance of the *Bupati* in overseeing implementation of DAK-DR funded forest and land rehabilitation projects over the past three years. For instance, the 2004 accountability report of one *Bupati* in Kalimantan (i.e. for governing year 2003) reported that the success rate of DAK-DR funded rehabilitation projects in his district was above "the general standard of 55%" (Resosudarmo 2004b). It is not clear, however, what criteria were used to arrive at this figure or what it means in terms of practical outcomes on the ground. Unfortunately, this portion of the *Bupati's* accountability report largely went unquestioned by members of the DPRD.

Anecdotal reports have circulated about local governments using DAK-DR for purposes other than forest and land rehabilitation.[29] In some cases, these reports have included allegations of district officials over-reporting the areas planted or rehabilitated with DAK-DR in order to embezzle portions of the funds that had been allocated for these activities (*Kaltim Post,* October 29, 2003). By mid-2004, both of the project leaders responsible for the implementation of the 2001 DAK-DR funded forest and land rehabilitation projects in two case study districts of Kalimantan

were being investigated by the District Attorney over their alleged mismanagement of DAK-DR. This appears to have made the project leaders who replaced them somewhat more cautious in the implementation of the rehabilitation projects. Indeed, one of the districts above 'failed' to use up its entire 2002 allocation of DAK-DR by the end of 2003; and the principal reason for this was because the project leader was being extremely careful as a consequence of these investigations.

The formal mechanisms in place to ensure accountability in the use of the DAK-DR and the implementation of the associated forest and land rehabilitation projects does not necessarily affect the amount of DAK-DR flowing to the district. A senior official in one district in Kalimantan interviewed in September 2004 emphasized that the outcome of the project activities had, by then, not affected the continuity of the DAK-DR annual allocation to the district.[30] Indeed since 2001, districts have continued to receive DAK-DR allocations from the central government regardless of the outcome of the DAK-DR funded rehabilitation projects. This suggests that there is limited incentive for the districts to adhere to central government regulations or guidelines as they carry out forest and land rehabilitation activities.

At least in a province in East Kalimantan, however, the provincial government is not entirely turning a blind eye to project performance and the management of DAK-DR on the part of district governments. In 2002, the province took steps to improve the process through which DAK-DR are allocated and to increase the level of supervision over how the funds are used. Specifically, the provincial government introduced new criteria which tied the district allocation of DAK-DR to the district's prior performance in implementing forest and land rehabilitation projects, at least to a limited degree. The calculation of DAK-DR allocations to districts/municipalities within the province then became: projected revenues (48%); critical lands (20%); degraded watershed (20%); the continuity of activities (10%); and performance (2%). In addition, in 2003 a portion of the 40% of DAK-DR allocations for the province was specifically earmarked for disbursement to the provincial government. The justification for this allocation was that adequate financing is needed to enable the provincial government to effectively carry out its coordination, control and supervisory roles with respect to the implementation of district level rehabilitation projects funded by the DAK-DR.

4.7 Forests as a Source of Regionally-Generated Revenues

Almost immediately after Law 25/1999 was issued in May 1999 provincial and district governments began seeking to secure new sources of regionally-generated revenues (commonly referred to as PAD), which they could obtain directly from within their own jurisdictions. They did so both out of necessity and in response to the new opportunities posed by Indonesia's new framework for decentralization and fiscal balancing.

On one hand the decentralization laws have required regional governments – primarily at the district and municipality levels – to assume many of the administrative and development functions that were previously held by the central government. In principle, most of the added costs associated with these new expenditure needs

are meant to be covered by inter-governmental transfers from Jakarta, through the DAU, DAK, and shared revenues from land and natural resource taxes. However, the concept of regional autonomy also implies that regional governments – especially at the district and municipal levels – will have a considerable degree of self-sufficiency and independence from the central government. This has placed significant pressure on district governments to generate revenues from within their own jurisdictions, to the extent possible.

On the other hand, Law 25/1999 and Law 34/2000 (on regional taxation) have provided Indonesia's regional governments with new opportunities to generate their own revenues through the collection of taxes and fees from local sources. Law 34/2000 also gave provincial and district governments the authority to impose new taxes and levies through the issuance of regional regulations, or *perda*, ratified by the appropriate DPRD. The introduction of these two laws catalyzed a flurry of activity on the part of regional governments during 1999-2001, as provinces and districts throughout Indonesia issued large numbers of *perda* in an effort to secure new sources of PAD (district generated income). Some provinces and districts simply 'recycled' their previous regulations on taxes and levies that had been banned under Law18/1997. Most district officials, however, immediately recognized the plethora of benefits associated with establishing a revenue base that was independent of transfers from Jakarta. Having control over substantial local revenue flows would not only expand the size of a district's budget, it would also allow district officials to determine how those funds would be used.

For regions with commercially valuable forests, timber extraction has become an important source of PAD, and has opened new opportunities for local, small-scale economic actors. Several factors have led district governments to view timber production and marketing as a preferred source of revenue. Most significantly, forests are easily converted to cash. Timber extraction can be carried out with relatively modest amounts of capital investment and requires only basic technological inputs (notably the chainsaw). In practical terms, this means that logging will typically generate revenues much more quickly than other types of activity. For example, industrial mining or plantation developments both involve a significant time lag between initial investment and economic returns.

Several other factors have also contributed to district governments' interest in promoting timber extraction within their jurisdictions. In many regions, district officials have faced considerable political pressure from forest communities and other local stakeholders to make forest resources available for exploitation, as these actors were largely excluded from sharing in the benefits from timber extraction during the Soeharto era. In addition, district governments have often viewed timber extraction as an important source of jobs for the local population, as manual and semi-mechanized logging generally involves intensive use of unskilled or semi-skilled labor. In addition, strong demand for logs within both domestic and international timber markets has meant that many districts have readily been able to attract external investors to finance expanded logging activities within their jurisdictions. Timber producers have also been able to sell large volumes of logs through well-established marketing networks.

Forest-rich districts employed a variety of approaches to generate PAD from timber extraction, particularly during 2000-2002. Many issued large numbers of small-scale logging licenses known as Forest Product Extraction Permit (HPHH) and forest conversion permits known as Timber Extraction and Utilization Permit (*Ijin Pemungutan dan Pemanfaatan Kayu*, IPPK). From a fiscal perspective, the allocation of HPHH and IPPK permits has been accompanied by the introduction of several new types of fees. In East Kalimantan, for instance, most districts required IPPK-holders to pay two new fees: 1) a one-time Third Party Contribution (*Sumbangan Pihak Ketiga*) based on the area covered by the logging permit; and 2) Production Charges (*Retribusi Produksi*) based on the volume of timber harvested. (The structure and significance of HPHH and IPPK permits will be discussed in detail in Chapter 5).

One example can be found in Malinau district in East Kalimantan. The Malinau government set the Third Party Contribution at Rp 200,000 per ha in early 2000, and the Production Retribution at Rp 15,000 per m^3 of timber harvested (Barr *et al.* 2001). It has been estimated that the *kabupaten* government was able to collect Rp 53 billion in revenues for the district budget from the 39 IPPK permits, covering 56,000 ha, that it issued between April 2000 and February 2001 (Barr *et al.* 2001). This is equivalent to approximately US$ 6.2 million (at Rp 8,500 per US$), or roughly 10 times Malinau's planned district budget for FY 2000.

Bulungan, the neighboring district of Malinau, is another example. The Bulungan government set the Third Party Contribution at Rp 200,000 per ha for an IPPK permit. The district also applied log charges, depending on the volume and the species of the timber harvested. For example, the charge was set at Rp 60,000 per m^3 for *Dipterocarps*. The district government also imposed a log export tax in 2001. In total, during 1999-2002, the district generated approximately Rp 12.6 billion from charges associated with the issuance of IPPK permits (Samsu *et al.* 2004).

The sharp increase in PAD that many districts obtained by issuing HPHH and IPPK permits proved to be short-lived, however. Indeed, the central government moved aggressively to stop district governments from issuing small-scale timber extraction and forest conversion licenses within the boundaries of the Forest Estate, and by early 2004 revenue flows from these operations had sharply declined. Moreover, even during the height of the HPHH and IPPK permits (i.e. 2000-2002), the overall impact of the small-scale forestry concessions on district government finance was somewhat mixed. While the issuance of HPHH and IPPK permits enabled most forest-rich districts to generate sharp increases in their PAD revenues during the first few years of decentralization, this did not necessarily translate into 'self-sufficiency' or 'independence' from central government transfers. Indeed, PAD generated from fees associated with the issuance of small-scale timber extraction and forest conversion licenses was generally small compared to the district's total budget.

For example, IPPK activities in Bulungan accounted for 50% of PAD recorded during 2000 and 2001, the first two years after the licenses were issued. However, in each of these years they accounted for less than 4% of the district's overall budget (Samsu *et al*. 2004) (see Table 4.7). Similarly, revenues derived from the forestry sector in Kapuas Hulu increased from about 8% of the district's PAD in 2000 and

2001 to more than 85% in 2002. However, the forestry component of the district PAD accounted for less than 1% of the total district budget in 2000-2001 and 9% in 2002.

Table 4.7: IPPK Receipts as a Source of PAD in Bulungan District, East Kalimantan

Year	Value (billion Rp)	US$ Equivalent	Portion of PAD (%)	Contribution to District Budget (%)
2000	2.3	269,672	50	2.5
2001	8.7	851,859	40	3.9
2002	1.5	162,549	8	0.3

Source: Samsu *et al.* (2004)
Note: Average exchange rate from Bank Indonesia: Rp 8,534 (2000), Rp. 10,266 (2001) and Rp. 9,261 (2002).

During the initial phase of the decentralization period (i.e. 1999-2000), another notable initiative to generate PAD from forest resources was documented. This involved district governments charging fees on timber that had been harvested 'extra-legally'. In Kotawaringin Timur district in Central Kalimantan, for instance, the district government in March 2000 began charging a fee of Rp 87,000 per m^3 for all timber harvested outside the formal HPH timber concession system, regardless of whether or not it was accompanied by a legal permit (Casson 2001b). The fee generated a fiscal windfall for the district government almost immediately: the district raised some Rp 24 billion (US$ 2.8 million at an exchange rate of Rp 8,500 per US$) during the three-month period April-June 2000 alone (Casson 2001b). Similar fees were introduced in other districts in Central Kalimantan, including Barito Selatan (McCarthy 2001a).

The introduction of district government fees on timber that has been harvested illegally was widely criticized by stakeholders at the national and provincial levels. As McCarthy (2001a, 2001b) and Casson (2001b) explain, in the early years of Indonesia's decentralization process, these regulations allowed timber to be exported from the district as long as it was accompanied by a receipt indicating that the requisite fee has been paid to the district government. In this way, the issue of whether or not the logs had been harvested from legal sources was obscured, and the timber assumed the appearance of being fully legitimate. It should be noted that some district governments sought to obtain PAD from illegally harvested logs without legitimizing illegal logging. McCarthy (2001b) describes how Kapuas district sought to obtain PAD from illegally harvested timber not by imposing a levy and allowing the 'owner' to retain possession of it, but by confiscating it and auctioning it to the highest bidder.

Some district governments also imposed charges on timber being transported beyond the district borders, regardless of where the wood had been harvested. The district government of Tanjung Jabung Barat in Jambi Province, for instance, built check posts to collect charges from all timber harvested within the district to be transported to the neighboring districts. The argument for these charges was ostensibly to save

the district's forests.[31] Likewise in Kapuas Hulu, the district government collected Rp 50,000 or about US$ 5.8 per vehicle from each truck that transported timber from the district to the neighboring country of Malaysia (Dermawan 2004). District authorities acknowledged that the border between the two countries is supposed to be under the central government's authority. However, they argued that since the central government does little to monitor or regulate the cross-border timber trade, district officials could not do much in terms of dealing with the problems associated with Indonesian logs being transported out to Malaysia, unless they imposed such a charge on timber being taken out of the district. The amount of Rp 50,000 per truck was a result of negotiations between the district government and those transporting the timber (Dermawan 2004).

In addition to imposing new taxes and fees on timber production, some district and provincial governments have sought to generate PAD by establishing regional government-owned forestry enterprises (BUMD). In Berau, for instance, the district government formed a BUMD called PT Hutan Sanggam Labanan Lestari in 2002 (Obidzinski and Barr 2003). District officials have used this company to secure equity shares in several existing HPH timber concessions. The most notable example to date has been Berau district's acquisition (through PT Hutan Sanggam Labanan Lestari) of majority shares in an 83,250 ha block of the HPH concession held by the state-owned forestry enterprise PT Inhutani I.

To expand PAD levels, many district and provincial governments have actively sought to attract new investment to their regions. They have done so, in many cases, by making areas of previously unexploited forest available for timber extraction, and demarcating large areas for plantation development. Districts in both East and West Kalimantan, in particular, have taken advantage of their proximity to the east Malaysian states of Sabah and Sarawak by issuing large numbers of HPHH and IPPK permits to ventures involving Malaysian investors (Samsu *et al.* 2004; Obidzinski and Barr 2003; Alqadrie *et al.* 2001; Barr *et al.* 2001).

Some districts have also sought to identify ways to obtain new forest-based revenues through the promotion of eco-tourism or through participation in schemes providing financial compensation for forest protection and the provision of environmental services. Malinau district, for example, has sought to identify ways that the district can draw on the unique cultural and ecological features of Kayan Mentarang National Park to generate tourism revenues (Barr *et al.* 2001). Similarly, some districts have sought to secure payments for environmental services associated with forests in their jurisdictions, including the maintenance of conservation areas which continue to be administered by the central government. For instance, the Kapuas Hulu district government in West Kalimantan declared itself to be a 'conservation district' in October 2003, and announced that it was seeking compensation for the fact that 55% of its territory is classified as protected areas (Dermawan 2004). To date, however, these efforts have apparently yielded very little, if anything, in terms of new revenues for the district budget.

Endnotes

[1] Silver *et al.* (2001) note that through the 1980s and 1990s, there were numerous calls to convert the SDO into a locally administered block grant. However, these "were never given serious consideration by the Central Government, because this change would have disrupted local and central government administrative relationships in a fundamental way, and there was no support for this in the New Order government [at the national level]."

[2] Some of the most significant taxes collected by regional governments included, for instance, taxes on motor vehicles, entertainment, hotels, and restaurants, while some of the most lucrative fees included market charges, health service charges, and building permits (see Devas 1989).

[3] Regulation 59/1998 on Tariffs on Non-tax State Revenues Applicable for the MoF and Estate Crops (*Peraturan Pemerintah No. 59/1998 tentang Tarif atas Jenis Penerimaan Negara Bukan Pajak yang Berlaku pada Departemen Kehutanan dan Perkebunan).*

[4] Regulation 51/1998 on Forest Resource Rent Provision (*Peraturan Pemerintah No. 51/1998 tentang Provisi Sumber Daya Hutan*), further revised by Regulation 74/1999.

[5] Ministry of Industry and Trade Decree 258/MPP/Kep/6/1998 on of Reference Prices for the Calculation of Forest Resource Rent Provision (*Keputusan Menteri Perindustrian dan Perdagangan No. 258/MPP/Kep/6/1998 tentang Penetapan Besarnya Harga Patokan untuk Perhitungan Provisi Sumber Daya Hutan*).

[6] The Reforestation Fund was originally named Forest Guarantee Fund (*Dana Jaminan Reboisasi)* when it was initiated with Presidential Decree 35/1980. It was restructured under Presidential Decree 31/1989 and renamed Reforestation Fund (*Dana Reboisasi)* in 1989.

[7] Based on Presidential Decree 24/1997. In 1998, the DR fee was set at Rp 80,000 per m^3 for *meranti* with a diameter of 50 cm and above (Presidential Decree 32/1998).

[8] The uses of DR, for non-forestry purposes were based on Presidential Instructions. In this sense, the characteristics of the Funds, as a state non-budgetary fund, gave the then President Soeharto a significant degree of control over its use, rather than the MoF.

[9] The implementing regulations of Law 20/1997, concerning forestry levies, include Regulation 22/1997, Regulations 51/1998, 52/1998, and 59/1998; and Regulations 74/1999 and 92/1999.

[10] Under Regulation 55/2005 on Balancing Funds, the IHPH appears to have been replaced by the IIUPHH *(Iuran Izin Usaha Pemanfaatan Hasil Hutan*, or Commercial Forest Products Utilization Permit Fee), as defined under Regulation 34/2002. To avoid confusion, the discussion in this chapter uses the term IHPH, except where noted to distinguish between the IHPH and IIUPHH.

[11] Regulations and procedures related to regional borrowing are further specified in Regulation 107/2000 on Regional Borrowing, enacted November 10, 2000.

[12] For a detailed analysis of Indonesia's new regulations on borrowing by regional governments, see Lewis (2003).

[13] These include, for instance, Ministry of Finance Decree 99/KMK.07/2001 and Ministry of Finance Decree 579/KMK.07/2003.

[14] Under the column for 'IHPH +PSDH', revenues collected by the central government include PSDH, IHPH, and IHPHTI.

[15] For the period 2001-2002, the central government's DR revenues include both receipts and interest. For 2003, the data source provided no information as to whether or not the figures presented include interest.

[16] DR transfers to the regions are aggregated for the provinces and districts/municipalities, as some of the data were reported in this manner. However, funds designated for the districts and municipalities were transferred directly to those governments by the Ministry of Finance.

[17] Sources for Table 4.4.
IHPH + PSDH
2001: Center: MoF. Provinces and Districts: Directorate General of Fiscal Balancing, Ministry of Finance. Available at http://www.djpkpd.go.id/dp/bagi_hasil/bagiprop.htm and http://www.djpkpd.go.id/dp/bagi_hasil/bagikab.htm
2002: Center: MoF. Provinces and Districts: Appendix of Ministry of Finance Decree 447/KMK.06/2002
2003: Center: Appendix 2 of State Budget 2004 (number rounded). Provinces and Districts: Appendix of Ministry of Finance Decree 248/2003
2004: Center: *Nota Keuangan dan Undang-Undang Republik Indonesia No. 34 Tahun 2004 Tentang Anggaran Pendapatan dan Belanja Negara Tahun Anggaran 2005*. Provinces and Districts: Directorate General of Fiscal Balancing, Ministry of Finance (*Rekapitulasi Realisasi Bagi Hasil SDA TA 2004)*
DR
2001: Center: MoF. Provinces: Ministry of Finance Decree 491/KMK.02/2001
2002: Center: MoF. Provinces: Ministry of Finance Decree 182/KMK.02/2003
2003: Center: Appendix 2 of State Budget 2004 (number rounded). Provinces: Resosudarmo 2004b
2004: Center, Provinces, and Districts: *Nota Keuangan dan Undang-Undang Republik Indonesia No. 34 Tahun 2004 Tentang Anggaran Pendapatan dan Belanja Negara Tahun Anggaran 2005*

[18] Directorate of Balancing Fund, Ministry of Finance (processed). http://www.djpkpd.go.id/dp/bagi_hasil/rekap_realisasi_dbh_sda_ta_2004.pdf . Accessed August 5, 2006.

[19] Joint Circulars of the Ministry of Finance, MoF, BAPPENAS, and Ministry of Home Affairs No. SE-59/A/2001; No. SE-720/MENHUT-II/2001; No. 2035/D.IV/05/2001 and No. SE-522.4/947/V/BANGDA regarding the General Guidelines for the Management of the Specific Allocation Funds – Reforestation Funds for the Implementation of Forest and Rehabilitation for the Year 2001. Although these circulars were issued in 2001, they continued to remain in effect until 2004.

[20] Components of this scoring system, and the weighting assigned to each for South Sulawesi were: 1) projected DR receipts (30 points); 2) area of forest estate and degraded land (25 points); 3) degree of degradation of watersheds and dependence on upper and lower watersheds (30 points); and 4) potential/institutional capacity (15 points) (Oka and Ahmad 2003).

[21] For that province, the weightings were: 1) projected receipts (50%); 2) area of critical lands (20%); 3) degraded watershed (20%); and 4) potential/continuity (10%) (Resosudarmo 2004b).

[22] Starting 2001, Indonesia's budget year begins every January 1 and ends on December 31. Previously, the budget year started on April 1 and ended on March 31.

[23] Ministry of Finance Decree No. 491/KMK.02/2001; Ministry of Finance Decree No. 471/KMK.02/2002; Ministry of Finance Decree No.480/KMK.02/2003.

[24] Interview with a senior official from the MoF (Jakarta, March 17, 2004).

[25] This occurred, for instance, in Kapuas Hulu and Sintang districts in West Kalimantan, whereas the district of Mamuju in South Sulawesi cut its share of DR before transferring the remainder to the central government (Anshari *et al*. 2004; Dermawan 2004; Oka and Ahmad 2003).

[26] Interview with a senior official at the MoF (Jakarta, July 1, 2004).

[27] This research has been conducted by I.A.P. Resosudarmo, and will be presented in much greater detail in her forthcoming doctoral dissertation from Australian National University. For purposes of confidentiality, the names of the two districts remain anonymous.

[28] This particular district is an example of a district making a strong effort to promote community access to DAK-DR. The district has committed itself to community involvement in the forest and land rehabilitation projects it implements, and much of the available DAK-DR have been used to support community involvement. In spite of internal conflicts within participating communities and other challenges, the district government has taken significant steps to improve the administrative and technical aspects of the projects to overcome these problems.

[29] In October 2003, for instance, reports appeared in the East Kalimantan media about alleged irregularities in the use of DAK-DR by the district government of Kutai Timur (*Kaltim Post*, October 23, 2003).

[30] Personal communication with a senior district official (September 1, 2004).

[31] Speech by the *Bupati* of Tanjung Jabung Barat district at CIFOR decentralization workshop (Tanjung Jabung Barat, February 26, 2004).

Chapter 5

Decentralization's Effects on Forest Concessions and Timber Production

Christopher Barr, Ida Aju Pradnja Resosudarmo,
Ahmad Dermawan, and Bambang Setiono

5.1 Introduction

During the New Order period, Indonesia's forestry sector was heavily oriented towards commercial timber production and export-oriented wood processing. In 1967, shortly after Soeharto's rise to power, the government officially designated 143 million ha as Forest Estate and made much of this area available for commercial logging. Over the ensuing three decades, the MoF allocated some 652 timber concessions, known as HPHs, covering an aggregate area of 69 million ha (CIFOR 2004). From the late-1970s through the late-1990s, Indonesia's HPH-holders formally harvested between 20 million and 30 million m^3 of timber annually. Indonesia exported large volumes of unprocessed timber until the imposition of a national ban on log exports in the early-1980s. Thereafter, Indonesia emerged as the world's largest producer and exporter of tropical plywood. In the 1990s, substantial investments were also made in pulp and paper production.

Under the New Order regime, the forestry sector ranked second only to petroleum and gas in its contribution to GDP. In the years preceding Soeharto's resignation in May 1998, the sector generated approximately US$ 3.5 billion annually (Barr 2001). With administrative authority concentrated in the hands of the MoF, the vast majority of economic benefits generated by the forestry sector flowed away from the regions in which the timber was harvested. Most of the HPH timber concessions allocated by the Ministry were controlled by a handful of large forestry conglomerates, each of which had close ties to the regime's senior leadership. The central government also collected a majority of the formal taxes and fees generated by commercial timber activities, as discussed in Chapter 4. During this period, the roles of provincial and district governments were largely limited to implementing decisions made in Jakarta.

With the onset of decentralization, many *kabupaten* governments used their expanded regulatory authority to establish district-level timber regimes. From 1999 through 2002, district governments allocated large numbers of small-scale timber extraction and forest conversion permits. In forest-rich districts, this triggered a renewed logging boom which, in many respects, was reminiscent of the *banjir kap* period in the late-1960s, just after the New Order government opened Indonesia's forestry sector to private investment (see Chapter 2). As in the days of *banjir kap*, decentralization brought about "an overwhelming mobilization of speculators" seeking a portion of the considerable profits from timber extraction being organized

at the district level (Peluso 1983). Working with local communities and district timber brokers, these speculators once again logged concessions as small as 100 ha allocated by *Bupati*s.

The enthusiastic efforts of *kabupaten* governments to establish direct administrative control over the forests within their jurisdictions generated a plethora of district regulations, or *perda*, which often stood in stark opposition to the national government's forestry laws. In some cases, the new district regulations provided varying degrees of legitimacy to timber that was harvested without permits from government agencies at any level. Operationally, many districts also showed that they had little capacity for regulating the activities of the timber companies that received district logging and conversion permits. This led critics, particularly in MoF, to charge that district governments had effectively used the decentralization process to 'legalize' illegal logging. In many cases, as well, district governments allocated logging licenses and forest conversion permits in sites that directly overlapped with areas previously assigned to HPH-holders.

In response to such practices, MoF has taken aggressive steps to block districts from allocating timber licenses within the centrally-defined Forest Estate. Since 2002, the Ministry has done so by issuing a series of regulations that have systematically restricted the authority of *Bupatis* and Governors to issue new logging and forest conversion permits in state-controlled forests. The Ministry has also initiated a process to review permits allocated by district and provincial governments during 1999-2002, when Indonesia's decentralization process was at its peak, ostensibly to ensure these were issued in a fully legal and appropriate manner. At the same time, the Ministry has reasserted its own authority to allocate new licenses for logging and plantation development, and to oversee the operations of Indonesia's wood-based industries. In this way, key elements of administrative authority in the forestry sector have effectively been recentralized over the last few years.

5.2 Proliferation of District Logging Permits

The allocation of small-scale timber extraction and forest conversion permits by district governments began in the forest-rich regions of East, Central, and West Kalimantan in mid-1999, immediately after the Law 22/1999 on Regional Governance was issued. Over the ensuing months, districts in other provinces across Indonesia quickly followed suit, adopting local regulations authorizing district heads to issue various types of small-scale logging permits. In addition to the decentralization law, most district regulations governing the allocation of such permits attributed their legal authority to two pieces of legislation issued by the national government: Regulation 62/1998 on the Delegation of Partial Authority in the Forestry Sector to the Regions; and Regulation 6/1999 on Forestry Enterprises and the Extraction of Forest Products in Areas Designated as Production Forest.

Issued in late 1998, Regulation 62/1998 gave district governments authority to oversee the management of areas classified as Privately Owned Forest (*Hutan Milik*) and Community Forests (*Hutan Rakyat)*, including "tree planting, maintenance, harvesting, utilization, marketing, and development [of these areas]". With the

issuance of Regulation 6/1999 in January 1999, the central government authorized district governments to allocate Forest Product Extraction Permits (*Hak Pemungutan Hasil Hutan*, HPHH) in areas classified as Forest Estate. The implementing regulations related to HPHHs were detailed in a series of decrees from the Ministry of Forestry and Estate Crops in May 1999, the most significant of which included Ministerial Decree 310/1999 and Ministerial Decree 317/1999.

Ministerial Decree 310/1999 stipulated that district governments could issue HPHHs for areas up to 100 ha for the extraction of timber within sites classified as Conversion Forest or in Production Forest areas "that are going to be converted or reclassified."[1] Decree 310/1999, moreover, stated that HPHHs for the extraction of timber could not be issued for areas that were already encumbered with a HPH timber concession license or an IPK wood utilization permit. However, a subsequent decree, Ministerial Decree 317/1999, outlined a process through which *adat* communities could obtain HPHHs to extract both timber and non-timber forest products from Production Forest areas that have already been assigned to HPH concessionaires.[2]

Together with Indonesia's regional autonomy law, these decrees provided the legal framework for district governments to issue legislation allowing *Bupati*s to allocate small-scale logging and forest conversion permits. In most cases, these permits shared several essential characteristics: they were usually applied to relatively small areas (often 100-1,000 ha); were short in duration (typically 1-2 years); and frequently required the involvement of community groups or cooperatives. The names and specific terms attached to these permits varied, however, from one region to another. They included, for instance, the following: Forest Product Collection Licenses (HPHH) in West and Central Kalimantan; Timber Extraction and Utilization Permits (IPPK) in East Kalimantan; Community Timber Extraction Permits (*Ijin Pemungutan Kayu Rakyat,* IPKR) in Jambi; and Customary Community Forest Product Extraction Licenses (*Hak Pemungutan Hasil Hutan Masyarakat Adat*, HPHHMA) and Customary Community Timber Extraction Permits (*Ijin Pemanfaatan Kayu Masyarakat Adat*, IPKMA) in Papua.

A series of district-level case studies conducted by CIFOR and partners during the early phase of decentralization highlighted the widespread proliferation of small-scale logging and forest conversion permits that occurred during 1999-2000. In East Kalimantan, for instance, Berau's district government issued 33 IPPK permits covering 11,396 ha between March 1999 and January 2000 (Obidzinski and Barr 2003). Bulungan district began issuing small-scale forest conversion permits in August 1999, and by the end of 2000, the district had allocated 585 IPPK permits covering 58,444 ha (Samsu *et al.* 2005). Between April 2000 and February 2001, Malinau's district government issued 39 IPPK permits covering 56,000 ha (Barr *et al.* 2001). In Central Kalimantan, some 60 HPHH permits were issued in Kapuas district between September 1999 and July 2000 (McCarthy 2001b); and 223 permits were issued in Kutai Barat district by August 2000 (Casson 2001a). In West Kalimantan's Sintang district, 102 HPHH 100-ha permits were issued by the end of 2000 (Yasmi *et al.* 2005).

Recognizing the potential threat that the district-level timber permits posed to its members' operations, the Association of Indonesian Forest Concession Holders (*Asosiasi Pengusaha Hutan Indonesia*, APHI) lobbied intensively at both the national and provincial levels to halt the widespread allocation of small-scale logging permits issued by district governments (Barr *et al.* 2001). By September 1999, APHI had succeeded in persuading the Director General of Production Forestry to send letters to governors in each of the country's major timber-producing provinces, requesting their assistance in suspending the issuance of further small-scale timber extraction and forest conversion permits by district governments. The Director General explained that the implementing regulations for the central government's transfer of forest administration responsibilities to the regions (*daerah*) had not yet been finalized, and therefore, it was imperative to "avoid the possibility of overlapping timber extraction permits that could confuse the populace (*membingungkan masyarakat*)."

While some governors appear to have shared the Director General's concerns, provincial governments had very limited power during the early months of Indonesia's regional autonomy process to stop the allocation of HPHH and IPPK permits (and other forms of small-scale logging licenses) by district governments. In East Kalimantan, for instance, several *Bupatis* stated publicly that they no longer had to answer to the governor, as Law 22/1999 on regional governance had dissolved the subordinate status of district governments in relation to the provincial government. However, one channel through which governors were still able to exert some degree of influence over district governments during this time, albeit temporarily, was through the branch offices of the Provincial Forestry Service (*Cabang Dinas Kehutanan*, CDK). In many districts, the allocation of HPHH and IPPK permits required approval not only from the *Bupati* but also from the head of the CDK (at least until the CDK were abolished in 2001). As these branch offices of the Provincial Forest Service had theretofore reported to the provincial government, the heads of CDK through much of 2000 were often still reluctant to actively oppose directives from the governor, and some refused to approve HPHH and IPPK proposals (Barr *et al.* 2001).

Within this context, some *Bupatis* took steps to create alternate channels for issuing district timber permits, at least until they were able to establish a District Forestry Service (*Dinas Kehutanan Kabupaten*) under the direct administrative authority of the *kabupaten* government. In mid-2000, for example, the government of Kapuas district in Central Kalimantan transferred technical authority over the issuance of HPHH permits to what had, until then, been a relatively minor district government agency, the Office for Reforestation and Land Conservation (*Dinas Perhutanan dan Konservasi Tanah*, PKT), which was directly responsible to the *Bupati* (McCarthy 2001b). McCarthy (2001b) describes this process, as it occurred in July 2000:

> *PKT's mandate is to further the reforestation and regeneration of 'critical lands' outside the state-controlled Forest Estate (Kawasan Hutan). But, in the absence of a district Dinas Kehutanan able to do the bidding of the Bupati and aid efforts to increase district incomes, PKT has now become involved in regulating the extraction of timber within the district's Forest Estate. According to its head, PKT is able to be 'more autonomous' and is therefore*

more able to take the initiative; 'to prepare for regional autonomy', the PKT has continued to administer the HPHHs issued before the suspension of the initiative by the Ministry of Forestry and Estate Crops. After formation of Dinas Kehutanan (District Forest Service) in Kapuas in 2001, the new dinas took over this role.

In April 2000, reacting to the wide proliferation of small-scale district logging licenses, the Minister of Forestry announced that he was thereby 'postponing' (*menangguhkan*) Ministerial Decree 310/1999. On May 22, 2000, Minister Nur Mahmudi Ismail also sent a letter to all of Indonesia's Governors and *Bupatis* calling for a complete halt on conversion of areas within the Forest Estate.[3] Specifically, he called on the Governors and *Bupatis* to stop allocating forest conversion permits and to push companies that had obtained conversion permits for areas already released from the Forest Estate to replant those areas immediately. In this letter, the Minister noted that the Government of Indonesia had made a commitment to the International Monetary Fund (IMF) to stop forest conversion, implying that the country's financial recovery could be jeopardized by the allocation of new IPPK permits (Barr *et al.* 2001).

The strong stance taken by the national government led many districts to suspend the allocation of HPHH and IPPK permits, and other types of small-scale logging permits, for several months during mid-2000 (Soetarto *et al.* 2003; Barr *et al.* 2001; Casson 2001a; McCarthy 2001a, 2001b). In most cases, however, these suspensions proved to be only temporary, as the *Bupatis* apparently recognized that the national government had little capacity at that time to block the allocation of new permits by district governments. Some *Bupatis* opposed MoF's efforts outright, arguing that Law 22/1999 on Regional Governance authorized district governments to exercise primary administrative control over the natural resources in their jurisdictions. They claimed, moreover, that as a national law that applied broadly across sectors, Law 22/1999 could not be revoked by ministerial decrees, nor should it be constrained by sectoral laws, such as Law 41/1999 on Forestry. Many district governments also strategically adapted their own regulations and policies in order to circumvent the Ministry's efforts to limit their authority to allocate logging and forest conversion permits.

In Berau district of East Kalimantan, for instance, the *kabupaten* government created a new type of district logging permit, known as License to Extract Timber from Private Land (*Izin Pemungutan Kayu Tanah Milik,* IPKTM) (Obidzinski and Barr 2003). In most practical aspects, IPKTM were similar in function to the IPPK permits. However, IPKTM permits authorized timber extraction from privately-owned lands located explicitly outside the official boundaries of the Forest Estate. With this shift, the district government began taking steps in late-2000 to assist local communities in securing title to forested areas through the National Land Agency (*Badan Pertanahan Nasional,* BPN) or as participants in the national government's transmigration program. Once titles were issued, these areas were considered to be private property (*tanah milik*), and the district government was able to circumvent the Provincial Forestry Service in issuing HPHH and IPPK permits for the extraction of

timber. In addition, many IPKTM permits were issued to groups able to negotiate the release of forested areas from HPH concession-holders, ostensibly for community use (Obidzinski and Barr 2003). In such cases, the IPKTM application was often supported not by legal title to privately-owned land but, instead, by a letter of release (*surat pelepasan*) from the HPH-holder.

By late-2000, district governments were once again allocating large numbers of small-scale timber and forest conversion permits. This led the MoF to redouble its efforts to ensure that such permits were not being allocated in areas that had already been distributed to HPH concession-holders or other license-holders by the central government. In October of that year, the Ministry's Secretary General made national headlines by threatening to sue the *Bupati* of several districts in East Kalimantan and other timber-producing regions for violating national law in issuing HPHH and IPPK permits for areas that fell within the Forest Estate (*Jakarta Post,* October 4, 2000). However, his threats never went beyond the level of rhetoric.

In November 2000, MoF sought to clarify the distribution of legal authority among the central, provincial, and district governments with respect to issuing commercial forestry permits – and arguably, to reassert the Ministry's own authority within the political context of regional autonomy – when it issued Ministerial Decree 05.1/Kpts-II/2000.[4] This decree detailed the criteria and standards to be used by governments at each level when issuing the following new types of licenses and permits for the harvest of timber and non-timber forest products, as specified in Law 41/1999 on Forestry:

- Commercial Timber Utilization Permit *(Izin Usaha Pemanfaatan Hasil Hutan Kayu,* IUPHHK);
- Commercial Non-Timber Forest Product Utilization Permit *(Izin Usaha Pemanfaatan Hasil Hutan Bukan Kayu,* IUPHHBK);
- Timber Extraction Permit (*Izin Pemungutan Hasil Hutan Kayu*, IPHHK);
- Non-Timber Forest Product Extraction Permit (*Izin Pemungutan Hasil Hutan Bukan Kayu,* IPHHBK).

In some significant respects, Decree 05.1/Kpts-II/2000 acknowledged and reaffirmed the expanded authority of district and provincial governments following Indonesia's regional autonomy process. In detailing the procedures for allocating IUPHHK licenses – which effectively replaced the HPH as the principal license for large-scale timber concessions – the decree authorized district governments to issue licenses for areas up to 50,000 ha that are located within a single district. Provincial governments were authorized to issue licenses for areas that extend beyond a single district; and MoF was authorized to issue licenses for areas that extend beyond a single province. The decree also authorized district governments to issue IPHHK permits for small-scale timber production in areas of up to 100 ha, located within sites classified as Production Forest, Limited Production Forest, or Conversion Forest.

At the same time, Decree 05.1/Kpts-II/2000 stated that Governors, *Bupatis*, and Mayors are expressly prohibited from issuing any of these permits in areas that have already been allocated to HPH timber concession-holders. Moreover, the decree stipulated that HPH concessions that had already been issued and/or recommended for in-principle approval by December 31, 2000 would remain in force until their

official expiration dates. The decree emphasized that Governors, *Bupatis* and Mayors should use the criteria and standards delineated as guidelines when formulating any regional regulations. It further stated that any violations would be subject to criminal prosecution, administrative sanctions, and financial penalties.

Some district governments responded to Decree 05.1/Kpts-II/2000 by issuing IUPHHK licenses covering much larger areas than district timber permits they had issued previously (Yasmi *et al.* 2006). In 2002, the district of Kapuas Hulu in West Kalimantan issued nine IUPHHK, covering an area of 142,800 ha (Anshari 2005). Sintang district of West Kalimantan issued eight IUPHHK covering 220,000 ha (Anshari *et al.* 2004).

Table 5.2. Allocation of IUPHHK Licenses by Sintang District Government

No	Company	Area (Ha)	Location	Period
1	PT. Borneo Karunia Mandiri	12,000	Kayan Hulu	2003-2028
2	PT. Sinergi Bumi Lestari	16,900	Sokan	2001-2026
3	PT. Safir Kencana Raharja	36,400	Ng.Serawai	2001-2026
4	PT. Lintas Ketungau Jaya	50,000	Ketungau Hulu	2003-2028
5	Koperasi Apang Semangai	16,500	Kayan Hulu	2002-2027
6	PT. Rimba Kapuas Lestari	41,090	Sepauk	2002-2027
7	PT. Insan Kapuas	34,000	Ng.Ambalau	2002-2027
8	PT. Hutan Persada Lestari	13,500	Ng.Ambalau	2002-2027
	Total	**220,390**		

Source: Forestry and Agriculture Office of Sintang District Goverment, 2004

While a handful of district governments issued IUPHHK licenses, most *Bupati*s became much more cautious about issuing small-scale logging and conversion permits in areas classified as Forest Estate, and the allocation of HPHH and IPPK permits in many regions declined sharply in 2001. Indeed, many district governments refrained from issuing permits for new areas, but continued to renew licenses for areas already allocated.

In Bulungan district in East Kalimantan, for example, the *Bupati* did not issue any new IPPK permits in 2001, although some 618 permits covering nearly 63,000 ha were still operational during that year (Samsu *et al.* 2005) (see Table 5.3). By 2002, the number of IPPK permits in operation in Bulungan had dropped to 188, covering less than 19,000 ha. This trend was reflected among timber-rich districts across Indonesia.

Table 5.3. Allocation of IPPK Permits and District Income Generated by Bulungan District, East Kalimantan During 1999-2003

No	Year	Number of Permits Operational (cumulative)	Area (ha)	Production (m^3)	Revenues Received (Rp 000)		Total amount (Rp 000)
					Timber Concession Contribution	Log Tax	
1.	1999	39	3,740	-	-	-	
2.	2000	585	58,444	171,939.09	2,034,955	266.426	2,301,381
3.	2001	618	62,940	809,785.15	5,791,645	2,953,539	8,745,184
4.	2002	188	18,689	226,612.39	1,267,500	237,868	1,505,368
5.	2003	189	18,234	404,214.22	302,000	187,806	489,806

Source: Samsu *et al.* 2005, citing Regional Income Service Office of Bulungan District

Box 5.1: Kopermas and Small-Scale Logging Licenses in Papua

by Nugroho Adi Utomo

In allocating small-scale timber licenses under decentralization, the provincial and district governments in Papua have prioritized *adat* communities, or those holding customary rights to the land and forests being harvested. Permits have generally been issued to community cooperatives, known as Participatory Community Cooperatives (*Koperasi Peran Serta Masyarakat,* Kopermas). In Papua, Kopermas have had access to two types of small-scale timber licenses, commonly known as IPKMA and HPHHHA permits.

Since 2002, the provincial government has issued Customary Community Timber Extraction Permits (IPKMA). Community cooperatives may apply for IPKMA permits to harvest areas of up to 1,000 ha for a duration of one year. These can then be extended by the *Bupati* for an area up to 250 ha. The application is initiated through the District Cooperative Office (*Dinas Koperasi)*, and then submitted to the District Forestry Office. If it is approved at the district level, it is forwarded on to the Provincial Forestry Service, which issues the permit. Through 2002, some 328 Kopermas were involved in harvesting timber under IPKMA permits in Manokwari district alone.

In April 2004, the *kabupaten* government in Manokwari began allocating a second kind of permit, known as Customary Community Forest Management Permits (*Ijin Hak Pengelolaan Hutan Adat,* IHPHA). The area allocated under IHPHA permits can be as large as 2,000 ha, and the permit is typically valid for a period of 20 years. To ensure that sufficient areas of commercial forest are available for seeking IHPHA permits, the district government also requires each HPH timber concessionaire to make available 10,000 ha for harvesting by Kopermas.

As in most other regions in Indonesia, most Kopermas have entered into partnerships with outside investors or business partners, which often manage the timber operations. While the degree of equity involved in the relationship between Kopermas and their partners have varied widely, the Manokwari district policy helps to ensure that local community members participate in decision-making by requiring that permits be approved by village heads or subdistrict heads, and by only allocating permits to Kopermas.

The allocation of IPKMA permits was officially ended with the adoption of MoF Regulation P.07/Menhut-II/2005 on March 29, 2005.

Source: Tokede *et al.* (2005)

5.3. Timber Profits for New Actors

Under the New Order regime's HPH timber concession system, the vast majority of forestry sector profits flowed to a relatively small group of timber conglomerates, national government agencies, and senior state officials. The process of allocating HPH concession licenses was controlled by the MoF in Jakarta, with the provincial government's role being limited to that of providing a recommendation during the application process; district governments were left out of this process altogether.

With HPH licenses functioning as an important form of political patronage, most of the timber concessions distributed by the New Order government were assigned to large forestry conglomerates with close ties to national-level state elites (Barr 1998). Moreover, the government allowed HPH-holders to retain a substantial portion of the economic rents associated with their operations by keeping timber royalties well below the stumpage value of the logs harvested (Ross 2001; Brown 1999).

To the extent that district-level actors shared in timber profits under the Soeharto regime, they did so indirectly and the benefits were relatively minimal. District governments received only a very small portion of the timber royalties and fees paid by concession-holders, and most of these came to district in the form of budgetary allocations from Jakarta (see Chapter 4). HPH-holders also made cash and in-kind contributions to villages located in and around their concession sites to fulfill the '*bina desa*' community development requirements of their concession contracts. Finally, logging companies often provided employment for inhabitants of the villages and districts within which they operated. Such employment, however, was usually temporary and involved difficult, and frequently dangerous, work conditions. Moreover, work opportunities at logging concession sites were usually temporary, lasting only until the accessible timber was depleted. Collectively, local expenditures by logging companies generally amounted to little more than a fraction of the economic rents associated with their concessions (Soetarto *et al.* 2003; Gillis 1988; Ruzicka 1979).

The flow of timber profits away from the nation's forest-rich regions under the New Order regime generated deep-seeded resentments among actors at the provincial, district, and village levels. In each of the districts covered in the CIFOR case studies, informants described feeling a great deal of enthusiasm over the fact that under decentralization and regional autonomy, a substantial portion of the benefits associated with timber extraction would now be retained within the district and used to support local development (cf. Soetarto *et al.* 2003; Barr *et al.* 2001; Casson 2001a, 2001b; McCarthy 2001a, 2001b). Many emphasized that they hoped the processes of decentralization and regional autonomy would not only channel substantially greater amounts of formal revenue to the district government's budget, but also would create opportunities for 'children of the region' or 'local sons' (*putera daerah*) to participate more directly in the profits generated by logging activities. In districts where large numbers of HPHH and IPPK permits were allocated during 1999-2002, substantial formal and informal profits did, in fact, flow to a range of actors that were largely marginalized under the Soeharto government's HPH timber concession system.

Under most district timber regimes, logging companies that obtained such permits were frequently structured as joint ventures between local entrepreneurs (i.e. *putera daerah*) and regionally-based Indonesian or Malaysian timber companies. In such ventures, the local entrepreneur often played a dual role: On the one hand, he was responsible for identifying areas of commercially valuable forest that could be logged, and for working out a harvesting arrangement with local communities that may have had tenure claims in these areas. In many cases, the entrepreneurs were forest product traders able to draw on long-standing commercial and familial ties with forest communities to secure such arrangements.

On the other hand, the local entrepreneur was responsible for obtaining the HPHH or IPPK permit from the district government. He was also generally responsible for securing protection for the resulting logging operation from the regional military, police, and forestry regulatory agencies. For providing these services, the entrepreneur typically received an equity share in the joint venture, the size of which varied from one venture to another. Entrepreneurs in East Kalimantan's Malinau district, for example, reported receiving a 30-40 percent share in such partnerships in September 2000 (Barr *et al.* 2001).

To finance HPHH and IPPK logging operations, local entrepreneurs often sought out 'partners' (*mitra*) or 'investors' (*investor,* or as they were called in northern East Kalimantan, *inspektur*). Through much of Kalimantan, these investors were either regionally-based Indonesian logging companies that had previously functioned as contractors to larger HPH-holders, or Malaysian timber buyers, large numbers of which came into Indonesia after the fall of the New Order regime in search of logs and sawnwood. Holding a majority share in the timber venture, the investor typically provided operating capital and the equipment needed to log the areas specified in the HPHH or IPPK permit. The investor also frequently handled the sale of the logs harvested from such ventures. Since the onset of decentralization, large volumes of logs harvested under district timber permits in East, Central, and West Kalimantan have been exported to the East Malaysian states of Sabah and Sarawak (Obidzinski and Barr 2003; Soetarto *et al.* 2003; Barr *et al.* 2001; Casson 2001a).

Local communities living in and around forested areas also shared in the new timber profits generated through HPHH and IPPK permits. In many parts of Indonesia, district governments required recipients of the new permits to establish profit-sharing arrangements with forest communities located near the areas being logged. Benefits for local communities typically included cash and material contributions; volume-based fees for each cubic meter of timber harvested; and promises from the investor that forest areas cleared would later be replanted with cash crops. In many parts of Kalimantan, the volume-based fees ranged from Rp 10,000 to Rp 60,000 (or about US$ 1.1 – USD 7 at the average exchange rate of year 2000 of Rp 8,500 per US$) during 2000 (cf. Soetarto *et al.* 2003; Barr *et al.* 2001; McCarthy 2001b).

Many district officials interviewed for the CIFOR case studies emphasized that an important purpose of the new permits was to allow local peoples to participate directly in the benefits generated by commercial logging activities, since they were effectively marginalized by the New Order regime's HPH system. In several districts, however, officials also acknowledged that allowing forest communities to share in the profits generated under the district timber regimes was essential to maintaining political stability within the current environment.

As with the HPH concession licensing system at the national level, the process through which HPHH and IPPK permits were allocated by district governments during 1999-2002 also created new opportunities for district and sub-district government officials to secure lucrative informal payments. Timber industry actors interviewed in East Kalimantan during September 2000 indicated that payments were routinely required at each step of the IPPK permit process where a signature was required (Barr *et al.* 2001). Typically, applications required the approval of the village head and/or

customary (*adat*) leaders; the sub-district head (*camat*); and the head CDK before being signed by the *Bupati* on behalf of the district government. Some timber brokers indicated that they had paid up to Rp 50 million (or about US$ 5,850 at the average exchange rate of year 2000 of Rp 8,500 per US$) for individual signatures on their IPPK applications (Barr *et al.* 2001). In many cases, the brokers apparently planned to recoup these expenditures by subtracting them from payments later made to the forest communities in the areas being logged.

5.4 'Legalization' of Illegal Logging

Through the 1990s, illegal logging was widespread in most of Indonesia's timber-rich regions. High levels of illegal timber extraction were driven by the structural imbalance that existed between timber demand on the part of Indonesia's wood processing industries and the volumes of logs that were legally harvestable under the national government's forestry regulations (Scotland 1999). In 1997, for instance, it was estimated that the nation's major wood-based industries collectively consumed some 61 million m^3 of roundwood, while only 25 million m^3 of logs were legally harvested under the government's HPH and IPK permits (Barr 2001). Much, if not all, of the balance was covered by illegally harvested wood.

Organized timber syndicates, which often involve the Army, Police, and other branches of the state regulatory apparatus, are known to have long been active in most regions with commercially valuable timber (Barr 2001; Brown 1999). Anecdotal evidence suggests that in many provinces, the volumes of illegally harvested logs rose sharply following the collapse of the Soeharto regime, as larger numbers of actors became involved and the enforcement capacity of the New Order state was drastically curtailed (Smith *et al.* 2003; Soetarto *et al.* 2003; Casson and Obidzinski 2002). Moreover, the removal of Indonesia's log export ban in 1998 encouraged an expansion in the flow of logs across the nation's borders with Malaysia (Obidzinski 2005).

National level policymakers and large-scale industry actors have contended that Indonesia's decentralization process has further undermined governance in the forestry sector by effectively 'legalizing' illegal logging. Indeed, several aspects of the district timber regimes that emerged under decentralization appear to have been structured to legitimize the informal timber economies that had theretofore operated in those regions. In many parts in East Kalimantan, for instance, many of the HPHH and IPPK permits issued by *kabupaten* governments during 1999-2002 covered areas much larger than the district regulatory apparatuses could effectively monitor. In Malinau District, for instance, the *Bupati* allocated some 56,000 ha in small-scale forest conversion permits between April 2000 and February 2001, well before the district government even had its own forestry service. There are reports that some IPPK-holders sought to gain informal access to areas outside those delineated in their permit. As one Malinau-based timber company official explained, "There is no agency to regulate IPPKs. The area to be cut by the [IPPK permit-holder] depends on the company's arrangement with the local communities (*masyarakat*)" (Barr *et al.* 2001).

In East Kalimantan and perhaps other parts of the Outer Islands, the widespread distribution of HPHH and IPPK permits and other types of small-scale logging licenses issued by district governments during 1999-2002 was accompanied by a significant influx of heavy equipment. Some industry sources speculated that the numbers of bulldozers, logging trucks, log loaders, skidders, and graders that were brought into these regions during the early years of decentralization were much larger than what would be needed to operate the areas covered by the district timber and forest conversion permits. There was speculation at the time that HPHH and IPPK permit-holders would use this equipment to expand their operations well beyond the boundaries of the areas allocated to them. As described in Barr *et al.* (2001), Inhutani I officials reported in September 2000 that IPPK-holders had brought over 370 pieces of new heavy equipment into Bulungan, Malinau, and Nunukan districts over the preceding year. At that time, they described the situation as follows:

> *A year ago, there were probably 200 pieces of heavy equipment in the region. These were formally registered, so that petrol could be allocated [through the government's fuel rationing system]…. The flood of heavy equipment coming in now from Malaysia is mostly unregistered and of questionable legal status…. Now [the head of the region's main illegal logging syndicate] is planning to bring in 400 more pieces of heavy equipment.*

This influx of heavy equipment was reportedly facilitated by decentralization not only in the forestry sector but also in the government's procedures for regulating imports. Whereas imports of this sort had previously required permits from national government agencies in Jakarta, since the onset of decentralization they have been processed through regional customs offices.

In many parts of Kalimantan, district governments also issued regulations that effectively legitimized the transport and trade of illegally harvested timber. In April 2000, for instance, the district government in Kotawaringin Timur in Central Kalimantan imposed a charge of Rp 160,000 per m^3 on illegally harvested logs or illegal sawnwood passing through the district (Casson 2001b). Once this tariff had been paid, those in possession of the illegal timber received a formal receipt from the district government. While this scheme generated considerable revenues for the district government, critics have charged that it allowed illegal loggers to obtain documentation for their contraband timber which, in turn, allowed it to be transported and traded with a semblance of legality. In fact, the Kotawaringin Timur district government actively lobbied regulatory agencies in other districts to permit the sale and purchase of illegally harvested timber from that district as long as the abovementioned tariff had been paid. Casson (2001b) notes that in July 2000, Kotawaringin's *Bupati* sent a special team to various ports in Java to 'socialize' the scheme and to secure agreements that illegally harvested timber accompanied by a receipt from the Kotawaringin Timur district government would be permitted to enter that island's major commercial centers.

The MoF voiced concerns that district regulations of this sort were complicating efforts to curtail illegal logging by making it difficult for regulatory authorities and

buyers, alike, to distinguish between legally and illegally harvested timber. The Ministry responded by requiring all logs being transported to be accompanied by an official timber transport document (*Surat Keterangan Sahnya Hasil Hutan,* SKSHH), which was standardized across Indonesia, certifying that the logs had been harvested legally by a legitimate license-holder. In most districts, the log transport documents are issued by a branch of the Provincial Forestry Service; in some, however, they are issued by the district-level *Dinas Kehutanan*. Significantly, they must be endorsed at both the point of origin and at the point of destination, thereby making it difficult for authorities in a single jurisdiction to circumvent the legal process.

More generally, the tensions generated between the MoF and district governments since the onset of decentralization have raised important questions about what is legal and what is illegal in Indonesia's forestry sector (Patlis 2004). Indeed, many of the *perda* issued by district governments to regulate timber production within their jurisdictions directly contradict regulations issued by the MoF, thereby appearing to authorize practices that the central government considers to be illegal. The fact that there has not been a clear mechanism for resolving such legal-regulatory contradictions in a timely manner has been a major impediment to Indonesia's decentralization process (Patlis 2004). Resosudarmo (2003) notes that in 2000, some district leaders argued that they were not bound by decrees issued by the MoF because the Indonesian People's Consultative Assembly (MPR) had made no mention of ministerial decrees when it formally elucidated the nation's legal hierarchy.[5] However, the Minister of Justice and Human Rights, when asked to clarify this point in February 2001, issued a directive stating that in fact ministerial decrees carry greater legal authority than regional regulations. As discussed below, MoF has used the superior authority embedded in ministerial decrees to rescind much of the authority over the licensing of timber extraction that was transferred to and/or assumed by district governments in 1999 and 2000.

5.5 Challenges for HPH Timber Concession-Holders

The distribution of small-scale timber extraction and forest conversion permits by district governments has placed considerable pressures on large-scale concession-holders in many parts of Indonesia. In some timber producing provinces, forestry officials blamed the sizeable volumes of cheap logs generated by HPHH and IPPK permit-holders as being a major factor keeping timber prices at historically low levels through much of 2000 and 2001 (*Kompas,* November 22, 2001). In November 2001, for instance, log prices in East Kalimantan ranged between Rp 300,000 and Rp 400,000 per m^3, down from Rp 1.0 - 1.5 million per m^3 just 18 months earlier. Substantial volumes of large-diameter logs were reported to be sitting along the province's waterways due to the saturated market conditions. While Indonesian forestry conglomerates might normally have benefited from the ready availability of cheap logs under decentralization, they were often been unable to do so during the early years of Indonesia's decentralization process because international plywood prices also hit historic lows, falling to US$ 240 per m^3 in mid-2001 from US$ 370 in mid-1999 (ITTO 2001, 1999).

In many parts of Indonesia, the challenges that decentralization posed for large-scale concessionaires were even more direct. Indeed, some district governments allocated HPHH and IPPK permits in areas that fell within the concession boundaries of existing HPH-holders (Nugraha 2001). State-owned forest enterprises (PT Inhutani) were frequent targets of such actions. In Malinau, for instance, the district government by early-2001 had issued at least three IPPKs in areas that overlapped with Inhutani II's 48,300 ha concession area (Barr *et al.* 2001). Similarly, in Bulungan the district government issued numerous IPPK permits for areas that fell within the boundaries of concessions managed by Inhutani I (Suramanggela *et al.* 2001). By mid-2000, the district of Kutai Induk (now Kutai Kertanegara) also had reportedly issued several dozen small-scale timber extraction permits in areas previously allocated by the national government to private sector HPH concessionaires.

In each case, the district government's actions were apparently part of a broader strategy to establish an expanded role for itself in controlling timber exploitation within its jurisdiction. As one district official in Malinau explained in September 2000:

> *The national and provincial governments are struggling with each other over how to redistribute the HPH royalties. They think that the kabupatens will accept whatever portion the central government and the province decide to give them. But actually, the kabupatens are implementing regional autonomy in a purer form ('dalam bentuk yang lebih murni'). Just like in Kutai, the Bupatis in Malinau and Bulungan are showing that they can control forests being managed by HPH-holders. They're not just looking for a share of the HPH revenues – they want to decide who gets the permits, who gets to operate there (Barr et al. 2001).*

A Malinau-based timber broker suggested that the *Bupati*'s actions against Inhutani II's concession site during the early stages of Indonesia's decentralization process were meant to send a political message to other HPH-holders operating in that district. As cited in Barr *et al.* (2001), the broker argued that

> *the Bupati [has] sought to make it clear to large-scale concessionaires that their continued access to timber profits is now dependent upon the support of the kabupaten government and cannot be guaranteed, as in the past, by political backing from Jakarta. The informant implied that this show-of-force on the part of the Bupati was necessary to ensure that HPH-holders are responsive both to the district government's new regulations and to periodic requests on the part of local officials for informal payments.*

Inhutani officials and other concession-holders interviewed during 2000 and 2001 claimed that the allocation of IPPK conversion permits within the boundaries of HPH timber concessions posed a vital threat to the future of sustainable forest management in the region (Barr *et al.* 2001). They emphasized that under the terms of the HPH contract with MoF, their companies were obliged to practice selective

harvesting according to the Indonesian Selective Cutting System (*Tebang Pilih Tanam Indonesia*, TPTI). By contrast, district governments allowed companies operating under IPPK permits to clear all standing forests in the areas being logged. They pointed out that the overlap between IPPKs and HPHs means that areas previously classified as permanent Production Forest were being slated for conversion under the permits issued by the district government. In many instances, the IPPKs were apparently assigned for areas that correspond to some of the most valuable stands of commercial timber within a HPH's concessionary boundaries[6].

During 1999-2002, when district governments were issuing large numbers of small-scale logging permits, timber industry sources indicated that further investments in sustainable forest management on the part of HPH-holders would likely not be forthcoming if district governments did not provide a secure legal environment (*kepastian hukum*) and a secure business environment (*kepastian usaha*). According to one industry official interviewed in East Kalimantan in early 2001, as cited in Barr *et al.* (2001):

> *A significant portion of our firm's revenues each year are spent on selective felling, enrichment planting, and managing the concession area in accordance with the criteria stated in the HPH contract – not to mention RIL [Reduced Impact Logging]. Why should we continue bearing such costs if Pemda [the district government] is going to allow IPPK-holders to cut whatever wood we leave standing?*[7]

Another informant stated that unless HPH boundaries were recognized by the district government, HPH-holders would be forced (*terpaksa*) to abandon the TPTI selective cutting guidelines. To do otherwise, he asserted, would effectively mean that the HPH concessionaires were simply leaving commercially valuable timber "to be taken by other parties" (*untuk diambil oleh pihak lain*) (Barr *et al.* 2001).[8]

Not all district governments have behaved contentiously towards HPH timber concession-holders. In some cases, *kabupaten* officials have recognized significant benefits that could be had by actively engaging large-scale timber companies in their districts' forestry development plans. In Kapuas (Central Kalimantan), for instance, the district government has sought to foster partnerships between local communities and large concession-holders by allocating areas adjacent to HPH concessions for community logging under HPHH permits (McCarthy 2001b). Specifically, the district government introduced a plan in mid-2000 to establish areas of 10,000 ha adjacent to each HPH, within which it would allocate blocks of 100 ha HPHH timber extraction permits to local communities on an annual basis. The district government's plan stipulated that the HPHH areas would be managed under a selective logging system, with minimum diameter limits, replanting, and a 15-year cutting rotation. Under this scheme, "HPHH-holders could work in collaboration with larger concessionaires – who could supply capital, heavy machinery, and a ready market [for the logs harvested]. Alternately, members of the local community holding HPHH concessions could enter into a partnership with a sawmill (*bansaw*) owner who would provide the capital and also buy the timber" (McCarthy 2001b).

In many districts, large-scale concession-holders have also actively sought out partnerships with local communities and district governments in order to maintain their access to timber within the rapidly changing political environment. In Berau (East Kalimantan), for instance, several large HPH holders have transferred equity shares in their logging concessions to the district government, apparently to secure political and bureaucratic support for their operations in the face of decentralized forest administration and growing tenure claims from forest communities (Obidzinski and Barr 2003). One example of this occurred in 2001 when the district government established a joint venture among a district-owned forestry enterprise (controlling 50% of total equity); PT Inhutani I (30%); and the provincial government (20%) to manage an 83,250 ha block of the HPH concession previously held by PT Inhutani I (Obidzinski and Barr 2003).

In some districts, large-scale HPH concession-holders have also reportedly entered into partnerships with the recipients of HPHH and IPPK permits operating in and around their concession sites. In some districts, timber concessionaires have been pressured into establishing such partnerships when HPHH and IPPK holders have had the backing of district elites and institutional power-holders (Barr *et al.* 2001). However, in many cases, these partnerships have also apparently been motivated by opportunism on the part of the HPH-holders, as they seem to have recognized that the district permits would give them access to new areas and/or allow them to operate outside of their existing cutting blocks with some semblance of legitimacy. As one forestry official in East Kalimantan's Kutai Barat district explained:

> *Small timber kings (raja kayu kecil) can organize the community to apply for large sections of land. The partner (mitra) provides the tools, chainsaws, etc. There's lots of different ways that the system can work and many opportunities for the [partner] to take advantage of the situation. If the area is near a HPH, it's more than likely that the HPH will become the [partner]. This is obviously a way for the HPHs to expand their territory (Casson 2001a).*

As McCarthy (2004) explains, many HPH-holders have used partnerships with small-scale permit-holders to decentralize their own production activities. This has allowed them both to reduce their operational risks and to avoid conflicts. In some cases, timber concessionaires have purchased logs from cooperatives and farmers group which obtained HPHH and IPPK licenses from district governments. In other cases, HPH-holders have set up cooperatives to make 'arms length' sales of timber to them without paying the PSDH forest royalty. If those involved were caught, the company could often wash it hands of the matter. HPH holders have also sometimes encouraged their own workers to set up cooperatives and/or to obtain district logging permits to supply them. Alternately, they have supplied working capital to local timber brokers who then sold logs to them. This was a way to meet production targets when their concession areas were insufficiently productive and/or were in areas being contested by local communities. Other HPH holders waited downstream and bought the timber from those working with HPHH and IPPK permits, thereby minimizing their own risks. They could use their concession licenses as a means of obtaining documents for transporting and selling the logs to make it appear legal.

Under decentralization, HPH-holders have also been concerned about the introduction of new taxes and fees on the timber they harvest. Suparna (2002), for example, reported that in addition to several fees charged to large-scale concessionaires based on Law 41/1999, provincial and district government also introduced several new types of fees for timber concessions. In East Kalimantan, for example, the Governor issued decrees stipulating charges to concessions such as a 'compensation fund for local communities' (*dana kompensasi kepada masyarakat)* amounting to Rp 3,000 per m^3; and a 'fund for human resource development, science and technology development, and investment in forest conservation' (*dana pembinaan sumber daya manusia dan pengembangan ilmu pengetahuan dan teknologi serta dana investasi pelestarian hutan)* at Rp 15,000 per m^3 logs with diameter 30 cm or longer. Although not all Governors issue these kinds of charges, similar fees have apparently been adopted in several other forest-rich provinces.

5.6 A Pendulum Swing Toward Recentralization

From the outset of Indonesia's decentralization process, MoF has engaged in a tug-of-war with district officials over the degree to which administrative authority over lucrative timber resources should be shared between the central and regional governments. As described above, the Ministry responded to the widespread proliferation of HPHH and IPPK operations in 1999-2002 by taking active measures to halt the allocation of small-scale district logging permits in the Forest Estate. These measures intensified in early-2002, when the Ministry initiated a series of regulatory changes which effectively recentralized control over the allocation of timber concessions and small-scale logging permits – and many other aspects of forest administration. Since then, there has arguably been a swing of the political and regulatory pendulum in the forestry sector back towards the Jakarta.

With the issuance of Ministerial Decree 541/2002 in February 2002, the MoF revoked the authority of district and provincial governments to allocate IUPHHK licenses – which, by then, were being phased in to replace the HPH as the principal license for large-scale timber concessions.[9] Governors and *Bupatis* had been given the authority to issue IUPHHK licenses in Production Forests within their jurisdictions in November 2000, as long as the new licenses did not overlap with areas already assigned to HPH concessionaires or other types of forest license-holders. As noted earlier, some district governments took advantage of this opportunity to distribute IUPHHK licenses covering fairly significant areas. Decree 541/2002 prohibited them from doing so after March 1, 2002.

In June 2002, the MoF's reassertion of control over the timber concession licensing process was consolidated further with the issuance of Regulation 34/2002 on Forest Administration and the Formulation of Plans for Forest Management, Forest Utilization, and the Use of the Forest Estate. As detailed in Chapter 3, Regulation 34/2002 shares the highly centrist tone of Law 41/1999 on Forestry, and it assigns principal authority in most important aspects of forest administration to the central government. This includes the allocation of IUPHHK timber concession licenses. Specifically, Regulation 34/2002 allows the Minister of Forestry to issue IUPHHK

licenses for periods of up to 55 years for concession areas where timber extraction will occur in natural forests, and up to 100 years for areas where timber will be harvested from plantations. During the licensing process, Governors and *Bupatis* from the regions in which the concession is to be allocated are allowed to provide recommendations for the Minister's consideration. There is no indication that the Minister is required to abide by these recommendations, however, clearly marking a significant reduction in the respective authority of Governors and *Bupatis* in the allocation of IUPHHK licenses.

With the introduction of Regulation 34/2002, the MoF also took steps to sharply reduce the authority of district governments to issue small-scale logging permits. Under Ministerial Decree 05.1/2000 issued in November 2000, *Bupatis* had been given the authority to issue IPHHK timber exploitation permits for areas up to 100 ha located within sites classified as Production Forest, Limited Production Forest, or Conversion Forest. Moreover, *Bupatis* were allowed to assign up to five such permits (for a maximum of 500 ha) to any single license-holder within a single district. In Regulation 34/2002, the terms of the IPHHK permit were modified quite substantially: no area limit is specified; but the license only allows for a maximum harvest of 20 m^3, and it expires after one year. Similarly, the IPHHBK permit for the collection of non-timber forest products was limited to a maximal volume of 20 tons and one year duration.

The MoF outlined the guidelines and procedures for issuing Forest Product Extraction Permits (*Ijin Pemungutan Hasil Hutan,* IPHH) in Production Forests in Ministerial Decree 6886/2002, issued on July 12, 2002. Significantly, this decree also revoked Minsterial Decree 310/1999 which had earlier given *Bupatis* the authority to issue 100-ha HPHH logging permits. Collectively, these changes removed much of the legal basis for district governments to issue timber extraction or forest conversion permits of practically any size.

Many district leaders openly disagreed with the Ministry's efforts to recentralize authority over timber extraction, and some initially refused to revise their districts' regulations (Yasmi *et al.* 2006; Sudirman and Herlina 2004). In some cases, *Bupatis* continued to issue IUPHHK timber concessions and/or HPHH permits for several months after Regulation 34/2002 was introduced (Anshari *et al.* 2004). In other cases, districts stopped issuing new timber permits, but continued to renew and/or extend existing permits that had been issued prior to Regulation 34/2002. By mid-2003, however, the distribution by district governments of large, medium, and small-scale logging licenses within the Forest Estate had largely come to a halt. It is possible, of course, that in some regions district government support for timber extraction has continued, albeit informally.

It is not entirely clear why most district governments have chosen to adhere to the regulatory changes introduced by the MoF since 2002, in spite of their often-vocal opposition to these. It is likely that several factors have influenced this trend. One important factor has been the fact that the MoF has made eradication of illegal logging one of its top policy priorities in recent years. Within this context, the Ministry has shown a willingness to prosecute district officials who are found to be issuing illicit timber permits or otherwise participating in activities associated with

the harvest or sale of illegal logs. Related to this, both the Ministry and provincial forestry authorities have become increasingly stringent in enforcing the government's requirement that logs be accompanied by official transport documents (SKSHH), which require that they originated from a supplier with a legally-recognized harvesting permit. In some districts, officials have reported that they are concerned that timber flows from their regions could be disrupted, either by buyers or by law enforcement authorities, if logs originating in those regions are not accompanied by SKSHH documents (Resosudarmo 2004b).

It is also likely that district governments have had a strong financial incentive to comply with the MoF's regulations. By mid-2003, Indonesia's decentralized fiscal balancing system was operational, and most district governments were highly dependent upon fiscal transfers from the central government. Forest-rich regions, in particular, have had a strong vested interest in ensuring that transfers of the Reforestation Fund were not delayed or disrupted, as the amounts of money involved are often quite substantial. In some cases, it is also possible that local authorities recognized that district governments were losing large amounts of revenues under the decentralized district timber regimes, as it was extremely difficult for them to fully monitor large numbers of small-scale timber operators. Some district officials may have decided that they stand a better chance of maximizing district timber revenues by actively cooperating with provincial and central government authorities, and structuring commercial timber extraction around a more limited number of medium- and large-scale logging concessions.

With the reconsolidation of its authority over the last several years, the MoF again holds far-reaching control over the administration of timber extraction in Indonesia. It must be emphasized, however, that after three-and-a-half decades of intense exploitation of Indonesia's forests, the resource base now administered by the Ministry is much diminished as compared to that which it managed at the height of the New Order period. In recent years, the Ministry has sought to put the sector on a more sustainable track by sharply limiting the annual allowable cut (AAC) from the nation's natural forests. In 2003, the Ministry initiated its 'soft landing' policy by temporarily reducing the AAC to 6.9 million m^3, and to 5.7 million m^3 the following year. Although the AAC has risen to 8.1 million m^3 in 2006, it remains well below the levels recorded during the Soeharto era.

In practice, Indonesia's actual timber harvest is undoubtedly well above the levels designated by the AAC. Nevertheless, the MoF's formal restriction of the annual allowable cut has given it added leverage to restrict or halt the activities of timber companies operating without an annual work plan (*Rencana Kerja Tahunan,* RKT) that has been formally approved by the Ministry. In recent years, the Ministry has suspended or revoked numerous IUPHHK licenses issued by district or provincial governments that have been determined to be operating in violation of central government regulations. In January 2005, the MoF adopted a set of guidelines to verify whether IUPHHK concession licenses allocated by Governors or *Bupatis* had been issued in a fully legal and appropriate manner.[10] The Ministry has established a team consisting of members from the Ministry's own Directorate General of Forestry Production; Planning Agency; and Bureau of Legal Affairs. None of the team

members come from the district or provincial governments that issued the licenses under review.

At the same time, the Ministry had taken steps to accelerate the expansion of Indonesia's timber resource base by actively promoting fast-growing plantation development. It has done so, for instance, with the issuance of Ministerial Decree 101/2004 on the Acceleration of Industrial Plantation Development to Supply Raw Materials for the Pulp and Paper Industry, issued in March 2004.[11] This decree requires plantation companies owned by pulp and paper producers to fully establish their fast-growing plantations by 2009. The Ministry has also reportedly issued numerous new IUPHHK licenses for plantation development to supply both existing and planned pulp mills, although a complete list of these is not yet publicly available. Under Regulation 34/2002, the new industrial plantation licenses will last for a period of 100 years, substantially longer than the 42 years assigned to holders of Industrial Timber Plantation (*Hutan Tanaman Industri,* HTI) under the previous framework. As noted earlier, district and provincial government formally have little role in the licensing process beyond providing a recommendation on the proposed license for the Ministry's consideration.

For their part, many *Bupatis* and Governors have responded to the recentralization process that has occurred in the forestry sector by expressing keen interest in the development of oil palm estates and other types of agroindustrial plantations. This interest in oil palm, particularly among district governments, in undoubtedly linked to the fact that their respective roles in the licensing and regulation of agroindustrial estates is greater than that which they now hold in forestry. This has, in turn, led *Bupatis* and Governors in some forest-rich regions to look for ways to have forested areas reclassified as either Conversion Forest, or Areas for Other Uses (*Areal Penggunaan Lain,* APL), so that it can be freed for conversion to oil palm.

Endnotes

[1] Ministry of Forestry and Estate Crops (MoFEC) Decree 310/Kpts-II/1999 on Guidelines for Granting Forest Product Collection Permits (*Keputusan Menteri 310/Kpts-II/1999 tentang Pedoman Pemberian Hak Pemungutan Hasil Hutan*), dated May 7, 1999.

[2] MoFEC Decree 317/Kpts-II/1999 on Forest Product Collection Permits for Customary Right Communities in Production Forests (*Keputusan Menteri 317/Kpts-II/1999 tentang Hak Pemungutan Hasil Hutan Masyarakat Hukum Adat Pada Areal Hutan Produksi*), dated May 7, 1999.

[3] Letter of Minister of Forestry and Estate Crops No. 603/Menhutbun-VIII/2000 on Stopping/ Suspending the Release of Forest Estate, dated 22 May 2000. (Surat Menteri Kehutanan dan Perkebunan Mengenai Penghentian/Penangguhan Pelepasan Kawasan Hutan, tanggal 22 Mei, 2000).

[4] MoF Decree 05.1/Kpts-II/2000 on Criteria and Standard of Licensing of the Utilization of Forest Products and the Harvesting of Forest Products in Natural Production Forest (*tentang Kriteria dan Standar Perijinan Usaha Pemanfaatan Hasil Hutan dan Perijinan Pemungutan Hasil Hutan pada Hutan Produksi Alam*), dated November 6, 2000.

[5] As Resosudarmo (2004a) notes, "The MPR decree [TAP MPR No. III/2000] stated that MPR decrees [TAP MPR] stand immediately below the constitution in Indonesia's legal hierarchy, followed by laws (*undang-undang*), government regulations replacing laws (*peraturan pemerintah pengganti undang-undang*), government regulations (*peraturan pemerintah*), and regional regulations (*peraturan daerah*).

[6] Inhutani is now defunct: because of mismanagement, it basically collapsed. It is important to note as well that IPPKs and HPHHs often didn't pay PSDH/DR – so can market timber at lower prices. HPH working legally can't compete.

[7] Interview with unit manager at Inhutani II, Malinau, September 8, 2000.

[8] Interview with officials at Inhutani I, Tarakan, September 13, 2000.

[9] MoF Decree No. 541/2002 on abolishing MoF Decree 05.1/Kpts-II/2000 on Criteria and Standards of Licensing of the Utilization of Forest Products and the Harvesting of Forest Products in Natural Production Forest (*Pencabutan Keputusan Menteri Kehutanan 05.1/ Kpts-II/2000 tentang Kriteria dan Standar Perijinan Usaha Pemanfaatan Hasil Hutan dan Perijinan Pemungutan Hasil Hutan pada Hutan Produksi Alam*), dated February 21, 2002.

[10] MoF Regulation No. P.03/Menhut-II/2005 on guidelines for verification of forest concessions or timber plantation permits issued by Governors or District Heads/Mayors (*Pedoman Verifikasi Izin Usaha Pemanfaatan Hasil Hutan Pada Hutan Alam dan atau Hutan Tanaman Yang Diterbitkan oleh Gubernur atau Bupati/Walikota*), dated January 18, 2005.

[11] MoF Decree 101/Menhut-II/2004 on the Acceleration of Industrial Plantation Development to Supply Raw Materials for the Pulp and Paper Industry, issued in March 2004 (*Percepatan Pembangunan Hutan Tanaman untuk Pemenuhan Bahan Baku Pulp dan Kertas*), dated March 24, 2004.

Chapter 6

The Impacts of Decentralization on Tenure and Livelihoods

Moira Moeliono and Ahmad Dermawan

6.1 Introduction

Land and forest tenure are perhaps the most contentious and sensitive issues with respect to state-society relations in Indonesia. At the national level, land tenure, especially in areas that fall within the boundaries of the officially designated Forest Estate, is a particularly difficult issue. Although Law 22/1999 on Regional Governance devolved a large part of government authority to the regions, its implementing regulation, Government Regulation 25/2000, still allows the Ministry of Forestry great power and authority to, among other things, designate the status, boundaries, and function of forests (Thamrin 2002). The revised decentralization laws of 2004 have not significantly changed this; in fact they have strengthened the position of the Ministry to control forest land.

It is also important to analyze how decentralization has affected the livelihoods of rural communities, since that is a central purpose of decentralization reform processes taking place both within Indonesia and in many other countries around the world. Tenure and livelihood issues are often closely interlinked, particularly with regard to access to forest resources and the distribution of associated benefits.

This chapter discusses the implications of decentralization on the dynamics of land and forest tenure, as well as its impacts on the livelihoods of communities living in or adjacent to forests. The discussion focuses particularly on areas where CIFOR and partners have conducted research. Although it is rather difficult to separate the effects of decentralization on the livelihoods of communities from other processes of social and economic change, there are some indications of changes that could not have happened without the influence of decentralization, particularly in the regions.

6.2 *De Facto* Decentralization

Law 22/1999 on Regional Governance established districts as autonomous regions with the authority "to manage national resources in their region …" (Art. 10). District governments used this as the legal basis to take control over their forests and other resources, conveniently ignoring the second part of the same article: "… and be responsible to maintain environmental sustainability in accordance with the law". The law also stated that cross (district) boundary matters are to be under the authority of the province (Art. 9). As forests seldom follow administrative boundaries, this became a source of conflict between the different levels of government, particularly as the law also stated that there would be no hierarchical relation between districts and provinces.

As described in earlier chapters, Indonesia's central, provincial, and district governments have struggled over the division of authority over forests, while the technical

capacity of local governments to actually implement decentralization in forestry has been lacking (Hutabarat 2001). District officials have often understood autonomy to mean the right to govern all natural resources within their region. Accordingly, district governments issued large numbers of small-scale logging and forest conversion permits during 1999-2002. Central government policymakers, however, considered forests to be a strategic resource and the Ministry of Forestry has tried to keep control over this large and lucrative resource, particularly in areas where forests extend across district and provincial boundaries (Resosudarmo and Dermawan 2002). In 2002 the MoF passed Government Regulation 34/2002 whereby the central government took back a significant degree of administrative control over forests.

On the whole, there has been a significant gap between the implementation of decentralization policies and other laws and regulations, in particular the laws related to natural resources. From the outset of the decentralization process, uncertainty as to how regional autonomy would affect authority over access to the nation's natural resources among all relevant actors has been great (MoFEC 2000). Partially as a result of this uncertainty, *de facto* decentralization occurred much faster than the formal decentralization process, particularly in the initial months following the introduction of Indonesia's decentralization laws in May 1999. That is, social actors with vested interests (e.g. local communities, government, companies, and NGOs) strategically maneuvered and positioned themselves, taking actions regarding natural resource use based on their own understandings of what decentralization meant. In other words, the devolution of power or authority was not always supported by the provision of an effective governance framework.

De facto decentralization meant that district governments in practice took control over natural resources, including forests, in their regions. It also meant that districts often only applied those regulations that were most advantageous to their own interests. In fact, the limited 'rule of law' in the formal sense has frequently led to conflicts of interest and authority, especially with regard to forest exploitation. District-level stakeholders have been especially enthusiastic about the harvesting and trade of timber, after being largely excluded from sharing in the benefits generated by timber extraction during the Soeharto era (*Kompas*, June 18, 2001). In many respects, this has complicated efforts by the national government to curb illegal logging and to improve forest governance (*Kompas*, November 10, 2000).

At the same time, local and traditional community groups, often with support from NGOs, have sought to reclaim their rights to manage and utilize forest resources in their respective areas (Barr *et al.* 2001). Indeed, there has been a lively national discussion on a return to governance through *adat*, or customary laws and practices. However, the understandings about *adat* are manifold, and often conveniently adapted to contemporary needs and demands, including the generation of financial benefits.

While local communities have taken advantage of regional autonomy, large forest concessions have frequently found their interests undermined or threatened by decentralization. Reclaiming rights, communities have occupied logging camps and demanded compensation for logging activities, sometimes including compensation for passing through a village's territory. One good outcome of this situation is that many concession-holders have attempted more seriously to work with local communities. District governments, as well, fearing the new-found awareness of communities, have paid more attention to participatory approaches to forestry and, in many cases, have become more responsive to community demands (Syaukani 2001).

Despite the difficulties and disappointments of this first phase of decentralization (2000-2004), one unintended consequence emerging from the operations of the small-scale concessions is the possible *de facto* recognition of local rights to forests and forest resources (McCarthy 2004; Barr *et al*. 2001). In the case of Malinau district in East Kalimantan, the recognition has taken the form of an informal codification of land rights (Barr *et al*. 2001). In Kapuas and South Barito districts in Central Kalimantan, those who wish to extract timber must now negotiate with village leaders, those who live close by, and those who have *adat* rights (McCarthy 2004). One could argue that by requiring timber companies and investors to negotiate directly with local communities, district governments are in fact recognizing the communities' claims. Indeed in some cases, the requirement is that the forest be community-owned or privately owned forest. To this end, the forests are claimed and written in the issued permits as being community or privately owned.

Unfortunately, the fact that these rights are not formally or explicitly legally recognized has frequently led to more confusion and conflict. Most of the areas assigned for logging fall within the area designated (by the government) as state-controlled forest land. Where communities or individuals are recognized as owners, the documentation required by law is often not available. In addition, across Indonesia there is no consistent understanding or well-defined legal process for how customary land claims should be justified or which rights are conferred by *adat*. In many cases, it is also not clear who has really benefited from the *adat* claims asserted through the small-scale concessions allocated by district governments (Barr *et al*. 2001). It is reflective of decentralization that outside companies and investors have been forced to seek local communities' permission before forests are logged or cleared, and that the district-issued timber permits have led to increased sharing of benefits, as compared to the HPH concession system of the Soeharto era. However, one might question whether communities have been sufficiently informed and protected to ensure that they are not, in effect, *signing away* their rights and foregoing long term benefits through small-scale concessions (Tokede *et al.* 2005; Yasmi *et al.* 2005; Barr *et al*. 2001). Another emerging question relates to the definition of 'community', as communities are not homogenous units and are typically made up of different interest groups. As used by the Government of Indonesia, however, the term generally refers to people living in one territorial unit, usually a village (Colfer 2005; Wollenberg *et al*. 2005).

Recognition of people's claims was also in the interest of local government. For example, commercial timber harvesting in areas classified as 'Protection Forest' has been made possible when the area became recognized as 'owned' by local people who partner with an 'investor'. It has also been hinted that moves to claim *adat* lands may be a measure to reduce central government claims on land in order to free up forest land for conversion to uses that are more economically lucrative for district-level stakeholders. Others have speculated that people are anxious to acquire land ownership though small-scale concession permits and conversion of forests because applying for a land certificate through Indonesia's National Land Agency (BPN) is too costly and time-consuming. Such processes have often been dominated, however, by local and district elites. At the village level, for instance, negotiations with the companies and government officials have often been done by only a handful of village leaders, who usually request a disproportionate portion of benefits for themselves or their families (Yasmi *et al.* 2005; Barr *et al.* 2001).

Indirectly, however, the small-scale concession licenses have become a critical instrument for acquiring land and forest tenure. In many regions, district timber and forest conversion permits have included in their titles a statement about the location of the land where logs are to be harvested. In 32 out of the 38 small-scale concessions that had been issued in Malinau by May 2001, 'ownership' and location were conflated, such that the licenses state that logging permission was granted. The small-scale concessions *have* provided villagers with enough confidence to feel that these rights supersede those of the HPH timber concessions operating in the area. In Malinau, people used a small-scale concession license to procure benefits from timber cutting in the Malinau concession of Inhutani II, a large state-owned concession. Most small-scale concessions have been located within the territory of a particular village, although a few small-scale concessions have also been issued as enclaves within village territories (Barr *et al*. 2001).

As yet, none of these claims is legally formalized and few local governments are in fact ready to formally recognize local community rights on a systematic or wholesale basis. Some local governments, however, have issued decrees recognizing *adat* forests despite there being no national guidance on how such a classification is to be applied. In practice, local governments do take into account the presence and rights of local communities.

6.3 *Adat* as a Vehicle to Claim Rights

The breakdown of central government authority during the reform period has provided opportunities for local political elites throughout the country to build their own local power bases (Simarmata and Masiun 2002). *Adat* has been one channel through which they have done so. As Kusumanto (2001) observed, government officials, parliament, NGOs and academics as well as *adat* groups themselves are going through a process of reinterpreting *adat* and customary rights.

One significant result of these efforts emerged through Law 41/1999 and Decree of the People's Consultative Assembly (*Ketetapan MPR*, TAP MPR) IX of 2001,[1] which gave explicit recognition of customary or *adat* rights. While recognized on paper, however, such recognition has yet to be realized in the field. Indeed, state recognition of customary rights is, in many respects, not so easy. One may consider two extremes: at one end, customary rights are recognized for lands excised from the formally delineated state forest zone; at the other extreme, customary rights are secured within the state-controlled forest as use rights (Kusumanto 2001). The Ministry of Forestry has recently decided on a path towards compromise. Under the Ministry's current policy, no change in forest status is allowed except through the National Social Forestry Program, and communities and *adat* communities are allowed management and use rights within a fixed framework of the Ministry (MoF 2003). A draft regulation on customary or *adat* forests has been in discussion since 1999, however there is no indication that it will be finalized soon.

The reforms of the late 1990s followed by decentralization led to increased awareness of local peoples' rights to forests and other natural resources, as well as the value of these resources. Impatient with the slow movement of the legal reform process, many people claimed their rights by negating the rights of timber concessionaires and/or simply occupying state-controlled forest land. Having for years passively suffered the presence of logging companies exploiting their forests, local and *adat* communities are

now actively declaring ownership over the resources. This has been strengthened by the attitude of district governments who for decades have seen locally generated revenue from natural resources sent to the central government. By informally recognizing these local claims, local governments actively took steps to involve communities in logging during the early years of Indonesia's decentralization process, and at least initially, both received a much larger share of revenues. As a result, people now freely and sometimes forcefully demand compensation or a share in benefits from timber extraction or forest conversion in their areas (McCarthy 2004).

Claims are now based on *adat* rights to *tanah adat* ('*adat* lands') or *wilayah adat* ('*adat* regions'). These lands are generally unmapped and not protected by statutory law; and in many cases, they have been allocated by the state to corporate concession-holders and transmigrants (Kusumanto 2001). To legitimize *adat* claims, people often make use of history (Yasmi *et al.* 2005; Anau *et al*. 2002; Moeliono 2000). Constructing history, in turn, often becomes a contest over time and place (Erb 1997) as shown by the differing histories of various groups. Using historical claims, for example, descendants of aristocratic families that once controlled large areas of Malinau district (East Kalimantan), and also many clans in Manokwari (Papua), as well as families in Sintang (West Kalimantan), have sought to make claims encompassing several smaller territories, sometimes even overlapping each other. Claims based on historical presence such as these frequently deny the rights of people who arrived as part of government resettlement schemes during the 1960s, 1970s, and 1980s (Tokede *et al*. 2005; Yasmi *et al.* 2005; Barr *et al*. 2001). These late arrivals are, therefore, doubly disadvantaged. In addition migratory groups, which traditionally have not defined fixed territories are now in danger of having no rights at all (Barr *et al*. 2001; Kusumanto 2001). The different interpretations of historical events and agreements have thus generally not been conducive to solving conflicts. Political connections and strength of numbers have become very important in having claims recognized.

The situation in Malinau (East Kalimantan) involves a mix of many groups claiming rights using both *adat* and history. People who have moved downstream, sometimes generations ago, now claim rights over the lands left upstream where in some cases small settlements might have remained. In fact, a few groups have moved back upstream in anticipation of a district government ruling that people must live within the territory they claim for it to become formally recognized (Barr *et al*. 2001). In Baru Pelepat (Jambi), historically-based claims also create problems with government sponsored transmigrants.

While *adat* communities clearly would like to have rights over their ancestral territories and forest resources formally recognized under Indonesian law, this does not always mean that such groups are willing and capable to manage and protect these resources in a sustainable manner. While many customary communities use *adat* claims as a strategy to protect forests, many also feel it is easier to sell exploitation rights for a share in the revenue. Moreover, the generation of revenues in this manner provides no guarantee that the profits will be equitably shared among community members or used to support local development needs. Social cohesion is difficult to manage, and in many areas, local elites dominate decision-making processes regarding the exploitation of forests. In Krui (Lampung), where the *repong damar* system is legally recognized as a communal forest management system, individual members have recently expressed

the wish for individual rights (Fay and Sirait 2002). Protection of rights has also been difficult because outsiders are sometimes not aware and do not necessarily recognize local *adat* claims.

6.4 Changing Local Understandings of Territory and Boundaries

While *adat* territories often directly coincide with village territories, this is not always the case. In fact, neither kind of territory has been systematically delineated in the field in most of Indonesia. Further confusion is added through the *ad hoc* manner of government land zonation initiatives, whereby the Ministry of Forestry has acted independently of the National Land Bureau. For example, when the Department of Forestry delineated the permanent Forest Estate *(Kawasan Hutan)* in the early 1970s, nearly 95 percent of Malinau (East Kalimantan) was designated state forest land and no space was given to existing communities (Anau *et al.* 2001). It is, therefore, unclear whether forests are legally within village territories or villages are within the forest area. *Adat* movements, of course, claim that villages existed before the government's designation of the Forest Estate, therefore *adat* claims should have precedence. However, it is also true that in the past most existing villages made territorial claims only on areas in actual use, which usually includes secondary forest growing in areas after shifting cultivation.

In spite of the prevalence of *'adat'* claims to land and forest resources in practice local communities, district government agencies and even companies tend to treat registered villages as the most common unit for local claims. In Malinau (East Kalimantan), this conclusion is based on three pieces of evidence. First, when villagers were asked in a mapping project facilitated by CIFOR what they wanted to map, they unanimously responded that mapping their village boundaries was their highest priority. Communities of the Upper Malinau region have mapped their boundaries based on registered village territories. Second, timber compensation claims generally have been based on village boundaries. Third, the district government has issued small-scale forest conversion permits almost entirely to villages, and has referred to these villages in *adat* terms, for example *'tanah adat'* or *'hutan adat'*. Using existing village territories has probably been the most expedient and most conflict-minimizing means of "allocating *adat* rights" (Barr *et al*. 2001). In Baru Pelepat (Jambi) there is a movement to have a hamlet now belonging to the neighbouring village of Rantel redefined as part of Baru Pelepat in order to be united within one *adat* community (Indriatmoko and Kusumanto 2001).

The situation in Malinau is complicated because of a history of migration and forced resettlement resulting in multiple villages and multiple ethnic groups being mixed in one location. Recent newcomers did not always sever ties with their former territories. With decentralization and the rise of small-scale logging, a new sense of the meaning of boundaries has developed and a trend is occurring among villages to claim locations where they had previously settled (CIFOR 2002). This new awareness of the meaning of boundaries and extent of territories has arisen partly due to the many community mapping projects all over Indonesia, but also due to the monetary value now given to natural resources. The idea of boundaries itself has also changed. In the past, boundaries were generally laid along natural features, mainly rivers or water divides. Boundaries

delineated under customary systems were also often less distinct than those delineated by the state. Since the onset of decentralization, however, local boundaries in many areas have been forced in arbitrary lines to allow the inclusion of valuable resources (Anau *et al*. 2001, 2002).

Mapping of territories is, of course, a highly political process, and competition for economic benefits associated with forests has led to some intense conflicts (Peluso 1995). The participatory mapping exercises facilitated by CIFOR have always included negotiation sessions to reach agreements on boundaries. In Malinau, where informal agreements over boundaries supposedly have been reached, they have too often been short-lived or partial, particularly when both villages did not take part fairly in the boundary marking process. Differences of opinion have also frequently existed among members of a single village. No criteria have been promulgated by the district government or among villages for establishing what constitutes a fair agreement or how conflicts should be settled (Anau *et al.* 2001, 2002). In the village of Batu Kerbau (Jambi), mapping has been used as a process to reach agreement and recognition of protected areas within their territories. Village boundaries are less a source of conflict than forest resources which the community wants to retain as future sources of timber. Mapping of local forests was used as a tool to gain recognition by the *Bupati* and therefore legal protection by the district government.

Decentralization has thus encouraged attention to local people's aspirations, but the process for identifying and managing those aspirations has been left unspecified in government policies and regulations. In addition, the individuals with the authority to make decisions on behalf of local communities are often different from the ones with the knowledge of boundaries on the ground. In a few cases, boundaries were marked before even nominal agreements had been reached between villages. Politically marginalized, nomadic hunter-gatherer groups have been especially disadvantaged in negotiations about boundaries and benefits.

For example, in Malinau, participation of Punan community members is often limited, as a large contingent of the population of Punan villages is often in the forest. It is rare to meet all inhabitants of one Punan community in the settlement area. Where Punan have shared decision making with other ethnic groups, they face the additional burden of prejudice, as they generally have smaller numbers and lack political clout. Even where negotiations have occurred and agreements have been stable, villages have had limited success in enforcing them. In Jambi, the Orang Rimba – an indigenous group living within forested areas -- are even more at a disadvantage. These still largely nomadic groups do not claim territories in the same manner as the more settled communities. As a result they have seen their territories diminishing and their traditional migration paths obliterated. Not constrained to fixed territories, they do not obey other people's boundaries either. The NGO WARSI, which has been working with several groups of Orang Rimba, liaise with local people to allow the Orang Rimba to settle. For the most part, WARSI has advocated their rights and succeded in getting the Taman Nasional Bukit Duabelas to be assigned as Orang Rimba territory (Kurniawan 2005).

6.5 Communities Redefined

Differentiation among local groups in Indonesia, many of which later crystallized as '*suku*' (clan, tribe) and are now commonly referred to as *masyarakat adat*, must have predated colonialism. Many ethnic groups emerged at that time, although the colonial

state later played a role in categorizing ethnic groups and formalizing which aspects of ethnic identity would be officially recognized. While the origins of *adat* communities might be questioned, their existence today is taken for granted.

In general, *adat* communities define themselves by characteristics which on the surface are similar to those used by the state: leadership issues, ownership and access to resources including the land area, the members and the rules of their membership, their judicial system (including sanctions not necessarily based on equity or equality), their beliefs, traditions and customs and lastly their identity and the symbols of this identity. While these organizing principles might be similar, their content often goes against formal interpretation. For example, ownership and access might be communal with private rights and be more inclusive or communal and very exclusive. Neither of these are provided for in the formal laws.

Law 5/1979 on Village Governance issued by the New Order government in 1979, established a parallel system through which the state formally interacted with villages, thus marginalizing the *adat* system.

Constrained within the overall structure of the central government dominated system, where diversity and culture were defined by the state, *adat* communities were only able to express themselves freely through social practices shaped through *adat* and expressed mainly through dance and dress. With the changes brought by reform and regional autonomy since the late-1990s, local communities now have the opportunity to reassert practical aspects of *adat*.

A fundamental change occurred when Law 22/1999 (which abolished Law 5/1979) was issued, as it stipulated that villages are no longer the smallest administrative unit of the government hierarchy, but rather are now autonomous units (Soemardjan 2000). According to Law 22/1999, communities are legal bodies with the authority to govern and administer the local community based on origins, local customs and traditions acknowledged in the national governance system and located within a district. For instance, in West Sumatra this has led to the re-establishment of the traditional governance structure known locally as *nagari*. In most places, however, the unit of village governance remains known as *desa*, and the New Order governance structure has been retained. This is due partly to the fact that few people today know how the old systems worked, because *adat* authority was already on the wane at the time the New Order state imposed the village governance structure. It is also partly due to Government Regulation on Village Government (PP 76/2001)[2], which set down a uniform structure and basic prerequisites of villages, and is not much different from the earlier law. Before local communities were able to adjust to these changes and exert their autonomy fully, the revised decentralization law of 2004 significantly reduced village autonomy.

The experience in Malinau (East Kalimantan) provides an example of how this process has played out in one district. In Malinau, the district government copied regulation Regulation 76/2001 almost *verbatim* to administer villages within the district. At the same time, however, many of the existing villages do not fulfill the legal requirements stipulated by the new regulation on village governance. Both as a consequence of this and because district governments are also required to improve basic services, an overall movement to merge villages is now underway. This process has already led to conflict as it implies the merging of *adat* territories. Among all the confusion about *adat*, there also exists a possibility that the district government will decree that village territories are *adat* territories. Lacking resources to conduct a comprehensive survey and impatient with the multitude of

demands from local communities, it would not be surprising if the government were to make a somewhat arbitrary decision on this important issue. The government has already declared that there will be only one administrative unit in each village, meaning that the multiple villages in one location will be merged and that territories will be determined based on where people actually live.[3]

In the village of Baru Pelepat (Jambi), however, the opportunity provided by the decentralization law was welcomed by the *adat* community. It should be noted that here *adat* systems still hold considerable authority. In fact, prior to the decentralization process, the village government was hardly separate from the *adat* system (Indriatmoko and Kusumanto 2001). The decentralization law brought the promise to redefine the village territory to include part of a neighboring village inhabited by members of the Baru Pelepat *adat* group. So far, however, this has not yet occurred.

6.6 Decentralization and Community Livelihoods

In general, the impacts of decentralization on the livelihoods of communities living in and around forests has been 'mixed' (Resosudarmo 2004a). There are some positive impacts of decentralization on the livelihoods of communities, as well as some negative impacts.

On the positive side, many districts' total budget has increased under decentralization. Although a significant share of the districts' revenues comes from central government transfers, districts now have considerable flexibility in their use of these funds, potentially increasing per capita government expenditure. After decentralization, some districts developed public facilities that would have been unlikely without decentralization. Development of infrastructure in Kapuas Hulu (West Kalimantan)and Tanjung Jabung Barat (Jambi), for example, has been a priority in the district budgets, since poor infrastructure has limited social and economic development of those regions. Of course, the development of roads and other types of infrastructure can also have potential dangers, such as promoting deforestation (Dermawan 2004).

At the community level, another positive outcome of decentralization on the livelihoods of communities is that increased forest exploitation benefited local communities in some areas, at least in the short term. The small-scale logging permits issued by district governments during 1999-2002 gave local communities greater opportunities to share in the benefits associated with commercial exploitation of forests – which previously went mainly to stakeholders outside the regions in which the forests were located. Decentralization has partly allowed forest-dependent communities to capture at least some of the rents generated by timber harvesting. Although the issuance of district timber and forest conversion permits has effectively been restricted by the Ministry of Forestry in the period since 2002, at least temporarily the profits obtained by local communities from small-scale logging were much more than local people were able to obtain during the Suharto era (Palmer 2004; Dermawan 2004; Casson and Obidzinski 2002).

In Manokwari, customary communities were able to access forest resources by either asking financial compensation from large forest concessions or applying for small-scale forest concessions from district and provincial government. Decentralization had significantly increased local communities' access to short-term financial benefits, as well as their access to decision making, at least with respect to forestry harvesting within their own concession areas (Tokede *et al.* 2005).

In many areas, local communities are also now able to negotiate with timber, plantation, and mining companies to obtain at least a portion of the benefits from forest resources. There are commonly several types of community demands, including for instance the payment of 'entrance' fees to land and forests claimed by the community; volume-based payments for each cubic meter of timber harvested; compensation for infrastructure and plantation development; and other forms of land-use compensation (Tokede *et al.* 2005). Contracts between companies and communities typically consist of a list of proposed community benefits and company activities, and is usually finalized and notarized before being signed by representatives from both parties. Some villages have also negotiated with companies for the development of public services and infrastructure in addition to financial payments. These include, for instance, educational facilities, communal housing and the provision of health services (Palmer 2004).

In many regions, local elites have become brokers in negotiating profit-sharing and management partnerships in the name of local communities (Yasmi *et al.* 2005). As such, the benefits associated with such agreements are often not distributed equitably among community members. Variations in such contracts may result from the degree of community participation in the negotiation process, the nature of the relationship between the village elites involved in the negotiations and the community members they (purportedly) represent, the degree of contract compliance by the companies involved, and the degree of enforcement of the contract (and the mechanisms available for this) by the communities (Palmer 2004).

There are different ways of how cooperative or small-scale permit-holders distribute benefits among members, as well as some variations in benefits across villages that participated in small-scale timber harvesting or forest conversion agreements (Palmer 2004; Tokede *et al.* 2005). Company-community agreements based on IPPK permits (*Ijin Pemanfaatan dan Pemungutan Kayu*) negotiated in Malinau appear to have a 'fixed' fee limit of up to Rp 50,000 per m^3 of timber harvested. There was flexibility in the provision of social facilities and financial payments by the companies or investors involved, which appeared to be dependent on the needs and demands of each individual community and the size of the logging area. While the provisions for non-cash benefits varied, cash benefits for the villages and logging rules for the IPPK companies were the same (Palmer 2004). In Manokwari, communities dealing with HPH concession-holders generally have received lower rates of compensation than those dealing with non-HPH investors. In 2004, HPH concession-holders typically contributed Rp 50,000 per m^3 of timber, while non-HPH investors were willing to pay up to 200,000 per m^3 of compensation (Tokede *et al.* 2005).

However, local communities generally have not been the ultimate beneficiary of decentralized timber harvesting, in spite of what the theory may have suggested. Small-scale timber permits, for instance, have often been granted to local cooperatives, in which individuals or households from the community might be members. However, usually lacking access to capital and equipment, these cooperatives have often had to collaborate with outside investors – either individual entrepreneurs or companies, at times including HPH-holders. The cooperative's position in the negotiation process has often been weak (Tokede *et al.* 2005; Alqadrie *et al.* 2002; Barr *et al.* 2001; McCarthy 2001b). For example, in Sintang (West Kalimantan), communities received a fee from 35,000-50,000 per m^3 of timber or only about 9% of the market value of *Shorea spp.*, the most common timber species cut (Yasmi *et al.* 2005).

Although local communities have often obtained an increased share of the benefits from forest exploitation under decentralization, partnerships between communities and outside investors generally have not distributes these benefits equitably among the poorest community members. Rather, the profits from district timber and forest conversion permits have largely gone to entrepreneurs, elites and government officers. More generally, a lack of effective law enforcement and control over the activities of timber, mining, and plantation companies has often led to environment degradation, which eventually affects the people who most depend on forests for their livelihoods. Some community members have received a small share of the profits from HPHH and IPPK permits. However, there has often been a lack of transparency in the distribution of thse benefits within villages, and marginalized groups, including women and ethnic minorities, have frequently not received an equitable share (Yasmi *et al.* 2005). In villages surveyed in Malinau (East Kalimantan), community members perceived IPPK fee payments as either not being fairly distributed or having not been received at all (Palmer 2004).

Job creation in forested regions is another positive outcome that successful decentralization might have offered. However, it is not clear that this has been the case on any large scale in Indonesia's forestry sector. In Manokwari, for instance, decentralization has opened a limited space for job creation, although one might question its sustainability. Since they lack skills, the jobs are limited to guiding logging teams and/or loading and unloading timber, which are poorly paid (Tokede *et al.* 2005). In one research study in Malinau, none of the local villagers was offered jobs with the companies engaged in harvesting timber under IPPK permits, apparently because villagers in those locations had no previous experience working in logging operations. Instead, all the IPPK workers were contracted from outside the area (Palmer 2004).

Finally, even the money that has been received by local communities under timber harvesting agreements with outside companies or investors has not always been used to support lasting improvements in community welfare. In Manokwari, for instance, members of surveyed communities considered the compensation from timber harvesting to be a windfall, and they eventually used the money mainly for consumption goods (Tokede *et al.* 2005).

6.7 Trends?

Indonesia's ostensible transition is indicative of the international community's global push for decentralized governance, although for the most part decentralized governance has not been implemented successfully (Agrawal and Ribot 1999). Agrawal and Ribot (1999) suggest that the success of any decentralization program requires the following three interconnected steps:

- the management of *political relationships* at the level of the central state so that some powerful actors at that level become committed to pursuing decentralization;
- the creation of *institutional mechanisms* at the level of the locality that prevent elite actors at that level from cornering the increased flow of benefits directed toward lower levels of governance and administration; and
- the management of *flows of information and creation of capacities* so that the new information is used appropriately to produce goods and services for people.

None of these three steps is, as yet, fully in place in Indonesia; and the attendant institutional mechanisms within the state and within the villages are, to a great degree, dysfunctional. It is therefore debatable whether decentralization has actually occurred or whether the reforms associated with Indonesia's decentralization process have generated tangible benefits for communities living in and around forests. The downward accountability which is a basic characteristic of democratic decentralization (Ribot 2001) is such a new concept in Indonesia that hardly any government official knows how to implement it. But the passing of Law 22/1999 itself certainly has had significant consequences in terms of the way districts are governed and how forests are managed today. Nevertheless, there are movements towards better organized decentralization, although there are signs that these may be adapted in the usual "muddling through" manner that is often characteristic of such reform processes in Indonesia.

One clear trend through all of this is the disconnect between official policy and plans, on the one hand, and how such processes play out on the ground, on the other. While this is not a new phenomenon, decentralization policies have tended to strengthen this. National Land Law and Forestry Law have clearly and explicitly set control at the central state level. On the ground, however, many *adat* and local systems have remained in force. With decentralization, this resistance towards central state control has taken a more open form where local communities have defied government policies and forcefully occupied land claimed to be their own. At the same time, there are disconnects between district government policies and what actually happens at the village or sub-village level, where district policies often have little or no meaning.

These disconnects support the process of power shifts in the regions. The decentralization laws did shift power to district governments. In fact, when decentralization became law in 1999, the *bupati* of Manggarai (East Nusa Tenggara) for example said gleefully that he had become king – a sentiment reflected by district heads in other parts of Indonesia as well. When a king comes to power, however, he has to demonstrate and strengthen his authority. To this purpose, new alliances built on business, family and/or *adat* connections have developed under decentralization. *Adat* especially has regained visibility. This has often taken the form of demanding and obtaining compensation for the use of resources claimed (cf. Tokede *et al.* 2005).

This has led to the revival of the old debate on how to integrate *adat* law into state law with *adat* communities supported by NGO's demanding that their *adat* law be legally recognized (DTE 2000). However the dividing line between custom and law remains un-reconciled, and questions raised by Sonius (1981) are still relevant: How could innovations in *adat* law qualify as customary law? How could one ascribe to *adat* law a body of objectives and pre-existing rules if the conciliatory nature of *adat* justice made it constantly necessary for *adat* judges to find or create new laws applicable to individual cases? What are the consequences and implications when *adat* becomes formal written law?

Mallarangeng, one of the architects of Indonesia's regional autonomy law, argues that with regional autonomy, *adat* law and *adat* governance could become formalized into statutory law (DTE 2000). Regional autonomy, in principle, provides space for village autonomy and a return to *adat*. However, people have not yet considered how to fit *adat* into the wider government system. In many cases, the registration and cooptation of *adat* leaders by the Dutch has become part of *adat*. Having been reared within the unitary

state, it is difficult for many people to conceive of an *adat* structure independent and parallel to the state (Bourdieu 1994). On the other side, *adat* communities have always had the ability to absorb new ideas and adjust to new laws and situations (Sonius 1981); and many forest-dependent people have been sufficiently isolated not to have been aware of the unitary state anyway. With regional autonomy, *adat* communities were quick to see, adjust and use new opportunities. Writing down the law as communities are now doing, however, will not answer the question of fit (Devung 1999).

Decentralization also puts a heavy burden on district governments. Besides being faced with the problem of reconciling *adat* and statutory law, districts are required to provide better services for their constituents. In the case of forest management, however, being located closer physically to the resource, does not mean better understanding of sustainable and equitable management practices. After all, many government officials have become politicians and bureaucrats by escaping their rural background.

For the government in Malinau (East Kalimantan), it is a rational step to try and merge the many small settlements into one administrative unit. For the inhabitants of these settlements, however, there remains the question of rights to land, forests, and other resources. Will the merging of territories imply they have to share their rights with all people in one village, even those not of their own ethnic group or clan? What about individual property located in another village?

These questions are linked to yet another disconnect -- that of tenure. As already mentioned, the Department of Forestry has recently inaugurated a new Social Forestry program. Despite compelling reasons to rationalize the Forest Estate, there is insistence on the part of the central government that land currently within the *Kawasan Hutan* remain under state control: Land tenure, the Ministry of Forestry has argued, is not an issue and need not be discussed. On the ground, however, more and more *adat* as well as local communities want their rights recognized.

The evolving dynamics of *adat,* land tenure, and forest access also have significant implications for rural livelihoods. After the central government revoked the authority of districts to issue small-scale timber and forest conversion permits, local communities again lost access to many of the benefits associated with commercial timber exploitation. As Indonesia's once-vast forest resources are now seriously declining, there are fewer and fewer large timber concessions operating in the country, and it would appear that national government efforts to recentralize control over forests may be aimed largely at securing control over resource rents associated with these areas (Prasetyo *et al*. forthcoming). Within this context, however, the movement toward *adat* has strengthened, partly because this is perhaps the last chance for communities to obtain a more equitable share of benefits from the country's rapidly diminishing forest resources.

Endnotes

[1] Decree IX/2001 of the People's Consultative Assembly on agrarian reform and natural resources management (*Ketetapan Majelis Permusyawaratan Rakyat Republik Indonesia tentang Pembaruan Agraria dan Pengelolaan Sumberdaya Alam*).

[2] Government Regulation 76/2001 on General Guidelines for Administering Villages (*Pedoman Umum Pengaturan Mengenai Desa*).

[3] Personal communication, *Bupati* of Malinau, February 2002.

Chapter 7

Decentralization and Recentralization in Indonesia's Forestry Sector: Summary and Recommendations

Christopher Barr, Ahmad Dermawan,
John McCarthy, Moira Moeliono and Ida Aju Pradnja Resosudarmo

7.1 Introduction

Over the last two decades, a growing number of countries have implemented processes of decentralization, shifting significant elements of administrative authority and responsibility away from highly centralized states. Few countries, however, have implemented decentralization as rapidly or with as far-reaching transfers of authority to regional and local governments as Indonesia has since the late-1990s.

Indonesia's decentralization process gained momentum in the months following the collapse of Soeharto's New Order regime in May 1998. It was driven, to no small degree, by the demands of stakeholders in the nation's natural resource-rich regions, who vociferously called for a greater share of the oil, gas, and timber revenues generated within their districts and provinces. After 32 years of highly centralized control during the New Order period, national policymakers recognized that during the post-Soeharto period the central government would need to allow for a process of decentralization or as it is known in Indonesia, regional autonomy. This was necessary to ensure that decisions more closely reflected the aspirations of regional populations, to guarantee a more evenhanded distribution of resources, and, in the face of strident calls for self-government, to maintain Indonesia's integrity as a unified republic. Law 22/1999 on Regional Governance, issued in May 1999, defined the nation's provinces and districts as 'autonomous regions'; and the central government transferred far-reaching administrative authority to district governments, in particular. Law 25/1999 established a new system for fiscal balancing between the central and regional governments, which involved a far more equitable sharing of natural resource revenues than had theretofore occurred.

Following the onset of decentralization in 1999, district governments gained enhanced powers to issue some licenses and permits in the forestry sector, most significantly the power to issue small scale concessions. While powers over spatial planning and the setting of forest boundaries remained the preserve of higher levels of government, district governments in forest-rich regions across Indonesia moved quickly to establish administrative control over timber production within their regions. Between 1999 and 2002, *Bupatis* issued large numbers of small-scale logging and forest conversion licenses, and district governments imposed new taxes and regulatory restrictions on HPH timber concessions operating within their boundaries. These measures generated substantial flows of regionally generated revenues, which had not been formally accessible to district governments prior to decentralization. The allocation of small-scale district timber permits also provided lucrative income-earning opportunities for regionally-based entrepreneurs, forest communities, and government officials. In this

way, the decentralization process moved towards a far more equitable sharing of the economic rents associated with timber production among local and regional stakeholders than occurred during the New Order period. Such benefits, however, have generally been concentrated in regions with rich forest resources; and the distribution of timber rents among stakeholders at the district level has often been dominated by local elites.

The implementation of decentralization in Indonesia's forestry sector has been a highly contested process, with the MoF and district governments engaged in an intense struggle over timber rents. From the outset of the decentralization process, the Ministry has taken steps to halt the allocation by district governments of timber and forest conversion permits within the Forest Estate. These efforts intensified in 2002 with the issuance of Regulation 34/2002, which effectively reconsolidated the Ministry's administrative control over timber harvesting and most other significant aspects of forest management. Since then, the Ministry has issued numerous new IUPHHK concession licenses, most of which are intended to promote industrial plantation development. The Ministry has also taken steps to review timber and forest conversion licenses issued by Governors and *Bupatis*, and to revoke those that do not comply with central government regulations. In this way, the political and regulatory pendulum, which swung heavily in the direction of decentralization during 1999-2002, has now swung back decisively in the direction of recentralization.

The sections that follow summarize many of the key issues and challenges related to the processes of decentralization and recentralization that have occurred in Indonesia's forestry sector over the last several years, as discussed in the preceding chapters. This summary is followed by a brief list of policy options that government policymakers at all levels of Indonesia's state apparatus may wish to consider in order to promote more equitable and sustainable outcomes.

7.2 Legal-Regulatory Contradictions and Lack of Coordination

In many fundamental respects, Indonesia's decentralization process was poorly planned and poorly implemented. In the early months following the introduction of Law 22/1999 and Law 25/1999 in May 1999, for instance, *de facto* decentralization proceeded much faster than *de jure* decentralization. In many cases, district governments took initiatives well in advance of the laws and implementing regulations that were supposed to provide the legal basis for their newly-expanded authority. Some district officials also assumed discretionary powers that were much wider than those given to them by the nation's decentralization and regional autonomy laws. This was seen, for instance, in many of the *perda* issued to impose new types of district-level taxes and fees and the widespread allocation of small-scale logging permits by *Bupatis*, which often had only a tenuous legal basis.

In part, the rapid pace of *de facto* decentralization can be attributed to the general euphoria for regional autonomy that spread across Indonesia in 1999 and 2000. This sentiment was particularly strong among stakeholders in regions with rich timber assets and other natural resources, most of whom had been forced to watch from the sidelines as the central government controlled exploitation of these resources for much

of the New Order period. Stakeholders at both the provincial and district levels were extremely enthused that Indonesia's decentralization laws defined provincial and district governments (and municipalities) to be autonomous regions. During a period of rapid economic and political transition, the central government's power to enforce its policies and regulations at the local level sharply weakened during the first years of the post-Soeharto period. This left it in a poor position to use policy instruments provided in the law for the supervision and monitoring of district initiatives. Many district governments and local stakeholders liberally interpreted regional autonomy to mean that they now had full authority to control the resources within their domain.

The slow and uneven pace of legal reform was a second factor that encouraged district officials to act beyond the authority formally assigned to them. Although Law 22/1999 delineated the broad parameters of regional autonomy and decentralization, it offered few details for how these should be implemented in the forestry sector. The main implementing regulation for Law 22 − Regulation 25/2000 − was only issued a full year later, in May 2000; and it, too, delineated the authority of district governments in the forestry sector in only general terms. It was not until June 2002 that Regulation 34/2002 provided a detailed description of how administrative authority should be shared among the central, provincial, and district governments with respect to the Forest Estate. During the years prior to the issuance of Regulation 34/2002, district officials often took advantage of the legal-regulatory ambiguity that existed in the forestry sector by interpreting sectoral regulations and the decentralization laws in ways that provided district stakeholders with the greatest immediate economic advantage. While in many respects there were inconsistencies between these two regulations, the MoF was able to use Regulation 34/2002 to significantly reduce the power of districts in the forestry sector.

Indonesia's decentralization process has also been hindered by significant ambiguities and contradictions that have existed among the multitude of laws and regulations introduced over the last several years. Decentralized administration of forests, in particular, has been complicated by the fundamental contradictions that exist between Law 22/1999 on Regional Governance and Law 41/1999 on Forestry. Although the two laws were issued within four months of each other, they convey profoundly different assumptions about the manner in which legal and regulatory authority should be shared among the central, provincial, and district governments. In sharp contrast to the regional autonomy law, Law 41/1999 is highly centrist in tone and largely focuses on reaffirming the central government's primary authority in most major aspects of forest administration.

This contradiction reflects the fact that the Indonesian state did not take a 'whole of government' approach to developing decentralization related policy and implementing it. Indeed, the substance and tone of Law 41/1999 is indicative of the sharp resistance that decentralization has encountered within the MoF. The 1999 forestry law, moreover, has provided the legal basis for the Ministry's subsequent efforts to recentralize key elements of administrative authority in the sector.

Beyond the legal ambiguities and contradictions that have existed among laws issued by the central government, Indonesia's decentralization process has also been undermined by a general lack of legal-regulatory coordination among government agencies, both

agencies at the same level and between different levels of government. The national government has introduced most of its decentralization (and recentralization) legislation with minimal input from and/or consultation with stakeholders at the provincial and district levels. Conversely, regional governments have acted largely autonomously in issuing district regulations through much of the decentralization period, generally conducting little consultation with national government officials during this process. This lack of coordination has been especially problematic for district governments, as most have very limited legal expertise to ensure that the laws and regulations they issue are fully legitimate, are consistent with higher laws, and can be implemented effectively.

This situation was further complicated, particularly during the initial phase of decentralization, by the absence of an effective institutional mechanism for resolving contradictions that exist among laws and regulations issued by governments at the central, provincial, and district levels. Through 2000, for instance, many district governments argued that there was no legal basis for the central government's claim that decrees issued by the MoF carried greater legal weight than decrees issued by a *Bupati*. And while the Minister of Justice and Human Rights subsequently issued an opinion in early 2001 indicating that a ministerial decree does carry greater weight than a *Bupati* decree, many districts refused to rescind district regulations and decrees that were in question.

More recently, Indonesia's revised regional autonomy law – Law 32/2004 on Regional Governance, adopted in October 2004 – assigned authority to the Minister of Home Affairs to review draft regulations before they are passed by provincial governments; and to Governors to review draft regulations before they are passed by district governments. It is intended that this will encourage increased coordination among the levels of government, and lead to improved legislation by reducing the numbers of legal-regulatory contradictions and ambiguities. While some system of checks and balances is indeed necessary, clearly this system will mean that the consent of higher levels of government is required for all policy initiatives in the regions. Arguably this may reduce the autonomy of districts to pass laws, which are based on the aspirations of local communities, but which may work against vested interests in the centre. An alternative approach would be to set up a governance system that more effectively allows for the autonomy of regional decision making but at the same time (by effective monitoring and supervision and with an effective legal umpire (i.e. the courts)) ensures that this autonomy is carried out within the broad policy guidelines set by the central government.

7.3 Fiscal Balancing and the Redistribution of Forest Revenues

Indonesia's fiscal decentralization process has led to a substantial redistribution of forestry sector revenues, with increased revenue flows particularly to district governments. Under Law 25/1999 and its implementing regulations, the Forest Resource Rent Provision (PSDH) and the HPH License Fee (IHPH) have been classified as shared revenues, with 64 percent earmarked for district governments, 16 percent for provincial governments and 20 percent for the central government. Prior to 1999, district governments received only 15 percent of the PSDH and none of the IHPH; provincial governments received 30

percent of the PSDH and 70 percent of the IHPH; and the central government received 55 percent of the PSDH and 30 percent of the IHPH. These changes mark a substantial drop in the central government's share of these forestry revenues.

Similarly prior to decentralization, the central government exercised virtually full control over the Reforestation Fund (DR), which the MoF managed outside of the National Budget. Under Law 25/1999, the DR, has been classified as part of the Special Allocation Fund (DAK), with 60 percent allocated to the central government and 40 percent allocated to district and provincial governments. Since late 2004, the DR has been reclassified as shared revenue, although it has been allocated according to the same 60:40 ratio.

During the period 2001-2004, total annual government receipts from the PSDH and IHPH ranged between Rp 731 billion (US$ 85 million) and Rp 1.77 trillion (US$ 172 million). The available data suggest that the central government has continued to control approximately 50 percent of the total PSDH and IHPH receipts during this period – an amount that is substantially greater than that specified for the central government in Law 25/1999. The reasons for this are not clear, and it is possible that this simply reflects a lack of precision and/or inaccuracy in the published data.

The distribution of PSDH and IHPH revenues among regions has been highly concentrated among the nation's major timber-producing regions. In particular, the provincial and district governments in East Kalimantan, Central Kalimantan, and Riau account for nearly two-thirds of the total distributed to the regions. The relative significance of the PSDH and IHPH to individual district and provincial economies varies dramatically among regions, largely depending on each region's relative access to other sources of natural resource revenues. For East Kalimantan, which has substantial oil and gas revenues in addition to forestry, PSDH and IHPH receipts accounted for only 3.7 percent of the region's overall natural resource revenues in 2004. By contrast, PSDH and IHPH receipts accounted for 93.1 percent of total natural resource revenues for Central Kalimantan.

Aggregate receipts from the Reforestation Fund during 2001-2004 ranged between Rp 1.3 trillion (US$ 155 million) and Rp 3.1 trillion (US$ 298 million). As with the PSDH and IHPH, the distribution of DR funds among regions has been highly concentrated among the largest timber-producing regions. East Kalimantan, Central Kalimantan, and Riau, for instance, have collectively accounted for over 70 percent of total DR distributed to the regions in recent years. The allocation of DAK-DR to provincial and district governments is specifically required to support reforestation and forest rehabilitation activities according to guidelines promulgated by the central government. In each region, however, the provincial government largely determines the relative weighting of these criteria and how they are applied. Although the central government transfers DAK-DR funds directly to recipient districts, provincial governments thereby exercise considerable influence over how DAK-DR are distributed among districts and municipalities.

The distribution and use of DR to support land and forest rehabilitation projects at the district level have encountered numerous implementation difficulties since the onset of Indonesia's fiscal decentralization process. Anecdotal reports suggest that the transfer of funds to the district governments has often been late; districts have frequently had inadequate funds for 'supporting activities' such as dissemination of information to

participating communities and technical extension; districts have sometimes focused on rehabilitating and reforesting lands that are most accessible or most certain of project 'success' rather than the areas that are most seriously degraded; and there is often little oversight of the rehabilitation and reforestation projects to assess what they have accomplished.

In some regions, district officials have complained that the provincial governments have not used equitable practices for determining how DR should be distributed among districts. Some provinces, for instance, have prioritized the distribution of DR to districts with the most degraded land in need of rehabilitation; while other provinces have prioritized the distribution of DR to the districts with the highest levels of timber production. District and provincial governments have also complained that the 60 percent of the DR managed by the central government has not been administered efficiently or transparently. According to Regulation 35/2002, these funds are supposed to be used to support reforestation and forest rehabilitation in non-timber producing regions, which might not otherwise have access to such funds.

Indonesia's decentralization process has also encouraged district and provincial governments to expand their access to regionally-generated revenues (PAD). During 1999-2002, district governments in timber-rich regions did so both by imposing new taxes and fees on existing HPH concession-holders and by issuing large numbers of small-scale timber extraction and forest conversion permits, often known as HPHH and IPPK licenses. For a brief period between late-2000 and early-2002, *Bupatis* were also permitted to issue medium − and large − scale IUPHHK timber concession licenses. For some districts, this resulted in a sharp increase in PAD, as a flood of new investors, often from Malaysia, began harvesting timber with district permits. These increases proved to be short-lived, however, as the Ministry of Forestry took aggressive measures to restrict the authority of district governments to allocate timber licenses within the Forest Estate. By mid-2002, district governments had largely stopped issuing such permits.

7.4 The Struggle over Timber Rents

As the widespread distribution of HPHH and IPPK permits (and other types of district timber licenses) during 1999-2002 suggests, district officials in many forest-rich regions have viewed forests principally as a source of timber rents. This is, perhaps, not surprising given the heavy emphasis that the central government placed on timber production during the New Order period. For three decades, from the late-1960s until 1998, district-level stakeholders were largely excluded from sharing in the often-enormous timber profits generated by large-scale HPH concession-holders. With the emergence of regional autonomy, district officials seized the opportunity to exert a significant degree of direct control over the extraction of timber within their jurisdictions.

The allocation of timber licenses enabled district officials to meet multiple objectives: On the one hand, districts used the distribution of logging permits as a means to increase the district's formal revenue flows. On the other hand, the allocation of such permits often generated considerable informal profits for the agencies and individual officials involved in the licensing process. In this way, many observers have noted, the high level of corruption that characterized Indonesia's forestry sector through the Soeharto era also

became decentralized. At the local level, district timber permits became an important form of patronage for *Bupatis*, who often used them to secure political loyalties among key constituencies and to finance election campaigns and other initiatives.

In many forest-rich regions, district governments also sought to obtain a larger portion of the profits associated with HPH (or IUPHHK) timber concessions, most of which had been allocated by the central government during the New Order period. District officials did so both by imposing new taxes and fees on HPH-holders and, in some cases, by requiring timber concessionaires to enter into partnerships with district-owned enterprises and/or local cooperatives or community groups. In some cases, district governments pressured HPH-holders to enter into such agreements by allocating HPHH or IPPK permits in areas that overlapped with the concession-holder's own cutting blocks. Some concession-holders voluntarily entered into partnerships with small-scale timber operators using district harvesting permits. Such arrangements frequently enabled the HPH-holder to reduce both its operational risks and its costs within the context of an uncertain business environment and, in some cases, a dwindling forest resource base. Such arrangements also frequently enabled timber companies to circumvent selective harvesting requirements and to avoid paying the PSDH and DR fees.

There are indications that the distribution of large numbers of small-scale timber permits by district governments may have facilitated illegal logging in some regions. Indeed, it was often the case that district governments allocated HPHH and IPPK permits (and other types of timber licenses) for areas that were much larger than the district forestry bureaucracy could effectively monitor. Many districts issued dozens of such permits during 1999 and 2000, for instance, in spite of the fact that they did not have a functional District Forestry Service until mid-2003. Moreover, in northern East Kalimantan and perhaps other regions, the allocation of district timber permits triggered a flood of heavy equipment into the region, much of which came across the border from Malaysia. Industry officials speculated that the tractors, trucks, and bulldozers that were brought into these regions would be used to clear much larger areas of forest than the district government had approved.

Almost immediately after *Bupatis* began to issue large numbers of district timber permits in 1999 and 2000, the MoF began taking aggressive measures to stop the allocation of such permits within the Forest Estate. These efforts intensified in 2002 with the issuance of Government Regulation 34/2002 and a series of accompanying ministerial decrees. Collectively, these regulations rolled back much of the authority over forest administration that had been transferred to (or assumed by) district governments in the preceding years, and reconcentrated this in the hands of the MoF. Since 2003, the allocation by district governments of timber licenses of any size within the Forest Estate has largely ceased. Moreover, the MoF has recently formed a team to evaluate timber licenses still in use that were previously issued either by *Bupatis* or Governors, and to revoke these permits if they are determined to have been issued in violation of the Ministry's regulations.

Central government officials have frequently justified this process of recentralization in the forestry sector by arguing that district governments have allowed (or worse, encouraged) widespread illegal logging and unsustainable forest management practices within their jurisdictions. They frequently describe the allocation of district timber

permits during 1999-2000 as being a period of excess, when district governments exercised little restraint or responsibility in seeking to obtain maximal benefits from regional autonomy. Some Ministry officials also emphasize the limited institutional capacity of district forestry bureaucracies, claiming that district governments were not ready for decentralization and regional autonomy when they occurred.

Aren't these largely rhetorical arguments, however, aimed at directing the blame for Indonesia's current forestry crisis at the actions (or inaction) of district governments? Indonesia's forestry crisis was well underway before the nation's decentralization laws were introduced in 1999. Moreover, sustainable forest management was not achieved on any large scale during three decades of centralized administration of the nation's forests through the New Order period. To put the impacts of decentralized administration of forests in perspective, it is useful to consider that by 2002, district governments had issued timber extraction and forest conversion permits covering at most a few hundred thousand hectares. By contrast, the MoF issued HPH timber concessions covering some 69 million hectares of forested lands during the New Order period. Unfortunately, there is little evidence to suggest that HPH, or the IUPHHK concessions currently being issued by the Ministry, have been (or will be) managed any more sustainably than the areas allocated under district logging permits.

The argument that district governments do not have the institutional capacity to implement decentralized forest administration in an effective manner raises a number of fundamental questions about Indonesia's decentralization process. To what extent, one might ask, should the central government share responsibility for the limited capacity of district governments? The central government, it could be argued, carried out the decentralization process with little planning or advance preparation, transferring wide-ranging administrative and regulatory authority to district governments before they were prepared to exercise this authority. It should be noted that this set of circumstances is hardly unique to Indonesia. On the contrary, many other countries have carried out processes of decentralization well before local governments have had the institutional capacity to exercise effectively the authority they took on. Similarly, it has not been uncommon for central government officials to call for recentralization when these decentralization experiences have not gone smoothly. Some analysts, however, have suggested that a more reasonable approach would be for the central government to find ways to strengthen the capacity of local governments and to improve coordination across levels of government in order to achieve more optimal outcomes (cf. Larson 2005).

In any event, the MoF has engaged in a struggle with district governments over how timber extraction should be administered, and in recent years the Ministry has succeeded in recentralizing much of the authority that had previously been decentralized. It is striking that officials at each level have principally focused on timber rents, even as the commercial forest resource base is rapidly diminishing in many parts of Indonesia. Relatively little attention appears to have been devoted to how deforested and/or degraded forestlands should be managed once the commercial timber is gone.

7.5 Impacts on Land and Forest Tenure

Since the introduction of Law 22/1999, decentralization has been interpreted by many stakeholders to mean freedom to manage government affairs in a manner more

suitable to local conditions and culture. During the early phase of decentralization, local governments did discuss ways of streamlining government administration, restructuring for better efficiency and provision of improved public service. Unfortunately, in the struggle for power at the local level, Indonesia's district governments on the whole have not used the opportunity provided to adjust governance to local circumstances. In general, district governments -- while closer physically to the country's forest resources and the communities that depend on them -- do not seem to administer forests better than their national counterparts, nor do they always show better understanding of local needs and aspirations. At the same time, it must be recognized that decentralization is new yet and there has not been time for full adjustment or internalization of the new systems.

The ability of local constituencies to hold the authorities who have gained devolved powers accountable for their decisions has been identified as a key element in successful decentralization. Although there have been significant reforms to the electoral system, there are still significant problems in the system of representation. In particular clientalism within centralized party systems, money politics and the domination of unaccountable local elites have clouded the implementation of regional autonomy.

In the meantime, the decentralization processes in Indonesia are plagued by increasing disconnects, enlarging the reality gap between what policy makers at the national level believe is happening and how local people experience it. The system on the ground is disconnected from the formal legal system, both at the national and district level. National level policies are often ignored or distorted, and always reinterpreted during implementation at district level. Although not new, with decentralization and local control, the disjuncture has grown wider.

With regard to tenure, decentralization has irrevocably changed local perceptions and value of forests and other natural resources, especially in regions where these resources have high economic value. This change is primarily indicated by the increasing conflict over resource access and ownership, and increasing demands for local rights. Increasingly, local stakeholders are asking why district governments did not use decentralization as an opportunity to re-regulate forest and land tenure, and to formalize *adat* systems for forest access and management.

As mentioned earlier, authority over spatial planning and the setting of forestry boundaries were not devolved to the districts under Indonesia's decentralization laws. This meant that district governments did not have significant authority over tenurial issues within the Forestry Estate. At the same time conflicts due to unclear or overlapping property rights have been a frequent occurrence. In general, the government has managed to suppress these, at times with force. For national policymakers, it is perhaps much easier to believe that human resources at the community level are weak and, therefore, state control over resources and statutory law are needed to regulate property rights. Furthermore, there is little incentive for districts to regulate tenure, especially in favor of local people. As long as land and forest resources are still controlled by the state, it is much simpler for the districts to justify their exploitation of these resources for local revenue.

The role of district governments in decision-making with respect to forests has decreased with the swing back to more centralized administration of forests since 2002. There are signs that this recentralization process could also result in further disputes over land tenure and forest access. Recently, for instance, the Ministry of Forestry has

set a target of increasing Indonesia's industrial timber plantations from 2.5 million ha in 2005 to 5.0 million by 2009. In many cases, plantation development is likely to catalyze or exacerbate disputes with local communities who claim *adat* rights in these areas. As land tenure is a fundamental element of any social structure, re-regulating tenure cannot be easy, especially when so many parties are involved. The large number of ethnic groups alone makes it almost impossible to decide which party has more rights than others. It may be in the interest of district governments to maintain multiple levels of ambiguity to allocate land in ways that they judge most important and that meet their own interests (Wollenberg *et al*. 2006). Any legalization of others' rights would detract from the district's opportunities for control. Since formalization would result in winners and losers, district officials are often also wisely wary of the possibilities of increased ethnic strife and a decline in political support from key groups.

However, given the general lack of coordination across levels, it is unclear as to who is then responsible for guaranteeing the security of land and forest tenure. While it is commonly accepted and believed that the government at each level is ultimately responsible for doing so, most government agencies have shown little desire to regulate or provide security of tenure.

The lack of a clear division of authority, coupled with inconsistent regulations which are not enforced, has resulted in an intense free-for-all competition over forests and other natural resources. Together with the lack of long-term vision on the part of government actors at each level, decisions are made based on short-term benefits rather than long-term strategies. At the local level, confusion over rules has frequently enabled village elites to control access to forests and to capture many of the benefits from forests, causing the marginalization of weaker parties. Although since decentralization, local communities' right to obtain a share in benefits is no longer disputed, their relatively weak legal bargaining power has allowed more powerful parties to reap more.

Many civil society groups have argued that communities should have responsibilities for regulating their own property rights just as they had in the past. However, in the current situation of uncertainty, devolving tenure regulations to local and *adat* communities is also not a straightforward process. In many cases, decentralization has encouraged *adat* communities to be very exclusive in managing access to forests, which in turn has raised concerns among other actors or communities who previously shared access to those forests. Further, in the absence of clear forms of accountability in many communities, *adat* communities are not necessarily more equitable than other types of social groups. However, unless the rights of *adat* peoples are also recognized by other groups, everyone's tenure remains insecure.

In some communities, it is also the case that *adat* leaders have been co-opted by government agencies or private sector actors. In some cases, local leaders have learned to expect government honoraria as their rights, where privileges have been transformed into entitlements. While on the surface decentralization would appear to have strengthened *adat*, when it is used in this way, it can also have the effect of disempowering *adat*. For example, recognition of *adat* claims often means that a company with logging rights pays compensation, fees or fines to local community groups. The payment of compensation and fines, however, is often interpreted to mean that customary rules might be broken on a routine basis as long as cash payments are made.

At present several legal options for proceeding with respect to *adat* are available. The central government might legally recognize *adat* rights within the Forest Estate and designate *hutan adat*, giving rights and responsibility for its management to *adat* communities. Alternatively, the government could excise cultivated areas subject to *adat* property rights systems from the Forest Estate and allow for these areas to be regulated under agrarian laws. Another option, where *adat* is problematic, is for communities to be given the rights and responsibilities to clearly delineated village forests within the Forest Estate. Where collective action is waning, community forests (*hutan rakyat)* – which often are structured around individual or household woodlots -- might be another alternative.

7.6 Implications for Forest Community Livelihoods

By encouraging small-scale logging activities, decentralization has certainly led to more cash being available to rural communities in forested regions, at least during the period 1999-2002. At the district level, increased financial transfers from the central government have also meant greater flexibility in the use of funds under district discretion, although the Reforestation Fund is still tightly controlled by the central government. In many regions, it is likely that increased district spending has had positive impacts on incomes for local stakeholders.

During 1999-2001, and the early months of 2002, the number of small-scale timber permits in many forest-rich districts increased sharply. In some districts, the total area allocated for small-scale logging or forest conversion operations amounted to several thousand hectares. Villagers, either working individually or as members of cooperatives, were sometimes able to earn money by being directly involved in operating the small-scale concessions. However, this was certainly not always the case, as case studies in Manokwari (Papua) and Malinau (East Kalimantan) found that when investors and outside companies were involved, they often did not hire local villagers to work in the logging operations. Indirectly, however, these actors often provided benefits to local peoples through the payment of fees and provision of services to villages that were partly intended to improve the well-being of rural people.

In many respects, the fact that brokers, investors and timber companies effectively have been required, following decentralization, to negotiate compensation and benefits with villagers has amounted to *de facto* recognition of local people's rights. In many cases, however, a majority of these benefits have been captured by local elites and not distributed equitably among other members of the communities affected. Also, there have often been conflicts among communities over access to forest resources, as communities have competed with one another to secure the economic benefits from forests in their area or as they have sought to utilize those forests in different ways.

The district-issued timber and forest conversion permits were generally oriented toward generating short-term profits, rather than protecting the essential ecological and socio-cultural functions of forests or long-term economic benefits that might be utilized by future generations. Moreover, while these benefits clearly represented a positive step towards a wider distribution of timber revenues among local stakeholders, the value of the benefits distributed remained quite limited compared to the overall value of the wood

harvested. In many cases, the limited cash incomes generated by small-scale logging operations have not significantly improved the lives of the poor who, due to their lack of capital, access to machinery, or knowledge of the law, have generally remained in a weak position when negotiating benefits with brokers and timber companies.

Overall, it would appear that decentralization temporarily resulted in increased incomes for rural communities living in and around forests in timber-rich regions. However, the benefits distributed among local peoples were often quite limited compared to the total value of the wood harvested, inequitably distributed among community members, and short-term in nature, as they were often based on clearing of natural forests. To a significant degree, these increased incomes have declined sharply or disappeared altogether since the Ministry of Forestry issued Regulation 34/2002, which revoked the authority of districts to issue small-scale timber and forest conversion permits.

7.7 Recommendations for Policymakers

There is currently an urgent need to strengthen the administrative and legal-regulatory framework for the administration of forests in Indonesia. The experience from the last several years suggests that neither a highly decentralized nor a highly centralized administrative structure is likely to provide the most optimal outcomes in terms of forest sustainability, economic development, and local livelihood security. Instead, it has become increasingly clear that government agencies at the central, provincial, and district levels will need to find ways to work together effectively in pursuit of shared goals and objectives.

Within this context, it will be important for national stakeholders to recognize that the decentralization of some aspects of forest administration does not necessarily mean a weakening of the center. Decentralization requires a strong central government that is capable of setting up and running governance structures for supervising, monitoring and negotiating and, where necessary, ensuring compliance with broad policy guidelines. A change in culture and orientation in central government operations is required to shift to working in this new fashion. At the same time, for effective decentralization, provincial and district governments need to have clear rights and responsibilities, strong systems of governance, and to be guided by processes that ensure accountability and representation downwards to local constituencies. This also requires a new way of working.

By the same token, it is essential for regionally-based stakeholders to recognize that there are many important and legitimate functions for the central government to play. These include, for instance, the provision of policy and legal-regulatory guidelines, technical assistance and capacity building, forest protection and rehabilitation, as well as key aspects of forest monitoring, supervision, and law enforcement.

For stakeholders at all levels, to avoid the prospect of this "tragedy of the commons", it will be critical to move beyond the ongoing struggle over the economic rents associated with timber production. For many years now, it has been apparent that Indonesia's commercial resource base is rapidly diminishing, and that the nation's forests will not be able to support the level of intensive logging that they have in the past. Looking ahead, government officials at all levels need to be planning actively for how best to manage Indonesia's remaining forest landscapes, many of which are highly

degraded, in order to maintain both the environmental services they supply and the important contributions they make to local economies. Moreover, the central, provincial, and district governments urgently need to find ways to coordinate more closely with one another to determine how deforested and degraded lands currently within the Forest Estate should be managed. Should these areas be reforested or otherwise rehabilitated, and if so, by whom? Should local communities be given greater access to these lands, or legal recognition for existing tenurial rights within the Forest Estate? If so, how?

As policymakers at each level consider how to strengthen the framework for forest administration in Indonesia, they may wish to guide their actions by the following list of priority objectives, based on findings reported in this book.

- There is a need to resolve outstanding contradictions that exist within the current legal and regulatory framework for forest administration, particularly between Indonesia's laws and regulations on regional governance and those for specific sectors, including the forestry sector.
- Government agencies at all levels need to develop more "whole of government" approaches. This will require greater degrees of consultation, coordination, and negotiation both between levels of government and among government agencies within any one level.
- In the forestry sector, in particular, it will be essential for stakeholders to shift away from competing for remaining economic rents associated with dwindling forest resources, and to focus instead on how responsibility for managing degraded forest landscapes should be shared.
- There is a need to strengthen institutional capacity at the district and provincial levels, particularly in newly developed provinces and districts, as well as among the forestry bureaucracies at each level.
- Decentralization requires increasing downward accountability of district and provincial governments (both executive and DPRD) in order to reduce corruption and elite capture of benefits associated with forestry activities.
- Greater transparency in forestry sector decision-making is needed to make government policy processes more accountable to civil society and to increase accountability among government agencies at different levels. It is especially critical that the allocation and distribution of forest revenues at all levels of government be carried out in a transparent and accountable manner.

It should be emphasized that none of these objectives will be easy to achieve. However, each is critical for establishing an effective system of forest administration within Indonesia's current political and governance structure. If well implemented, successful decentralization with support from Indonesia's central government promises to deliver more optimal outcomes in terms of forest sustainability, economic development, and livelihood security for forest communities than has been achieved in the past.

References

Agrawal, A., Ostrom, E. 2001. Collective action, property rights, and decentralization in resource use in India and Nepal. *Politics and Society* 29(4): 485-514.

Agrawal, A., Ribot, J. 1999. Accountability in decentralization: A framework with South Asian and West African cases. *Journal of Developing Areas* 33: 473-502.

Ahmad, E. and Mansoor, A. 2000. *Indonesia: Managing decentralization*. Paper at IMF Confrence on Fiscal Decentralization, Washington, D.C., November 20-21, 2000.

Alqadrie, S. I., Ngusmanto, Manurung, T., Budiarto, T., Abidin, E., Herlan. 2001. *Desentralisasi pembuatan kebijakan dan administrasi kebijakan dalam mempengaruhi sektor kehutanan pada wilayah di luar pulau jawa: Hubungan antara otonomi dengan kelestarian hutan di Kabupaten Kapuas Hulu, Provinsi Kalimantan Barat*. Research Report. Bogor, Indonesia: Universitas Tanjungpura and Center for International Forestry Research (CIFOR).

Alqadrie, S. I., Ngusmanto, Manurung, T., Budiarto, T., Abidin, E. 2003. *Kebijakan desentralisasi sektor kehutanan dan dampaknya terhadap kelestarian hutan dan kesejahteraan penduduk di Kabupaten Kapuas Hulu, Provinsi Kalimantan Barat, Indonesia*. Research Report. Bogor, Indonesia: Universitas Tanjungpura and CIFOR.

Anau, N., Iwan, R., Van Heist, M., Limberg, G., Sudana, M. and Wollenberg E. 2001. *Pemetaan desa partisipatif dan penyelesaian konflik batas*. Bogor, Indonesia: Center for International Forestry Research.

Anau, N., Iwan, R., Van Heist, M., Limberg, G., Sudana, M. and Wollenberg E. 2002. *Negotiating more than boundaries: Conflict, power and agreement building in the demarcation of village borders in Malinau*. Chapter 7. Technical Report Phase 1 1997-2001. ITTO Project: Forest, Science and Sustainability, The Bulungan Model Forest. Bogor, Indonesia: CIFOR.

Anderson, B. R. O'G.1990. *Language and power: Exploring political cultures in Indonesia*. Ithaca, NY: Cornell University Press.

Anderson, J. 2000. Four considerations for decentralized forest management: Subsidiarity, empowerment, pluralism and social capital. In Enters, T., Durst, P.B., Victor, M. (eds.). *Decentralization and devolution of forest management in Asia and the Pacific* . RECOFTC Report N.18 and RAP Publication 2000/1. Bangkok, Thailand.

Anshari, G. Z. 2005. *Data dan informasi Kabupaten Kapuas Hulu*. Report prepared for CIFOR. Bogor, Indonesia: CIFOR.

Anshari G.Z., Alqadrie S., Yasmi, Y., Budiarto T., Ngusmanto, Abidin E., Zulkifli, Afifudin and McGrath S., 2004. *Complexity of forest management in the era of regional autonomy: a case study in Sintang District, West Kalimantan, Indonesia*. Draft Report. Bogor, Indonesia: CIFOR.

Apkindo. 1990. *Directory of the plywood industry in Indonesia*. Jakarta: Apkindo.

Ascher, William. 1995. *Communities and sustainable forestry in developing countries*. San Francisco: ICS Press.

Bank Bumi Daya. 1988. Indonesia plywood 1980-1987. *Economic Review,* XII (3). March.

Bank Indonesia. 2001. *2000 export earnings by sector*. Bank Indonesia Website http://www.bi.go.id.

Barber, C. V. 1990. *The legal and regulatory framework and forest production in Indonesia. Appendix to Charles Zerner, Community land rights, customary law, and the law of timber concessions in Indonesia's forests: Legal options and alternatives in designing the commons*. Draft (March 1990) of Forestry Studies report UTF/INS/065. Ministry of Forestry/FAO. Jakarta.

Barber, C. V. and Churchill, G. 1987. *Land policy in Irian Jaya: Issues and strategies*. Project Report no. INS/83/013. Jakarta: Government of Indonesia; United Nations Development Program; International Bank for Reconstruction and Development.

Barr, C. 1998. Bob Hasan, the rise of Apkindo, and the shifting dynamics of control in Indonesia's timber sector. *Indonesia*. No. 65. April. pp. 1-36.

Barr, C. 1999. *Discipline and accumulate: State practice and elite consolidation in Indonesia's timber sector, 1967-1998*. MSc Thesis. Cornell University.

Barr, C. 2001. *Banking on sustainability: Structural adjustment and forestry reform in post-Suharto Indonesia*. Washington, D.C.: CIFOR and WWF Macroeconomics Program Office.

Barr, C., Wollenberg, E., Limberg, G., Anau, N., Iwan, R., Sudana, I. M., Moeliono, M., and Djogo, T. 2001. *The impacts of decentralisation on forests and forest-dependent communities in Malinau District, East Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 3. Bogor, Indonesia: CIFOR.

Bazaara, N. 2003. *Decentralization, politics and environment in Uganda. Environmental Governance in Africa* Working Paper Series #7. World Resources Institute, Washington, DC.

Booth, A. 1999. Survey of recent developments. *Bulletin of Indonesian Economic Studies*, 35 (3): 3-38.

Bordieu, P. 1994. Rethinking the state: Genesis and structure of the bureaucratic field. *Sociological Theory* 12: 1-8

Brandon, K.E. Wells, M. 1992. Planning for people and parks: Design dilemmas. *World Development* 20 (4): 557-70.

Brown, D. 2001. *Why governments fail to capture economic rent: The unofficial appropriation of rain forest rent by rulers In insular Southeast Asia between 1970 and 1999*. Ph.D. dissertation, University of Washington.

Brown, T. H. 1999. *Economic crisis, fiscal decentralization and autonomy: Prospects for natural resources management*. Discussion Paper. Jakarta: Natural Resource Management Programme.

Cahyat, A. 2005. *Sentralisasi malu-malu: Overview perubahan pada perundang-undangan desentralisasi tahun 2004*. Bogor, Indonesia: CIFOR.

Carney, D. 1995. Management and supply in agriculture and natural resources: Is decentralization the answer? *Overseas Development Institute Natural Resources Perspectives* No. 4. London: Overseas Development Institute.

Casson, A. 2001a. *Decentralisation of policies affecting forests and estate crops in Kutai Barat District, East Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 4. Bogor, Indonesia: CIFOR.

Casson, A. 2001b. *Decentralisation of policies affecting forests and estate crops in Kotawaringin Timur District, Central Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 5. Bogor, Indonesia: CIFOR.

Casson, A., Obidzinski, K. 2002. From new order to regional autonomy: Shifting dynamics of 'illegal' logging in Kalimantan, Indonesia. *World Development* 30(12): 2133-2151.

Christanty, L., Atje, R. 2004. Policy and regulatory developments in the forestry sector since 1967. *CSIS Working Paper Series*. Jakarta, Indonesia: CSIS.

Center for International Forestry Research (CIFOR). 2002. *Forest, science and sustainability: The Bulungan model forest*. Technical Report Phase I 1997-2001, ITTO Project PD 12/97 REV.1 (F). Bogor, Indonesia: CIFOR.

CIFOR. 2004. *Generating economic growth, rural livelihoods, and environmental benefits from Indonesia's forests: A summary of issues and policy options*. Report prepared for the World Bank. Bogor, Indonesia: CIFOR.

Cohen, M. 1998. *Tackling a bitter legacy*. Far Eastern Economic Review. July 2, 1998

Colfer, C. 2005. *The complex forest: Communities, uncertainty, and adaptive collaborative management*. Washington, D.C.: Resources for the Future/CIFOR.

Contreras-Hermosilla, A. 2003. Creating space for local forest management: The case of the Philippines, in Edmunds, D. and and Wollenburg, E. (eds.) *Local forest management: The impacts of devolution policies*, 127-49. London: Earthscan.

Conyers, D. 1981. Decentralization for regional development: A comparative study of Tanzania, Zambia, and Papua New Guinea. *Public Administration and Development* 1 (2):107-20.

Conyers, D. 2000. Decentalisation: A conceptual analysis. Parts 1 and 2. *Local government perspectives: News and views on local government in Sub-Saharan Africa* 7 (3,4).

Crook, R. C., Sverrisson, A. S. 2001. *Decentralisation and poverty-alleviation in developing countries: a comparative analysis, or, is West Bengal unique?* IDS Working Paper 130. Sussex: Institute of Development Studies.

DeGrassi, A. 2003. *Constructing subsidiarity, consolidating hegemony: Political economy and ago-ecological processes in Ghanaian forestry*. Environmental Governance in Africa Working Paper #13. Washington, D.C.: World Resources Institute.

Departemen Kehutanan and PT Herzal Agrokarya Pratama. 1991. *Industri kehutanan di Indonesia*. Jakarta.

Dermawan, A. 2004. *Has the big bang hit the trees and people? The impacts of Indonesia's decentralization on forest conservation and the livelihood of local communities*. M.Sc Thesis. Agricultural University of Norway.

Devas, N. (ed.). 1989. *Financing local government in Indonesia*. Athens, Ohio: Ohio University Center for International Studies.

Devas, N. 1997. Indonesia: What do we mean by decentralization? *Public administration and development* 17: 351-367.

Devung, S. 1999. Conformity and unconformity to traditional rules and regulations in the practices of forest resource and management. A case from upper Bahau, sub-district Long Pujungan, East Kalimantan. *Jurnal Sosial-Politika*. Vol 2 no 2, January 1999.

Directorate General of Forestry (DGF). 1967. *Investment prospects in the field of forest-utilization in Indonesia*. Djakarta.

Direktorate Djendral Kehutanan. 1972. *Statistik kehutanan indonesia*. Jakarta: Departemen Pertanian.

Direktorat Jenderal Perimbangan Keuangan Pusat dan Daerah (Ditjen PKPD). 2004. *Tinjauan pelaksanaan hubungan keuangan pusat dan daerah 2001-2003*. Jakarta, Indonesia: Ditjen PKPD.

Djajapertjunda, S. 2002. *Hutan dan kehutanan Indonesia dari masa ke masa*. Bogor, Indonesia: IPB Press.

Down to Earth (DTE). 2000a. *Regional autonomy, communities and natural resources*. DTE Newsletter No. 46, August 2000.

DTE. 2000b. *Indigenous communities and democratic control*. DTE Newsletter No. 46, August 2000.

DTE. 2002. *Forests, people and rights. Part III: Community forest management, the way forward*. DTE Speial Report. June 2002.

Edmunds, D., Wollenberg, E. (eds.). 2003. *Local forest management: The impacts of devolution policies*. London: Earthscan.

Enters, T., Durst, P.B., Victor, M. (eds.). 2000. *Decentralization and devolution of forest management in Asia and the Pacific* . RECOFTC Report N.18 and RAP Publication 2000/1. Bangkok, Thailand.

Erawan, I. K. P. 1999. Political reform and regional politics in Indonesia. *Asian Survey* 39 (4): 588-612.

Erb, M. 1997. Contested time and place: Constructions of history in Todo, Manggarai (Western Flores, Indonesia). *Journal of Southeast Asian Studies*. March 1.

Ernst & Young. 1999. Special audit of the Reforestation Fund. Final Report. Jakarta, Indonesia.

Fay, C., Sirait, M.T. 2002. Reforming the reformists in post-Soeharto Indonesia In Colfer, C.P.J. and Resosudarmo, I.A.P. (eds). *Which way forward? people, forests and policymaking in Indonesia*. Washington D.C. : Resources for the Future (RFF). pp 126-143

Ferroukhi, L., Echeverría, R. 2003. Las políticas de gestión forestal descentralizada en Guatemala, in Ferroukhi, L. (ed.) *Gestión Forestal Municipal en América Latina*, 89-112. Bogor, Indonesia: CIFOR/IDRC.

Fisher, R. J. 2000. Decentralization and devolution in forest management: A conceptual overview, in Enters, T., Durst, P.B., and Victor, M. (eds.) *Decentralization and Devolution of Forest Management in Asia and the Pacific* . RECOFTC Report N.18 and RAP Publication 2000/1. Bangkok, Thailand.

Ford, J. F. G. 2000. *Inter-Governmental Fiscal Relations and State Building: The Case of Indonesia*. http://www1.worldbank.org/wbiep/decentralization/eap.htm. Accessed 26 February 2003.

Fried, S. 1995. *Writing for their lives: Bentian dayak authors and Indonesian development discourse*. Ph.D Dissertation, Cornell University.

GFW/FWI. 2002. The *State of the forest: Indonesia*. Bogor, Indonesia: Forest Watch Indonesia, and Washington D.C.: Global Forest Watch.

Gibson, J. 1966. Production-sharing. *Bulletin of Indonesian Economic Studies*, No. 3. Pp. 68-71.

Gillis, M. 1998. Indonesia: Public policies, resource management, and the tropical forest. in Repetto, R., Gillis, M. (eds.) *Public policies and the misuse of forest resources*,. New York: Cambridge University Press. Pp. 43-114.

Groome Poyry. 1993. *Institutional strengthening for timber plantation development, Volume 1, Main Report*. Asian Development Bank Technical Advisory Assistance 1244-INO, Report No. 1993/108/1, Submitted to the Directorate of Timber Estates, Ministry of Forestry of Indonesia.

Holmes, D. 2001. *Deforestation in Indonesia: A review of the situation in Sumatra, Kalimantan and Sulawesi*. Jakarta: World Bank (processed).

Hull, T.1999. Striking a most delicate balance: The implications of otonomi daerah for the planning and implementation of development cooperation projects. Accessed from http://siteresources.worldbank.org/INTINDONESIA/Resources/Decentralization/hullreport.pdf .

Hutabarat, S. 2001. Forestry developments with regard to decentralization. *The Indonesian Quarterly*. Vol XXIX no 2, second quarter, 2001. Jakarta, Indonesia: CSIS. pp 151-158

Indonesia-UK Tropical Forest Management Programme (ITFMP). 1999. *Illegal logging in Indonesia*. Report No. PFM/EC/99/03. Jakarta, Indonesia.

Indriatmoko, Y., Kusumanto, Y. 2001. *Assessment of the socio-cultural and economic well-being of stakeholders in Baru Pelepat village, Jambi, Indonesia. Context Study for Adaptive Collaborative Management Research*. Bogor, Indonesia: CIFOR.

International Tropical Timber Organization (ITTO). 1999. *Market information service 16-30 June*. http://www.itto.or.jp/live/contents/download/mis/1999/mis19990602.doc

ITTO. 2001. *Market Information Service 16-30 June*. http://www.itto.or.jp/live/contents/download/mis/2000/mis20000602.doc

Jakarta Post. 2000 *Regents charged with selling forest concessions*. October 4, 2000.

Japan Tropical Forest Action Network (JATAN). 1992. *Japan's role in the commercial exploitation of Indonesia's forests for timber*. Unpublished report prepared for the Eighth International NGO Conference on Indonesia (INGI), Yokohama and Odawara, March 1992.

Kaltim Post. 2003. *Kegagalan dan keberhasilan rehabilitasi hutan dan lahan*. October 29, 2003.

Kaltim Post. 2003. *Mobil kijang kok kurang, dana DR dialihkan.* October 23, 2003.

Kartodihardjo, H. 1999. *Economic loss of the state in managing natural forest*. Unpublished paper prepared for Telapak Indonesia and Environmental Investigation Agency, August 2004.

Kassibo, B. 2003. *Historical and political foundations for participative management and democratic decentralization in Mali: A synthesis of two case studies*. Washington, D.C.: World Resources Institute.

Kompas. 2004. *Revisi UU otonomi daerah: Apkasi khawatirkan terjadi resentralisasi*. May 27, 2004. http://www.kompas.com/.

Kompas. 2004. *Revisi UU pemda batasi kewenangan daerah*. May 22, 2004. http://www.kompas.com/.

Kompas. 2004. *Revisi UU otonomi daerah segera dibahas*. May 18, 2004. http://www.kompas.com/.

Kompas. 2003. *DPR bentuk pansus, daerah minta tunda revisi UU Otda*. December 17, 2003. http://www.kompas.com/.

Kompas. 2003. *Harus diatur, hubungan provinsi dan kabupaten*. September 25, 2003. http://www.kompas.com/.

Kompas. 2003. *Revisi UU pemerintahan daerah jangan mengarah ke resentralisasi*. August 27, 2003. http://www.kompas.com/.

Kompas. 2002. *Pro kontra revisi UU No 22/1999*. February 9, 2002. http://www.kompas.com/.

Kompas. 2002. Mendagri: *UU pemerintahan daerah harus segera disempurnakan*. February 5, 2002. http://www.kompas.com/.

Kompas. 2002. Draf revisi UU No 22/1999: *Presiden dapat bubarkan DPRD*. January 30, 2002. http://www.kompas.com/.

Kompas. 2001. *Andi Alfian Malarrangeng: Revisi UU No 22/1999 kebiri demokrasi*. 9 November 9, 2001. http://www.kompas.com/.

Kompas. 2001. *Ryaas tentang revisi UU No 22/1999: Wujud ketidakpercayaan pada daerah*. September 6, 2001. http://www.kompas.com/.

Kompas. 2001. *Undang-undang nomor 22/1999 akan direvisi*. August 28, 2001. http://www.kompas.com/.

Kompas. 2001. *Politik kisruh, hutan hancur*. June18, 2001. http://www.kompas.com/.

Kompas. 2000. *Mengapa Departemen Kehutanan harus mandiri?* November 10, 2000. http://www.kompas.com/.

Kurniawan, D. 2005. Partisipasi orang rimba di TNBD itu kemutlakan. *Alam Sumatera dan Pembangunan* No. 8. Januari 2005. Jambi, Indonesia: WARSI.

Kusumanto, Y. 2001. *Adaptive collaborative management (ACM) research in Jambi, Indonesia: Policies*. Draft. Bogor, Indonesia: CIFOR.

Larson, A. 2003. Gestión forestal municipal en Nicaragua: Descentralización de cargas, centralización de beneficios? in Ferroukhi, L. (ed.) *Gestión Forestal Municipal en América Latina*, 113-44. Bogor, Indonesia: CIFOR/IDRC.

Larson, A. 2005. Democratic decentralization in the forestry sector: Lessons learned from Africa, Asia and Latin America, in Colfer, C. J. P., Capistrano, D. (eds.) *The politics of decentralization: Forests, Power and People*. London: Earthscan.

Lewis, B. 2003. Local government borrowing and repayment in Indonesia: Does fiscal capacity matter? *World Development* 31(6): 1047-1063.

Magenda, B. 1991. East Kalimantan: The decline of a commercial aristocracy. *Cornell Modern Indonesia Project Monograph Series*. No. 70. Ithaca, NY: Southeast Asia Program, Cornell University.

Manning, C. 1971. The timber boom, with special reference to East Kalimantan. *Bulletin of Indonesian Economic Studies* VIII (3): pp. 30-60.

Manurung, E. G. T., Kusumaningtyas, R. 1999. *Pembangunan hutan tanaman industri di Indonesia*. Draft preliminary report prepared for WWF Indonesia.

Mariasa, I.G.P., Abdillah, A. 2001. *Tantangan pencapaian pengelolaan hutan lestari di era desentralisasi*. Paper presented in Meeting of Research and Development for SFM in Kalimantan, Balikpapan 6-7 March 2001.

Mawhood, P. 1983. "The place of traditional political authority in african pluralism," *Civilisations*, Vol. XXXII, No. 2 1982-Vol. XXXIII, No. 1 1983, pp. 209-37.

McCarthy, J. 2000. The changing regime: Forest property and reformasi in Indonesia. *Development and Change* 31(1): 91-129.

McCarthy. J. 2001a. *Decentralisation, local communities, and forest management in Barito Selatan District, Central Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 1. Bogor, Indonesia: CIFOR.

McCarthy. J. 2001b. *Decentralisation and forest management in Kapuas District, Central Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 2. Bogor, Indonesia: CIFOR.

McCarthy. J. 2004. Changing to gray: Decentralization and the emergence of volatile socio-legal configurations in Central Kalimantan, Indonesia. *World Development* 32(7): 1199-1223.

McKinnon, K., Hatta, G., Halim, H., Mangalik, A. 1996. *The ecology of Kalimantan*. Singapore: Periplus Editions.

Moeliono, M. 2000. *The Drums of rural land tenure and the making of place in Manggarai, West Flores, Indonesia*. Ph.D. Dissertation. University of Hawaii.

Ministry of Forestry (MoF). 2003. Presiden Megawati Soekarnoputri canangkan *social forestry* di Kalteng. Press Release No. 748/II/PIK-1/2003.

Ministry of Forestry and Estate Crops (MoFEC). 2000. *Institutional task force for forestry sector decentralization. December 1999-February 2000*. Jakarta: Ministry of Forestry and Estate Crops.

Niessen, N. 1999. *Municipal government in Indonesia: Policy, law and practice of decentralization and urban spatial planning*. Leiden, Leiden University: CNWS Publications.

Nugraha, A. 2001. Pengelolaan sumberdaya hutan berbasis masyarakat di era otonomi daerah: Sebuah tinjauan dalam perspektif bisnis. In Awang, S.A., Kurniawan, I., and Nuh, I. M. (eds) *Otonomi sumberdaya hutan: Prosiding pertemuan reguler V forum komunikasi kehutanan masyarakat, Bandar Lampung 23-25 Januari 2001*. Yogyakarta: Debut Press.

Obidzinski, K. 2005. "Illegal logging in Indonesia: myth and reality." In, Resosudarmo P. Budy (ed.), *The Politics and Economics of Indonesia's Natural resources*, pp. 193-206. The Institute of Southeast Asian Studies (ISEAS) Press, Singapore.

Obidzinski, K., Barr, C. 2003. *The effects of decentralisation on forests and forest industries in Berau District, East Kalimantan*. Case Studies on Decentralisation and Forests in Indonesia No. 9. Bogor, Indonesia: CIFOR.

Oka, N. P., Ahmad, A. 2003. *Implementasi desentralisasi kebijakan sektor kehutanan dan respon masyarakat: Studi kasus di kabupaten Luwu Utara dan Mamuju, Sulawesi Selatan*. Research Report. Bogor, Indonesia: Universitas Hasanuddin and CIFOR.

Ostrom, E. 1990. *Governing the commons: The evolution of institutions for collective action*. Cambridge: Cambridge University Press.

Pacheco, P. 2003. Municipalidades y participación local en la gestión forestal en Bolivia, in L Ferroukhi (ed) *Gestión Forestal Municipal en América Latina*, 19-56. CIFOR/IDRC, Bogor, Indonesia.

Palmer, C. 2004. *The role of collective action n determining the benefits from IPPK logging concessions: A case study from Sekatak, East Kalimantan*. CIFOR Working Paper No. 28. Bogor, Indonesia: CIFOR.

Patlis, J. 2002. *Summary and analysis of regulation (*Peraturan Pemerintah*) No. 34 Year 2002 concerning forest structuring and development of forest management plans,utilization of forests and use of forest areas*. Unpublished.

Patlis, J.M. 2004. *A rough guide to developing laws for regional forest management*. Bogor, Indonesia: CIFOR.

Peluso, N. 1983. *Traders and merchants: The forest products trade of East Kalimantan in historical perspective*. MSc thesis. Cornell University. Ithaca, NY.

Peluso, N. 1992. *Rich forests, poor people: Resource control and resistance in Java*. Berkeley: University of California Press.

Peluso, N. 1995. Whose woods are these? Counter-mapping forest territories in Kalimantan, Indonesia. *Antipode* 27: 383-406.

Potter, L., Badcock, S. 2001. *The effects of Indonesia's decentralisation on forests and estate crops: Case study of Riau Province, the original districts of Kampar and Indragiri Hulu*. Case Studies 6 and 7. Bogor, Indonesia: CIFOR.

Prakosa, M. 1996. *Rencana kebijakan kehutanan*. Aditya Media. Yogyakarta, Indonesia.

Prasetyo, F., A., Dermawan, A., Obidzinski, K. in preparation. *Launching the partnership and assessing the challenges ahead*. Draft Report for the project on Forest partnership: From Kalimantan districts to the global market place. Bogor, Indonesia: CIFOR.

Pusat Data Business Indonesia (PDBI). 1988. *Forestry Indonesia*. Jakarta: Pusat Data Business Indonesia

Resosudarmo, I. A. P. 2003. Shifting power to the periphery: The impact of decentralization on forests and forest people. In: Aspinall, E. and G. Fealy (eds.). *Local power and politics in Indonesia: Decentralization and democratization*, pp. 230-244. Institute of Southeast Asian Studies, Singapore.

Resosudarmo, I.A. P. 2004a. Closer to people and trees: Will decentralization work for the people and forests of Indonesia? *European Journal of Development Research* 16(1):110-132.

Resosudarmo, I. A. P. 2004b. *Preliminary observations of forestry dynamics in decentralizing Indonesia: Case study of two districts in Kalimantan.* Draft.

Resosudarmo, I.A.P., Dermawan, A. 2002. Forests and regional autonomy: The challenge of sharing the profits and pains. In Colfer, C.J.P, Resosudarmo, I.A.P. (eds.) *Which way forward? People, forests, and policymaking in Indonesia*. Resources for the Future, Washington DC.

Ribot, J. C. 2001. *Local actors, powers and accountability in African decentralization: A review of issues*. Paper prepared for International Development Research Centre of Canada, Assessment of Social Policy Reforms Initiative.

Ribot, J. C. 2002. *Local actors, powers and accountability in african decentralizations: A review of Issues*. Geneva: UN Research Institute for Social Development, 6 October 2001 Draft.

Robison, R. 1986. *Indonesia: The Rise of capital*. Sydney: Allen & Unwin.

Rondinelli, D.; Nellis, J.R.; Cheema, G.S. 1983. Decentralization in developing countries: A review of recent experience. *Staff Working Papers* No. 581. Washington D.C.: World Bank.

Ross, M. 2001. *Timber booms and institutional breakdown in Southeast Asia*. Cambridge, UK: Cambridge University Press.

Sacerdoti, G. 1979a. Where timber is booty. *Bulletin of Indonesian Economic Studies*, Vol. XV, pp. 45-74.

Sacerdoti, G. 1979b. A shift to local leadership. *Far Eastern Economic Review*. December 7. Pp. 86.

Samsu, Komarudin, H., Ngau, Y., Surameggala, I., and McGrath, S. 2004. *The contribution of small scale 100ha logging concessions to regional finance: Case study in Bulungan District, East Kalimantan*. Case Study Draft. Bogor, Indonesia: CIFOR.

Samsu, Komarudin, H., Ngau, Y., Surameggala, I., and McGrath, S. 2005. *Small scale 100 ha logging concessions' contribution to regional finance: Case study in Bulungan district.* Decentralisation Brief No. 2. Bogor, Indonesia: CIFOR.

Sarin, M, Singh, N, Sundar, N and Bhogal, R. 2003. Devolution as a threat to democratic decision-making in forestry? Findings from three states in India, in D. Edmunds and E. Wollenberg (eds.) *Local forest management: The impacts of devolution policies* 55-126. Earthscan, London.

Scotland, N. 1999. *The impact of the Southeast Asian monetary crisis on Indonesian forest concessions and implications for the future*. Jakarta, Indonesia: Indonesia-UK Tropical Forest Management Programme.

Shah, A. 2000. Indonesia dan Pakistan: Desentralisasi fiskal: Tekad ataukah retorika? In Bird, R., and Vaillancourt, F. (eds.) *Desentralisasi fiskal di negara-negara berkembang*. Jakarta, Indonesia: Gramedia Pustaka Utama.

Shah, A., Qureshi, Z. 1994. Intergovernmental fiscal relations in Indonesia: Issued and options for feform. *World Bank Discussion Paper* No. 239. Washington, D.C.: The World Bank.

Silver C., Azis I. J., Schroeder L. 2001. Intergovernmental transfers and decentralization in Indonesia. *Bulletin of Indonesian Economic Studies*, 37(3): 345-362.

Simarmata, R., Masiun, S. 2002. *Decentralization and the character of local government laws and regulations ~ New pressures on the environment and indigenous communities. A preliminary diagnosis*. Paper presented at the 9th Biennial Conference of the IASCP, Victoria Falls, Zimbabwe. 17-21 June 2002.

Smith, B. C. 1985. *Decentralization: The territorial dimension of the state*. London: George Allen and Unwin.

Smith, J., Obidzinski, K., Subarudi, Suramenggala, I. 2003. Illegal logging, collusive corruption and fragmented governments in Kalimantan, Indonesia. *International Forestry Review* 5(3): 293-302.

Soemardjan, S. (ed.) 2000. *Menuju tata Indonesia baru*. Jakarta, Indonesia: Gramedia Pustaka Utama.

Soetarto, E., Sitorus, M. T. F., Napiri, M. Y. 2003. Decentralisation of administration, policy making and forest management in Ketapang District, West Kalimantan. Case Study on Decentralization and Forests in Indonesia No. 8. Bogor, Indonesia: CIFOR.

Sonius, H.J.W. 1981. *Introduction in J.Holleman (ed): Van Vollenhoven on Indonesian adat law*. Martinus Nijhoff, The Hague. pp XIX-LXV

Spek, M. 2000. *Indonesia – forestry sector: Out to test the limits of growth*. Singapore: GK Goh Ometraco Research. November 29.

Sudirman, Herlina, N. 2005. *Mekanisme penyusunan kebijakan daerah bidang kehutanan: Proses, implementasi, dan dampak desentralisasi pada sektor kehutanan di Tanjung Jabung Barat, Jambi*. Draft Report. Bogor, Indonesia: CIFOR.

Sunderlin, W. D., Resosudarmo, I. A. P. 1996. *Rates and causes of deforestation in Indonesia: Towards a resolution of the ambiguities*. CIFOR Occasional Paper No. 9. Bogor, Indonesia: CIFOR.

Sunderlin, W. D., Resosudarmo, I. A. P., Rianto, E., Angelsen, A. 2000. *The effect of Indonesia's economic crisis on small farmers and natural forest cover in the Outer Islands*. CIFOR Occasional Paper 28(E). Bogor, Indonesia: CIFOR.

Suparna, N. 2002. *Rasionalisasi pungutan di sektor kehutanan mendesak dilakukan*. Paper presented at Semiloka APHI-Apkindo, Bali, 11 May 2002.

Suramenggala, I., Sutisna, I. H., Saragih, I. B., Samsu, Ngau, Y. 2001. *An evaluation of the impacts of IPPK on forests, community incomes and the government of Bulungan district.* Bulungan, Indonesia: Yayasan Pionir Bulungan.

Syaukani, H.R. 2001. The implementation of decentralization in forestry sector within the framework of sustainable forest management in the District Kutai Kertanegara. *The Indonesian Quarterly*. Vol XXIX no 2, second quarter, 2001. Jakarta, Indonesia: CSIS. pp 143-150

Tambunan, M. 2000. Indonesia's new challenges and opportunities: blueprint for reform after the economic crisis. *East Asia: An International Quarterly*, Summer 2000 v18:2, p50-74.

Tanzi, V. 2001. *Pitfalls on the road to fiscal decentralization*. CEIP Working Paper No. 19. Washington, D.C.

Telapak Indonesia and EIA. 1999. *The final cut: Illegal logging in Indonesia's orangutan parks*. Bogor, Indonesia: Telapak Indonesia.

Thamrin, J. 2002. *Tinjauan terhadap kebijakan dan isu-isu pertananan kawasan non hutan*. Draft working paper no 3, Lokakarya menuju rasionalisasi kawasan hutan negara, Jakarta 23 Mei 2002

Toha, M. 2000. *Estimated deforestation rate for Indonesia*. Unpublished presentation prepared for the CGI Seminar on Indonesian Forestry. Jakarta. January 26.

Tokede, M. J., Wiliam, D., Widodo, Gandhi, Y., Imburi, C., Patriahadi, Marwa, J., Yufuai, M. C. 2005. *The impacts of special autonomy in Papua's forestry sector: Empowering customary communities* (masyarakat adat) *in decentralized forestry development in Manokwari District*. Case Study on Decentralization and Forests in Indonesia No. 13. Bogor, Indonesia: CIFOR.

Utting, P. 1993. *Trees, people, and power: Social dimensions of deforestation and forest protection in Central America*. London: Earthscan.

Van Zorge Report. 2002. *Regional autonomy: Re-centralisation, guided decentralisation, or chaos?* Van Zorge Report, 3 April.

Warren, C., McCarthy, J. 2002. Adat regimes and collective goods in the changing political constellation of Indonesia. in Sargeson, S. (ed.) *Shaping common futures: Case studies of collective goods, collective actions in East and Southeast Asia*. London : Routledge.

Wollenberg, E., Anderson, J., Lopez, C. 2005. *Though all things differ: Pluralism as a basis for cooperation in forests*. Bogor, Indonesia: CIFOR.

Wollenberg, E., Moeliono, M., Limberg, G., Iwan, R., Rhee, S., Sudana, M. 2006. Between state and society: Local governance of forests in Malinau, Indonesia. *Forest policy and economics* 8: 421-433.

World Bank. 2001. *Indonesia: Environment and natural resource management in a Time of Transition*. Washington, D.C.: World Bank.

World Bank. 2003. *Decentralizing Indonesia: A regional public expenditure review. Overview Report*. Jakarta, Indonesia: World Bank.

Wulan, Y. C., Yasmi, Y., Purba, C., Wollenberg, E. 2004. *An analysis of forestry sector conflict in Indonesia 1997 – 2003*. Bogor, Indonesia: CIFOR.

Yasmi, Y., Anshari, G. Z., Alqadrie, S.I., Budiarto, T., Ngusmanto, Abidin, E., Komarudin, H., McGrath, S., Zulkifli, Afifudin. 2005. *The complexities of managing forest resources in post-decentralization Indonesia: A case study from Sintang District, West Kalimantan*. Case Study on Decentralization and Forests in Indonesia No. 10. Bogor, Indonesia: CIFOR.

Annex 1

Timeline of Events that are Related to Decentralization in the Forestry Sector

1997	
May	Law 18/1997 on Regional Taxes and Charges was issued
July	Indonesian currency started being depreciated, triggered the economic crisis.
1998	
January	Government signed Letter of Intent with IMF. The forestry reforms included in the Letter of Intent between the IMF and the Indonesian government were largely aimed at promoting sustainable forest management through enforcement of selective cutting regulations, increasing the government's capture of timber rents, and raising efficiency levels in all segments of the timber and wood processing industries.
March	People's Consultative Assembly (MPR) General Session. Soeharto and Habibie were appointed the President and Vice President. Muhammad 'Bob' Hasan was appointed the Minister of Industry and Trade, and Sumahadi was appointed the Minister of Forestry and Estate Crops, replaced Djamaluddin Suryohadikusumo. Elimination of Apkindo monopoly over plywood exports as part of the Letter of Intent with the IMF.
May	Soeharto resigned, Habibie was appointed the President. Muslimin Nasution was appointed the Minister of Forestry and Estate Crops, replacing Sumahadi. Regulation 51/1998 on Forest Resource Rent Provision was issued.
June	Regulation 62/1998 on Delegation of Partial Authority in the Forestry Sector to The Regions was issued.
November	MPR Special Session. One of the decrees was TAP MPR XV/ MPR/1998 on The Implementation of Local Autonomy and the Arrangement, Distribution, and Equitable Utilization of National Resources; and The Fiscal Balancing of Central and Regional Governments within the Frame of the Unitary State of the Republic of Indonesia.

1999	
January	Regulation 6/1999 on Forestry Enterprises and the Extraction of Forest Products in Areas Designated as Production Forest was issued.
April	The House of Representatives (DPR) passed the bill on regional governance and fiscal balancing. Joint decree from Ministry of Forestry and Ministry of Cooperatives and Small-Medium Enterprises on empowering cooperatives in forestry and estate crops enterprises. The decree provided legal support for establishment of cooperatives doing forestry business.
May	Law 22/1999 on Regional Governance was issued, replaced Law 5/1974 and Law 5/1979. Law 25/1999 on Fiscal Balancing Between The Central Government and Regional Governments was issued, replaced Law 32/1956. MoFEC Decree 310/1999 on The Guidelines for Granting Forest Product Harvesting Rights was issued. MoFEC Decree 317/1999 Forest Product Harvesting Permits for Customary Communities in Areas Designated as Production Forests was issued. The decree was particularly used by districts in Papua to issue customary community forest extraction permits.
July	District government of Bulungan (East Kalimantan) issued Bupati Decree 19/1999 on procedures of licensing of small scale forest product collection and use in communal and private forests.
September	Law 41/1999 on Forestry was issued, replaced Law 5/1967.
October	MPR General Session. Abdurrahman Wahid was elected as the 4th president of Indonesia, and Megawati Soekarnoputri became the Vice President. Malinau (East Kalimantan) was formally established as a new kabupaten.
November	Nur Mahmudi Ismail was appointed the Minister of Forestry and Estate Crops, replacing Muslimin Nasution. Kutai Barat (East Kalimantan) was formally established as a new kabupaten.
2000	
March	MoFEC 084/2000 was issued, postponed the implementation of MoFEC Decree 310/1999, but MoFEC Decree 310/1999 was not revoked. District Government of Kapuas Hulu (West Kalimantan) issued *Bupati* Decree 2/2000 on implementing regulation on the procedures of small scale concession permits with a maximum area of 100 ha.

April	*Bupati's* office in Pelalawan (Riau) was set up.
May	Regulation 25/2000 on Government authority and provincial authority as an autonomous region was issued.
June	APKASI (*Asosiasi Pemerintahan Kabupaten Indonesia*, Indonesian Association of District Government) was formed consist of *Bupatis* all over Indonesia. The District Government of Bulungan (East Kalimantan) issued Bupati Decree 196/2000, replacing Bupati Decree 19/1999 on Procedures of Licensing of Small Scale Forest Product Collection and Use in Communal and Private Forest.
August	MPR Annual Session. One of the Decrees was TAP MPR III/ MPR/2000 on Legal Sources and the Hierarchy of Regulations. The hierarchy of regulations within the nation (listed below in order of highest to lowest value): (1) Indonesian Constitution (*Undang-Undang Dasar*), (2) Decree of People's Consultative Assembly (*Ketetapan* MPR), (3) Law (*Undang-undang*), (4) *Government Regulation* (*Peraturan Pemerintah*), (5) Presidential Decrees (*Keputusan Presiden*), and (6) Regional Regulations (*Peraturan Daerah*).
September	Luwu Utara (South Sulawesi) issued district regulation (*perda* 53/2000) on the district's authority as an autonomous region.
October	East Kalimantan demanded 3.2 trillion *rupiah* from the central government, otherwise they would proclaim independence. District Government of Kapuas Hulu issued *Bupati* Decree 154/2000 on procedures for obtaining location permits to establish a company, such as oil palm plantation, etc.
November	Regulation 104/2000 on Balancing of Funds was issued. Regulation 107/2000 on Regional Government Borrowing was issued. MoF Decree on 05.1/2000 on Criteria and Standard of Licensing of the Utilization of Forest Products and the Harvesting of Forest Products in Natural Production Forest was issued.
December	Law 34/2000 on The revision of Law 18/1997 on Regional Taxes and Charges was issued. Presidential Decree 181/2000 on General Allocation Fund was issued.
2001	
January	Regional autonomy formally started.
February	Luwu Utara district issued *perda* 5/2001 on Licensing of Forestry and Plantation Enterprises in Luwu Utara – created 19 types of forestry and plantation permits.

May	DPR recommended MPR to hold Special Session for president Abdurrahman Wahid's accountability.
July	Abdurrahman Wahid stepped down, Megawati Soekarnoputri was appointed the President.
August	Hari Sabarno, the Minister of Home Affairs, said that the government was considering revising Law 22/1999.
October	Joint Ministerial Decree between the Ministry of Forestry and Ministry of Industry and Trade to ban log exports. District Regulation (*perda*) 52/2001 on Spatial Plan for Tanjung Jabung Barat was issued.
	2002
February	MoF Decree 541/2002 was issued, abolished MoF Decree 05.1/2000 Districts' authority over small-scale concession permits was officially revoked.
June	Regulation 34/2002 on Forest Administration and the Formulation of Plans for Forest Management, Forest Utilization, and the Use of the Forest Estate was issued, replaced PP 6/1999. Regulation 35/2002 on Reforestation Fund was also issued.
July	The government abolished MoF Decree 310/1999 by the issuance of MoF Decree 6886/2002 on guidelines and procedures for issuing Forest Product Extraction Permits (*Ijin Pemungutan Hasil Hutan*, IPHH) in Production Forests.
December	Establishment of Forestry Industry Revitalisation Agency (*Badan Revitalisasi Industri Kehutanan*, BRIK) by joint decree between MoF and Ministry of Industry and Trade. District government of Tanjung Jabung Barat issued *perda* 13/2002 and *perda* 15/2002. These *perdas* still refer to Regulation 6/1999 which was abolished by Regulation 34/2002.
	2003
February	Luwu Utara was split into Luwu Utara and Luwu Timur.
April	The MoF issued regulations on the collection of Forest Resource Rebt Provision (PSDH) (MoF Decree 124/2003) and on collection of Reforestation Fund (DR) (MoF Decree 128/2003). Both forestry fees are imposed *before* cutting (based on cruising report). The district government of Tanjung Jabung Barat issued Bupati Decree 189/2003, an implementing regulation from Perda 13/2002 and 15/2002.
May	Decree of *Bupati* Tanjung Jabung Barat 240/2003 on the establishment of coordinating team on spatial planning in Tanjung Jabung Barat was issued.

October	Decree of *Bupati* Kapuas Hulu 144/2003 on The Establishment of Conservation District was issued.
December	MoF Decree 445/2003, revised some parts to MoF Decree on the collection of PSDH (MoF Decree 124/2003). MoF Decree 446/2003, revised some parts to MoF Decree on the collection of DR (MoF Decree 128/2003).
	2004
March	MoF Decree 101/2004 on Acceleration of Industrial Plantation Development to Supply Raw Materials for the Pulp and Paper Industry was issued.
October	Law 32/2004 on Regional Governance was issued, replaced Law 22/1999. Law 33/2004 on Fiscal Balancing was issued, replaced Law 25/1999. Susilo Bambang Yudhoyono was elected President, replaced Megawati Soekarnoputri.
	2005
January	MoF Regulation P.03/2005 on Guidelines for Verification of Forest Concessions or Timber Plantation Permits Issued by Governors or *Bupatis*/Mayors was issued.
March	MoF Regulation P.07/2005 on The Revocation of MoF Decree 317/1999 on Forest Product Harvesting Permits for Customary Communities in Areas Designated as Production Forests was issued, revoked MoF Decree 317/1999.
December	Regulation 55/2005 on Balancing of Funds was issued, replaced Regulation 104/2000.

Annex 2

Indonesian Laws and Regulations Relevant to Decentralization

Nugroho Adi Utomo

In the following sections, we divide the regulations mentioned in this book by their type and present them in chronological order. Note that these translations (and all translation throughout the book) are not intended to be official translations of the original version in Indonesian language.

Decrees of the People's Consultative Assembly

1. TAP MPRS No. II/MPRS/1960 *tentang Garis-garis Besar Rencana Pembangunan Nasional Semesta Berencana Tahap Pertama 1961-1969* (Decree of People's Consultative Assembly on Guidelines of State Development Planning, First Phase 1961-1969)
2. TAP MPR XV/MPR/1998 : *tentang Penyelenggaraan Otonomi Daerah, Pengaturan; Pembagian, dan Pemanfaatan Sumber Daya Nasional, yang Berkeadilan; serta Perimbangan Keuangan Pusat dan Daerah dalam Kerangka Negara Kesatuan Republik Indonesia* (Decree of People's Consultative Assembly on the Implementation of Local Autonomy and the Arrangement, Distribution, and Equitable Utilization of National Resources; and the Fiscal Balancing of Central and Regional Governments in the Frame of the Unitary State of the Republic of Indonesia)
3. TAP MPR III/MPR/2000 *tentang Sumber Hukum dan Tata Urutan Peraturan Perundang-undangan* (Decree of People's Consultative Assembly on Legal Sources and the Hierarchy of Regulations)
4. TAP MPR IV/MPR/2000 *tentang Rekomendasi Kebijakan dalam Penyelenggaraan Otonomi Daerah* (Decree of People's Consultative Assembly on Policy Recommendation on the Implementation of Regional Autonomy)
5. TAP MPR IX/2001 *tentang Pembaruan Agraria dan Pengelolaan Sumberdaya Alam* (Decree of the People's Consultative Assembly on Agrarian Reform and Natural Resources Management)

Laws

1. UU 5/1960 *tentang Pokok-pokok Pertanahan* (Basic Agrarian Law)
2. UU 5/1967 *tentang Pokok-pokok Kehutanan* (Basic Forestry Law)
3. UU 5/1974 *tentang Pokok-pokok Pemerintahan di Daerah* (Law on Principles of Regional Governance), replaced by UU 22/1999
4. UU 5/1979 *tentang Pemerintahan Desa* (Law on Village Governance)
5. UU 18/1997 *tentang Pajak Daerah dan Retribusi Daerah* (Law on Regional Taxes and Charges)

6. UU 20/1997 *tentang Penerimaan Negara Bukan Pajak* (Law on Non-tax State Revenues)
7. UU 22/1999 *tentang Pemerintahan Daerah* (Law on Regional Governance), Replaced by UU 32/2004
8. UU 25/1999 *tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah* (Law on Fiscal Balancing Between the Central Government and the Regions)
9. UU 41/1999 *tentang Kehutanan* (Law on Forestry)
10. UU 34/2000 *tentang Perubahan atas Undang-undang 18/1997 tentang Pajak Daerah dan Retribusi Daerah* (Law on the Revision of Law 18/1997 on Regional Taxes and Charges)
11. UU 18/2001 *tentang Otonomi Khusus bagi Propinsi Daerah Istimewa Aceh sebagai Propinsi Nanggroe Aceh Darussalam* (Law on Special Autonomy for the Province of Aceh as the Province of Nanggroe Aceh Darussalam)
12. UU 21/2001 *tentang Otonomi Khusus bagi Propinsi Papua* (Law on Special Autonomy for the Province of Papua)
13. UU 32/2004 *tentang Pemerintahan Daerah* (Law on Regional Governance)
14. UU 33/2004 *tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah* (Law on Fiscal Balancing Between the Central Government and the Regions)

Government Regulations

1. PP 64/1957 *tentang Penyerahan Sebagian dari Urusan Pemerintah Pusat Dilapangan Perikanan Laut, Kehutanan dan Karet Rakyat kepada Daerah-daerah Swatantra Tingkat I* (Government Regulation on the Transfer of Partial Authority in the Fields of Sea Fishing, Forestry, and Community Rubber Production to Autonomous Regions Level I)
2. PP 21/1970 *tentang Hak Pengusahaan Hutan dan Hak Pemungutan Hasil Hutan* (Government Regulation on Right of Forest Exploitation and Forest Product Harvesting Permit)
3. PP 33/1970 *tentang Perencanaan Hutan* (Government Regulation on Forest Planning)
4. PP 45/1992 *tentang Penyelenggaraan Otonomi Daerah dengan Titik Berat pada Daerah Tingkat II* (Government Regulation on Implementation of Regional Autonomy Focusing on District Level)
5. PP 8/1995 *tentang Penyerahan Sebagian Urusan Pemerintahan kepada 26 (dua puluh enam) Daerah Tingkat II* (Government Regulation on Granting of Some Governmental Affairs to 26 Sample Region Level II)
6. PP 51/1998 *tentang Provisi Sumber Daya Hutan* (Government Regulation on Forest Resource Rent Provision)
7. PP 52/1998 *tentang Jenis dan Penyetoran Penerimaan Negara Bukan Pajak* (Government Regulation on Type and Payment of Non-tax State Revenues)
8. PP 59/1998 *tentang Tarif atas Jenis Penerimaan Negara Bukan Pajak yang Berlaku pada Departemen Kehutanan dan Perkebunan* (Government Regulation on Tariffs on Non-tax State Revenues Applicable for the Ministry of Forestry and Estate Crops)

9. PP 62/1998 *tentang Penyerahan Sebagian Urusan Pemerintahan di Bidang Kehutanan kepada Daerah* (Government Regulation on Delegation of Partial Authority in the Forestry Sector to the Regions)
10. PP 6/1999 *tentang Pengusahaan Hutan dan Pemungutan Hutan pada Hutan Produksi* (Government Regulation on Forestry Enterprises and the Extraction of Forest Products in Areas Designated as Production Forest)
11. PP 74/1999 *tentang Perubahan Atas Peraturan Pemerintah Nomor 59 Tahun 1998 tentang Tarif Atas Jenis Penerimaan Negara Bukan Pajak yang Berlaku pada Departemen Kehutanan dan Perkebunan* (Government Regulation on Changes of Government Regulation 59/1998 on Tariff of type of Non-tax State Revenues Applicable for the Ministry of Forestry and Estate Crops)
12. PP 92/1999 *tentang Perubahan Kedua atas Peraturan Pemerintah Nomor 59 Tahun 1998 Tentang Tarif atas Jenis Penerimaan Negara Bukan Pajak yang Berlaku Pada Departemen Kehutanan dan Perkebunan* (Government Regulation on Second Revision of Government Regulation 59/1998 on Tariff of Type of Non-tax State Revenues Applicable for the Ministry of Forestry and Estate Crops)
13. PP 25/2000 *tentang Kewenangan Pemerintah dan Kewenangan Propinsi Sebagai Daerah Otonom* (Government Regulation on Government Authority and Provincial Authority as an Autonomous Region)
14. PP 104/2000 *tentang Dana Perimbangan* (Government Regulation on Balancing Funds), replaced by PP 55/2005
15. Peraturan Pemerintah 76/2001 *tentang Pedoman Umum Pengaturan Mengenai Desa* (Government Regulation on General Guidelines for Administering Villages)
16. PP 34/2002 *tentang Tata Hutan dan Penyusunan Rencana Pengelolaan Hutan, Pemanfaatan Hutan dan Penggunaan Kawasan Hutan* (Government Regulation on Forest Administration and the Formulation of Plans for Forest Management, Forest Utilization, and the Use of the Forest Estate)
17. PP 35/2002 *tentang Dana Reboisasi* (Government Regulation on Reforestation Fund)
18. PP 55/2005 *tentang Dana Perimbangan* (Government Regulation on Balancing Funds)

Presidential Decrees

1. Keputusan Presiden 35/1980 *tentang Dana Jaminan Reboisasi* (Presidential Decree on Reforestation Guarantee Fund)
2. Keputusan Presiden 31/1989 *tentang Dana Reboisasi* (Presidential Decree on Reforestation Fund)
3. Keputusan Presiden 24/1997 *tentang Perubahan atas Keputusan Presiden Nomor 29 Tahun 1990 Tentang Dana Reboisasi Sebagaimana Telah Beberapa Kali Diubah, Terakhir Dengan Keputusan Presiden Nomor 40 Tahun 1993* (Presidential Decree on the revision of Presidential Decree 29/1990 on Reforestation Fund that was Revised for Several Times, the Latest being Presidential Decree 40/1993)
4. Keputusan Presiden 32/1998 *tentang Perubahan atas Keputusan Presiden Nomor 29 Tahun 1990 Tentang Dana Reboisasi Sebagaimana Telah Beberapa Kali*

Diubah, Terakhir Dengan Keputusan Presiden Nomor 53 Tahun 1997 (Presidential Decree on the Revision of Presidential Decree 29/1990 on Reforestation Fund that was Revised for Several Times, the Latest being Presidential Decree 59/1997)

Decrees of the Ministry of Forestry/Ministry of Forestry and Estate Crops

1. Kepmenhutbun 310/Kpts-II/1999 *tentang pedoman pemberian hak pemungutan hasil hutan* (Ministry of Forestry and Estate Crops [MoFEC] Decree on the Guidelines for Granting Forest Product Harvesting Rights)
2. Kepmenhutbun 317/Kpts-II/1999 *tentang Hak Pemungutan Hasil Hutan Masyarakat Hukum Adat Pada Areal Hutan Produksi* (MoFEC Decree on Forest Product Harvesting Permits for Customary Communities in Areas Designated as Production Forests)
3. Kepmenhutbun No. 603/Menhutbun-VIII/2000 *tentang Penghentian/ Penangguhan Pelepasan Kawasan Hutan* (Letter of Minister of Forestry and Estate Crops on Stopping/suspending the Release of Forest Estate)
4. Keputusan Menteri Kehutanan 05.1/Kpts-II/2000 *tentang Kriteria dan Standar Perijinan Usaha Pemanfaatan Hasil Hutan dan Perijinan Pemungutan Hasil Hutan pada Hutan Produksi Alam* (Ministry of Forestry [MoF] Decree on Criteria and Standards of Licensing of the Utilization of Forest Products and the Harvesting of Forest Products in Natural Production Forest)
5. Keputusan Menteri Kehutanan 541/KPTS-II/2002 *tentang Pencabutan Keputusan Menteri Kehutanan 05.1/Kpts-II/2000 tentang Kriteria dan Standar Perijinan Usaha Pemanfaatan Hasil Hutan dan Perijinan Pemungutan Hasil Hutan pada Hutan Produksi Alam* (MoF Decree on Revocation of MoF Decree 05.1/Kpts-II/2002 on Criteria and Standard of Licensing of the Utilization of Forest Products and the Harvesting of Forest Products in Natural Production Forest)
6. Keputusan Menteri Kehutanan 6886/KPTS-II/2002 *tentang Pedoman dan Tata Cara Pemberian Izin Pemungutan Hasil Hutan (IPHH) pada Hutan Produksi* (MoF Decree on Guidelines and Procedures for Granting Forest Product Harvesting Permits in Production Forests)
7. Keputusan Menteri Kehutanan No. SK 101/Menhut-II/2004 : *tentang Percepatan Pembangunan Hutan Tanaman Untuk Pemenuhan Bahan Baku Pulp dan Kertas* (MoF Decree on Acceleration of industrial timber plantation development to supply raw materials for the pulp and paper industry)
8. Peraturan Menteri Kehutanan No. P.03/Menhut-II/2005 *tentang Pedoman Verifikasi Izin Usaha Pemanfaatan Hasil Hutan Pada Hutan Alam dan atau Hutan Tanaman Yang Diterbitkan oleh Gubernur atau Bupati/Walikota* (MoF Regulation on Guidance of Permit Verification of Forest Concessions in Natural Forest and Plantation Forest By the Head of Province/district/city)
9. Peraturan Menteri Kehutanan No. P.07/Menhut-II/2005 *tentang Pencabutan Keputusan Menteri Kehutanan dan Perkebunan* 317/Kpts-II/1999 *tentang Hak Pemungutan Hasil Hutan Masyarakat Hukum Adat Pada Areal Hutan Produksi* (MoF Decree on the Revocation of MoFEC Decree on Forest Product Harvesting Permits for Customary Communities in Areas Designated as Production Forests)

Decrees of the Ministry of Finance

1. Kepmenkeu 99/KMK.07/2001 *tentang Penundaan Pelaksanaan Pinjaman Daerah* (Ministry of Finance Decree on the Postponement of the Implementation of Regional Borrowing)
2. Keputusan Menteri Keuangan 491/KMK.02/2001 *tentang Alokasi Dana Alokasi Khusus (DAK) Dana Reboisasi Anggaran Pendapatan dan Belanja Negara Tahun 2001* (Ministry of Finance Decree on Allocation of Special Allocation Fund – Reforestation Fund in State Budget of 2001)
3. Keputusan Menteri Keuangan 471/KMK.02/2002 *tentang Alokasi Dana Alokasi Khusus (DAK) Dana Reboisasi Anggaran Pendapatan dan Belanja Negara Tahun 2002* (Ministry of Finance Decree on Allocation of Special Allocation Fund – Reforestation Fund in State Budget of 2002)
4. Keputusan Menteri Keuangan 480/KMK.02/2003 *tentang Alokasi Dana Alokasi Khusus (DAK) Dana Reboisasi Anggaran Pendapatan dan Belanja Negara Tahun 2003* (Ministry of Finance Decree on Allocation of Special Allocation Fund – Reforestation Fund in State Budget of 2003)
5. Kepmenkeu 579/KMK.07/2003 *tentang Perubahan Ketiga Keputusan Menteri Keuangan No. 99/KMK.07/2001 tentang Penundaan Pelaksanaan Pinjaman Daerah* (Ministry of Finance Decree on Third Revision of Ministry of Finance Decree 99/KMK.07/2001 on the Postponement of the Implementation of Regional Borrowing)

Decree of the Ministry of Trade and industry

1. Kepmenperindag 258/MPP/Kep/6/1998 *tentang Penetapan Besarnya Harga Patokan untuk Perhitungan Provisi Sumber Daya Hutan* (Ministry of Trade and Industry Decree on the Reference Prices for the Calculation of Forest Resource Rent Provision)

Joint ministerial Decrees

1. SE-59/A/2001; No. SE-720/MENHUT-II/2001; No. 2035/D.IV/05/2001 dan No. SE-522.4/947/V/BANGDA *tentang Pedoman Umum Pengelolaan Dana Alokasi Khusus Dana Reboisasi (DAK-DR) untuk Penyelenggaraan Rehabilitasi Hutan dan Lahan (Reboisasi dan Penghijauan) tahun 2001* (Joint Circulars of the Ministry of Finance, Ministry of Forestry, Bappenas, and Ministry of Home Affairs Regarding the General Guidelines for the Management of the Specific Allocation Funds – Reforestation Funds for the Implementation of Forest and Land Rehabilitation for the Year 2001)

Annex 3

Distribution of Shared Revenues to Regional Governments (not including DR), 2004 (million Rp)

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Province NAD (a)		27,876	123,800	151,676	188	20	208	5	1	6	-	151,889
	Special Autonomy (b)		730,096	1,179,042	1,909,138	-	-	-	-	-	-	-	1,909,138
	Education Allocation (c)		59,734	265,284	325,019	403	42	445	10	2	12	2,534	328,009
	Total Province NAD (with Special Autonomy and Education) (= a + b + c)		817,707	1,568,126	2,385,833	591	62	652	15	3	18	2,534	2,389,037
1	Kab.	Aceh Barat	2,934	13,031	15,966	20	-	20	1	3	3	296	16,285
2	Kab.	Aceh Jaya	2,934	13,031	15,966	21	-	21	1	-	1	296	16,283
3	Kab.	Nagan Raya	2,934	13,031	15,966	21	-	21	1	-	1	296	16,283
4	Kab.	Aceh Besar	2,934	13,031	15,966	25	-	25	10	-	10	296	16,296
5	Kab.	Aceh Selatan	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
6	Kab.	Aceh Barat Daya	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
7	Kab.	Aceh Singkil	2,934	13,031	15,966	221	-	221	1	0	1	296	16,483
8	Kab.	Aceh Tengah	2,934	13,031	15,966	24	-	24	1	-	1	296	16,286
9	Kab.	Aceh Tenggara	2,934	13,031	15,966	62	-	62	1	-	1	296	16,324
10	Kab.	Gayo Lues	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
11	Kab.	Aceh Timur	4,515	34,174	38,689	47	-	47	1	-	1	296	39,032
12	Kab.	Aceh Tamiang	3,912	13,031	16,944	83	-	83	1	-	1	296	17,323
13	Kab.	Aceh Utara	53,195	226,457	279,651	20	78	99	1	-	1	296	280,046
14	Kab.	Bireuen	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
15	Kab.	Aceh Pidie	2,934	13,031	15,966	22	-	22	1	-	1	296	16,284
16	Kab.	Simeuleu	2,934	13,031	15,966	26	-	26	1	-	1	296	16,288
17	Kota	Banda Aceh	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
18	Kota	Sabang	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
19	Kota	Langsa	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
20	Kota	Lhokseumawe	2,934	13,031	15,966	20	-	20	1	-	1	296	16,282
	Province + Districts in NAD		929,212	2,063,322	2,992,534	1,342	140	1,482	34	6	40	8,447	3,002,504
	Sumatera Utara												
	Prov. Sumatera Utara		1,220	3,866	5,086	1,449	-	1,449	-	205	205	-	6,740
1	Kab.	Asahan	91	351	442	132	-	132	-	-	-	422	996
2	Kab.	Dairi	91	351	442	180	-	180	-	99	99	422	1,143
3	Kab.	Deli Serdang	126	1,642	1,768	132	-	132	-	-	-	422	2,322
4	Kab.	Labuhan Batu	91	351	442	281	-	281	-	-	-	422	1,145
5	Kab.	Langkat	2,452	6,395	8,847	248	-	248	-	-	-	422	9,518
6	Kab.	Mandailing Natal	91	351	442	931	-	931	-	202	202	422	1,998
7	Kab.	Nias	91	351	442	132	-	132	-	-	-	422	996
8	Kab.	Simalungun	91	351	442	254	-	254	-	-	-	422	1,119
9	Kab.	Tanah Karo	91	351	442	132	-	132	-	-	-	422	996
10	Kab.	Tapanuli Selatan	91	351	442	675	-	675	-	272	272	422	1,811
11	Kab.	Tapanuli Tengah	91	351	442	132	-	132	-	133	133	422	1,129
12	Kab.	Tapanuli Utara	91	351	442	799	-	799	-	60	60	422	1,723
13	Kab.	Toba Samosir	91	351	442	370	-	370	-	-	-	422	1,235
14	Kota	Binjai	204	492	696	132	-	132	-	-	-	422	1,250
15	Kota	Medan	91	351	442	132	-	132	-	-	-	422	996
16	Kota	Pematang Siantar	91	351	442	132	-	132	-	-	-	422	996

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
17	Kota	Sibolga	91	351	442	132	-	132	-	-	-	422	996
18	Kota	Tanjung Balai	91	351	442	132	-	132	-	-	-	422	996
19	Kota	Tebing Tinggi	91	351	442	132	-	132	-	-	-	422	996
20	Kota	Padang Sidempuan	91	351	442	132	-	132	-	50	50	422	1,046
21	Kab.	Pakpak Bharat	105	531	636	146	-	146	-	4	4	422	1,208
22	Kab.	Nias Selatan	105	531	636	132	-	132	-	-	-	422	1,190
23	Kab.	Humbang Hasundutan	105	531	636	199	-	199	-	-	-	422	1,257
	Province + Districts in Sumatera Utara		5,857	19,964	25,821	7,244	-	7,244	-	1,024	1,024	9,714	43,804
	Sumatera Barat												
	Prov. Sumatera Barat		-	-	-	5,664	-	5,664	509	59	569	-	6,232
1	Kab.	Agam	-	-	-	755	-	755	57	-	57	422	1,234
2	Kab.	Lima Puluh Kota	-	-	-	755	-	755	57	3	60	422	1,238
3	Kab.	Padang Pariaman	-	-	-	755	-	755	57	-	57	422	1,235
4	Kab.	Pasaman	-	-	-	791	-	791	57	-	57	422	1,270
5	Kab.	Pesisir Selatan	-	-	-	865	-	865	57	29	86	422	1,373
6	Kab.	Sawah Lunto Sijunjung	-	-	-	810	-	810	57	3	60	422	1,292
7	Kab.	Solok	-	-	-	1,110	-	1,110	61	74	135	422	1,667
8	Kab.	Tanah Datar	-	-	-	778	-	778	57	-	57	422	1,257
9	Kab.	Kep. Mentawai	-	-	-	10,750	-	10,750	57	-	57	422	11,229
10	Kota	Bukit Tinggi	-	-	-	755	-	755	57	-	57	422	1,234
11	Kota	Padang	-	-	-	755	-	755	57	-	57	422	1,234
12	Kota	Padang Panjang	-	-	-	755	-	755	57	-	57	422	1,234

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
13	Kota	Payakumbuh	-	-	-	755	-	755	57	-	57	422	1,234
14	Kota	Sawah Lunto	-	-	-	755	-	755	849	127	976	422	2,153
15	Kota	Solok	-	-	-	755	-	755	57	-	57	422	1,234
16	Kota	Pariaman	-	-	-	755	-	755	57	-	57	422	1,234
	Province + Districts in Sumatera Barat		-	-	-	28,318	-	28,318	2,215	296	2,511	6,758	37,587
	Riau												
	Prov. Riau		930,322	3,781	934,103	16,515	202	16,717	99	188	286	-	951,107
1	Kab.	Bengkalis	864,474	504	864,978	7,717	130	7,848	20	-	20	422	873,268
2	Kab.	Indragiri Hilir	183,571	504	184,075	5,721	653	6,374	20	66	86	422	190,957
3	Kab.	Indragiri Hulu	187,181	504	187,685	3,794	-	3,794	107	262	369	422	192,271
4	Kab.	Kampar	365,343	504	365,847	5,083	5	5,087	20	-	20	422	371,377
5	Kab.	Kuantan Singingi	183,571	504	184,075	3,654	-	3,654	110	126	236	422	188,387
6	Kab.	Pelalawan	188,331	504	188,835	16,723	-	16,723	20	281	300	422	206,281
7	Kab.	Rokan Hilir	574,970	504	575,475	4,307	-	4,307	20	-	20	422	580,223
8	Kab.	Rokan Hulu	185,716	504	186,220	3,827	19	3,845	20	-	20	422	190,508
9	Kab.	Siak	565,939	504	566,443	8,465	-	8,465	20	16	36	422	575,366
10	Kota	Dumai	183,571	504	184,075	3,468	-	3,468	20	-	20	422	187,985
11	Kota	Pekanbaru	183,571	504	184,075	3,303	-	3,303	20	-	20	422	187,820
	Province + Districts in Riau		4,596,559	9,326	4,605,886	82,576	1,008	83,584	494	938	1,432	4,646	4,695,548

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Prov. Kepulauan Riau		35,822	12,326	48,148	47	-	47	2,877	169	3,046	-	51,241
1	Kab.	Kepulauan Riau	24,193	6,667	30,860	92	-	92	2,733	6	2,739	422	34,114
2	Kab.	Natuna	111,921	32,215	144,136	23	-	23	1,438	-	1,438	422	146,020
3	Kab.	Karimun	24,193	6,667	30,860	24	-	24	4,459	670	5,128	422	36,434
4	Kota	Batam	24,193	6,667	30,860	25	-	25	1,438	-	1,438	422	32,746
5	Kota	Tanjung Pinang	24,193	6,667	30,860	23	-	23	1,438	-	1,438	422	32,744
	Province + Districts in Kepulauan Riau		244,514	71,210	315,724	235	-	235	14,383	845	15,228	2,112	333,298
	Jambi												
	Prov. Jambi		17,389	3,957	21,346	4,622	17	4,639	0	89	89	-	26,074
1	Kab.	Sarolangun	5,189	879	6,068	1,874	-	1,874	0	162	162	422	8,526
2	Kab.	Muaro Jambi	6,150	879	7,029	3,225	-	3,225	0	-	0	422	10,676
3	Kab.	Tanjung Jabung Timur	22,970	7,166	30,136	2,725	-	2,725	0	-	0	422	33,283
4	Kab.	Tebo	3,864	879	4,744	1,328	-	1,328	0	-	0	422	6,494
5	Kab.	Batanghari	4,663	1,627	6,290	1,980	13	1,993	0	185	185	422	8,891
6	Kab.	Kerinci	3,864	879	4,744	1,027	-	1,027	0	-	0	422	6,193
7	Kab.	Bungo	3,864	879	4,744	2,189	-	2,189	0	10	10	422	7,365
8	Kab.	Merangin	3,864	879	4,744	1,125	-	1,125	0	-	0	422	6,291
9	Kab.	Tanjung Jabung Barat	9,630	879	10,510	1,987	54	2,040	0	-	0	422	12,972
10	Kota	Jambi	5,497	879	6,376	1,029	-	1,029	0	-	0	422	7,827
	Province + Districts in Jambi		86,945	19,785	106,729	23,110	84	23,194	1	446	446	4,224	134,593

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Sumatera Selatan												
	Prov. Sumatera Selatan		98,982	84,135	183,117	1,054	328	1,382	13,423	285	13,708	-	198,207
1	Kab.	Lahat	21,064	18,392	39,456	528	-	528	7,984	104	8,088	422	48,494
2	Kab.	Muara Enim	33,904	34,711	68,615	759	-	759	21,545	135	21,680	422	91,477
3	Kab.	Musi Banyuasin	155,405	134,270	289,675	315	99	413	2,685	527	3,211	422	293,722
4	Kab.	Banyuasin	26,487	16,701	43,188	230	-	230	2,685	48	2,732	422	46,572
5	Kab.	Musi Rawas	27,813	26,794	54,608	971	-	971	2,685	255	2,939	422	58,941
6	Kab.	Ogan Komering Ilir	20,858	16,827	37,686	215	1,212	1,427	2,685	-	2,685	422	42,219
7	Kab.	Ogan Komering Ulu	29,938	18,530	48,468	355	-	355	2,685	72	2,757	422	52,003
8	Kota	Palembang	19,796	16,827	36,624	211	-	211	2,685	-	2,685	422	39,941
9	Kota	Prabumulih	23,024	17,878	40,902	211	-	211	2,685	-	2,685	422	44,220
10	Kota	Pagar Alam	19,796	16,827	36,624	211	-	211	2,685	-	2,685	422	39,941
11	Kota	Lubuk Linggau	19,796	16,827	36,624	211	-	211	2,685	-	2,685	422	39,941
	Province + Districts in Sumatera Selatan		496,866	418,720	915,587	5,271	1,639	6,909	67,113	1,426	68,538	4,646	995,680
	Bangka Belitung												
	Prov. Bangka Belitung		11,705	-	11,705	37	-	37	15,383	2,019	17,402	-	29,145
1	Kab.	Bangka	4,011	-	4,011	52	-	52	9,182	1,734	10,916	422	15,401
2	Kab.	Belitung	4,011	-	4,011	35	-	35	6,777	369	7,146	422	11,614
3	Kota	Pangkal Pinang	4,011	-	4,011	12	-	12	5,182	68	5,249	422	9,695
4	Kab.	Bangka Selatan	2,844	-	2,844	12	-	12	12,424	1,780	14,205	422	17,484
5	Kab.	Bangka Tengah	2,844	-	2,844	12	-	12	12,529	1,139	13,669	422	16,948
6	Kab.	Bangka Barat	2,844	-	2,844	12	-	12	8,195	1,956	10,151	422	13,430

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
7	Kab.	Belitung Timur	2,844	-	2,844	12	-	12	7,243	1,032	8,275	422	11,554
	Province + Districts in Bangka Belitung		35,115	-	35,115	186	-	186	76,915	10,096	87,011	2,956	125,269
	Bengkulu												
	Prov. Bengkulu		-	-	-	71	-	71	460	13	473	-	544
	Kab.	Bengkulu Selatan	-	-	-	24	-	24	160	-	160	422	606
	Kab.	Bengkulu Utara	-	-	-	25	-	25	676	17	692	422	1,139
	Kab.	Rejang Lebong	-	-	-	25	-	25	153	-	153	422	601
	Kota	Bengkulu	-	-	-	24	-	24	153	-	153	422	599
	Kab.	Kaur	-	-	-	29	-	29	153	-	153	422	605
	Kab.	Seluma	-	-	-	24	-	24	392	36	428	422	874
	Kab.	Mukomuko	-	-	-	134	-	134	153	-	153	422	709
	Province + Districts in Bengkulu		-	-	-	355	-	355	2,301	66	2,367	2,956	5,679
	Lampung												
	Prov. Lampung		70,207	-	70,207	14	-	14	1	23	25	-	70,245
	Kab.	Lampung Selatan	14,273	-	14,273	24	-	24	2	-	2	422	14,722
	Kab.	Lampung Tengah	14,273	-	14,273	3	-	3	0	2	2	422	14,701
	Kab.	Lampung Utara	14,273	-	14,273	3	-	3	0	-	0	422	14,699
	Kab.	Lampung Barat	14,273	-	14,273	3	-	3	0	64	64	422	14,762
	Kab.	Tulang Bawang	14,273	-	14,273	4	-	4	0	-	0	422	14,699
	Kab.	Tanggamus	14,273	-	14,273	3	-	3	0	28	28	422	14,726
	Kab.	Lampung Timur	32,818	-	32,818	3	-	3	0	-	0	422	33,243
	Kab.	Way Kanan	14,273	-	14,273	6	-	6	0	-	0	422	14,701
	Kota	Bandar Lampung	14,273	-	14,273	3	-	3	0	-	0	422	14,699

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Kota	Metro	14,273	-	14,273	3	-	3	0	-	0	422	14,699
	Province + Districts in Lampung		231,481	-	231,481	68	-	68	5	117	123	4,224	235,895
	DKI Jakarta		74,736	11,795	86,531	-	-	-	-	-	-	2,534	89,065
	Jawa Barat												
	Prov. Jawa Barat		60,534	72,538	133,072	687	-	687	2,342	52	2,395	-	136,153
1	Kab.	Bandung	4,897	5,907	10,805	162	-	162	195	2	197	422	11,586
2	Kab.	Bekasi	13,634	5,907	19,541	57	-	57	195	-	195	422	20,216
3	Kab.	Bogor	4,897	5,907	10,805	64	-	64	4,685	97	4,782	422	16,073
4	Kab.	Ciamis	4,897	5,907	10,805	176	-	176	195	-	195	422	11,599
5	Kab.	Cianjur	4,897	5,907	10,805	244	-	244	195	22	217	422	11,688
6	Kab.	Cirebon	4,897	5,907	10,805	63	-	63	195	-	195	422	11,485
7	Kab.	Garut	4,897	5,907	10,805	66	-	66	195	63	258	422	11,551
8	Kab.	Indramayu	11,221	12,775	23,996	124	-	124	195	-	195	422	24,737
9	Kab.	Karawang	11,325	32,437	43,762	57	-	57	195	19	214	422	44,456
10	Kab.	Kuningan	4,897	5,994	10,891	75	-	75	195	-	195	422	11,583
11	Kab.	Majalengka	5,346	6,070	11,416	87	-	87	195	-	195	422	12,121
12	Kab.	Purwakarta	4,897	5,907	10,805	166	-	166	195	0	195	422	11,588
13	Kab.	Subang	5,828	27,243	33,071	57	-	57	195	-	195	422	33,746
14	Kab.	Sukabumi	4,897	5,907	10,805	188	-	188	195	-	195	422	11,611
15	Kab.	Sumedang	4,897	5,907	10,805	77	-	77	195	-	195	422	11,500
16	Kab.	Tasikmalaya	4,897	5,907	10,805	155	-	155	195	8	203	422	11,585
17	Kota	Bandung	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
18	Kota	Bekasi	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
19	Kota	Bogor	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
20	Kota	Cirebon	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
21	Kota	Depok	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
22	Kota	Sukabumi	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
23	Kota	Tasikmalaya	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
24	Kota	Cimahi	4,897	5,907	10,805	57	-	57	195	-	195	422	11,480
25	Kota	Banjar	4,526	5,668	10,193	472	-	472	195	-	195	422	11,283
	Province + Districts in Jawa Barat		205,466	274,966	480,431	3,435	-	3,435	11,712	262	11,974	10,559	506,399
	Banten												
	Prov. Banten		-	-	-	33	-	33	-	26	26	-	59
1	Kab.	Lebak	-	-	-	27	-	27	-	7	7	422	456
2	Kab.	Pandeglang	-	-	-	52	-	52	-	69	69	422	543
3	Kab.	Serang	-	-	-	13	-	13	-	30	30	422	465
4	Kab.	Tangerang	-	-	-	13	-	13	-	-	-	422	435
5	Kota	Cilegon	-	-	-	13	-	13	-	-	-	422	435
6	Kota	Tangerang	-	-	-	13	-	13	-	-	-	422	435
	Province + Districts in Banten		-	-	-	164	-	164	-	132	132	2,534	2,830
	Jawa Tengah												
	Prov. Jawa Tengah		229	-	229	2,426	-	2,426	9	10	19	-	2,674
1	Kab.	Kendal	13	-	13	532	-	532	1	-	1	422	968
2	Kab.	Demak	13	-	13	143	-	143	1	-	1	422	579
3	Kota	Salatiga	13	-	13	143	-	143	1	-	1	422	579

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
4	Kab.	Semarang	13	-	13	176	-	176	1	-	1	422	612
5	Kab.	Grobogan	13	-	13	572	-	572	1	-	1	422	1,008
6	Kab.	Kebumen	13	-	13	165	-	165	1	-	1	422	601
7	Kab.	Tegal	13	-	13	324	-	324	1	-	1	422	760
8	Kab.	Brebes	13	-	13	372	-	372	1	-	1	422	808
9	Kab.	Purworejo	13	-	13	177	-	177	9	31	41	422	653
10	Kab.	Pekalongan	13	-	13	174	-	174	1	-	1	422	611
11	Kab.	Pemalang	13	-	13	417	-	417	1	-	1	422	853
12	Kab.	Batang	13	-	13	191	-	191	1	-	1	422	627
13	Kab.	Banyumas	13	-	13	198	-	198	1	-	1	422	634
14	Kab.	Cilacap	13	-	13	145	-	145	9	9	18	422	600
15	Kab.	Purbalingga	13	-	13	149	-	149	1	-	1	422	586
16	Kab.	Banjarnegara	13	-	13	167	-	167	1	-	1	422	603
17	Kab.	Pati	13	-	13	191	-	191	1	-	1	422	628
18	Kab.	Blora	459	-	459	2,496	-	2,496	1	-	1	422	3,378
19	Kab.	Rembang	13	-	13	646	-	646	1	-	1	422	1,082
20	Kab.	Kudus	13	-	13	143	-	143	1	-	1	422	579
21	Kab.	Jepara	13	-	13	143	-	143	1	-	1	422	580
22	Kab.	Wonosobo	13	-	13	151	-	151	1	-	1	422	588
23	Kab.	Boyolali	13	-	13	149	-	149	1	-	1	422	585
24	Kab.	Sragen	13	-	13	143	-	143	1	-	1	422	579
25	Kab.	Karanganyar	13	-	13	143	-	143	1	-	1	422	579
26	Kab.	Klaten	13	-	13	143	-	143	1	-	1	422	579
27	Kab.	Sukoharjo	13	-	13	143	-	143	1	-	1	422	579
28	Kab.	Wonogiri	13	-	13	147	-	147	1	-	1	422	583
29	Kab.	Temanggung	13	-	13	143	-	143	1	-	1	422	579

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
30	Kab.	Magelang	13	-	13	144	-	144	1	-	1	422	580
31	Kota	Magelang	13	-	13	143	-	143	1	-	1	422	579
32	Kota	Surakarta	13	-	13	143	-	143	1	-	1	422	579
33	Kota	Pekalongan	13	-	13	143	-	143	1	-	1	422	579
34	Kota	Tegal	13	-	13	143	-	143	1	-	1	422	579
35	Kota	Semarang	13	-	13	166	-	166	1	-	1	422	603
	Province + Districts in Jawa Tengah		1,147	-	1,147	12,129	-	12,129	44	51	95	14,782	28,154
	D.I. Yogyakarta												
	Prov. D.I. Yogyakarta		-	-	-	-	-	-	-	2	2	-	2
1	Kab.	Bantul	-	-	-	-	-	-	-	-	-	422	422
2	Kab.	Gunung Kidul	-	-	-	-	-	-	-	-	-	422	422
3	Kab.	Kulon Progo	-	-	-	-	-	-	-	7	7	422	430
4	Kab.	Sleman	-	-	-	-	-	-	-	-	-	422	422
5	Kota	Yogyakarta	-	-	-	-	-	-	-	-	-	422	422
	Province + Districts in D.I. Yogyakarta		-	-	-	-	-	-	-	9	9	2,112	2,121
	Jawa Timur												
	Prov. Jawa Timur		1,557	840	2,397	1,721	-	1,721	13	5	18	-	4,135
1	Kota	Surabaya	84	46	130	93	-	93	1	-	1	422	646
2	Kab.	Gresik	84	46	130	93	-	93	1	-	1	422	646
3	Kab.	Sidoarjo	84	46	130	93	-	93	1	-	1	422	646
4	Kota	Mojokerto	84	46	130	93	-	93	1	-	1	422	646
5	Kab.	Mojokerto	84	46	130	95	-	95	1	-	1	422	647

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
6	Kab.	Jombang	84	46	130	218	-	218	1	16	17	422	787
7	Kab.	Bojonegoro	1,098	865	1,963	668	-	668	1	-	1	422	3,054
8	Kab.	Tuban	-	-	-	209	-	209	1	-	1	422	632
9	Kab.	Lamongan	84	46	130	137	-	137	1	-	1	422	690
10	Kab.	Pamekasan	84	46	130	93	-	93	1	-	1	422	646
11	Kab.	Sampang	84	46	130	93	-	93	1	-	1	422	646
12	Kab.	Sumenep	1,696	1,083	2,779	114	-	114	1	-	1	422	3,316
13	Kab.	Bangkalan	145	545	690	93	-	93	1	-	1	422	1,206
14	Kota	Madiun	84	46	130	93	-	93	1	-	1	422	646
15	Kab.	Madiun	84	46	130	477	-	477	1	-	1	422	1,030
16	Kab.	Ponorogo	84	46	130	384	-	384	1	-	1	422	936
17	Kab.	Pacitan	84	46	130	97	-	97	1	1	2	422	651
18	Kab.	Ngawi	84	46	130	222	-	222	1	-	1	422	775
19	Kab.	Magetan	84	46	130	122	-	122	1	-	1	422	675
20	Kota	Kediri	84	46	130	93	-	93	1	-	1	422	646
21	Kab.	Kediri	84	46	130	149	-	149	1	-	1	422	702
22	Kab.	Nganjuk	84	46	130	256	-	256	1	-	1	422	809
23	Kota	Blitar	84	46	130	93	-	93	1	-	1	422	646
24	Kab.	Blitar	84	46	130	144	-	144	1	-	1	422	697
25	Kab.	Tulungagung	84	46	130	103	-	103	1	-	1	422	656
26	Kab.	Trenggalek	84	46	130	129	-	129	1	-	1	422	681
27	Kota	Malang	84	46	130	93	-	93	1	-	1	422	646
28	Kab.	Malang	84	46	130	443	-	443	1	-	1	422	996
29	Kota	Pasuruan	84	46	130	93	-	93	1	-	1	422	646
30	Kab.	Pasuruan	84	46	130	98	-	98	1	-	1	422	651
31	Kota	Probolinggo	84	46	130	93	-	93	1	-	1	422	646

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
32	Kab.	Probolinggo	84	46	130	155	-	155	1	-	1	422	708
33	Kab.	Lumajang	84	46	130	93	-	93	1	-	1	422	646
34	Kab.	Jember	84	46	130	479	-	479	1	-	1	422	1,032
35	Kab.	Bondowoso	84	46	130	93	-	93	1	-	1	422	646
36	Kab.	Situbondo	84	46	130	93	-	93	1	2	3	422	648
37	Kab.	Banyuwangi	84	46	130	600	-	600	25	0	26	422	1,178
38	Kota	Batu	84	46	130	94	-	94	1	-	1	422	647
	Province + Districts in Jawa Timur		7,357	4,881	12,239	8,604	-	8,604	64	25	88	16,049	36,980
	Kalimantan Barat												
	Prov. Kalimantan Barat		-	-	-	2,589	-	2,589	11	144	155	-	2,744
1	Kab.	Bengkayang	-	-	-	623	-	623	14	4	18	422	1,063
2	Kab.	Kapuas Hulu	-	-	-	948	-	948	2	185	188	422	1,558
3	Kab.	Ketapang	-	-	-	2,193	-	2,193	2	39	41	422	2,657
4	Kab.	Landak	-	-	-	585	-	585	2	-	2	422	1,010
5	Kab.	Pontianak	-	-	-	920	-	920	2	-	2	422	1,344
6	Kab.	Sambas	-	-	-	596	-	596	10	3	13	422	1,031
7	Kab.	Sanggau	-	-	-	611	-	611	2	343	346	422	1,379
8	Kab.	Sintang	-	-	-	2,697	-	2,697	2	2	5	422	3,124
9	Kota	Pontianak	-	-	-	608	-	608	2	-	2	422	1,032
10	Kota	Singkawang	-	-	-	575	-	575	2	-	2	422	1,000
	Province + Districts in Kalimantan Barat		-	-	-	12,945	-	12,945	53	720	774	4,224	17,942
	Kalimantan Tengah												
	Prov. Kalimantan Tengah		-	-	-	20,806	1,399	22,205	-	462	462	-	22,667
1	Kab.	Barito Selatan	-	-	-	4,505	-	4,505	-	0	0	422	4,928
2	Kab.	Barito Timur	-	-	-	3,202	-	3,202	-	-	-	422	3,625

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
3	Kab.	Barito Utara	-	-	-	6,275	-	6,275	-	70	70	422	6,768
4	Kab.	Murung Raya	-	-	-	7,425	-	7,425	-	1,399	1,399	422	9,247
5	Kab.	Kapuas	-	-	-	5,748	-	5,748	-	79	79	422	6,249
6	Kab.	Gunung Mas	-	-	-	4,414	-	4,414	-	43	43	422	4,880
7	Kab.	Pulang Pisau	-	-	-	3,201	-	3,201	-	-	-	422	3,623
8	Kab.	Kotawaringin Barat	-	-	-	5,221	-	5,221	-	13	13	422	5,656
9	Kab.	Sukamara	-	-	-	3,241	-	3,241	-	-	-	422	3,663
10	Kab.	Lamandau	-	-	-	5,727	5,594	11,321	-	4	4	422	11,748
11	Kab.	Kotawaringin Timur	-	-	-	8,683	-	8,683	-	32	32	422	9,138
12	Kab.	Katingan	-	-	-	14,597	-	14,597	-	208	208	422	15,227
13	Kab.	Seruyan	-	-	-	7,761	-	7,761	-	-	-	422	8,183
14	Kota	Palangkaraya	-	-	-	3,225	-	3,225	-	-	-	422	3,648
	Province + Districts in Kalimantan Tengah		-	-	-	104,032	6,993	111,025	-	2,312	2,312	5,913	119,249
	Kalimantan Selatan												
	Prov. Kalimantan Selatan		-	-	-	1,718	141	1,858	40,385	682	41,067	-	42,925
1	Kab.	Banjar	-	-	-	809	-	809	10,694	241	10,936	422	12,167
2	Kab.	Barito Kuala	-	-	-	517	-	517	6,731	-	6,731	422	7,670
3	Kab.	Hulu Sungai Tengah	-	-	-	286	-	286	6,731	68	6,799	422	7,507
4	Kab.	Hulu Sungai Selatan	-	-	-	301	-	301	7,135	246	7,381	422	8,105
5	Kab.	Hulu Sungai Utara	-	-	-	475	-	475	6,731	-	6,731	422	7,628

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
6	Kab.	Kota Baru	-	-	-	850	-	850	33,452	736	34,188	422	35,460
7	Kab.	Tabalong	-	-	-	1,241	563	1,804	16,492	107	16,599	422	18,825
8	Kab.	Tanah Laut	-	-	-	468	-	468	20,517	844	21,361	422	22,251
9	Kab.	Tapin	-	-	-	288	-	288	9,399	136	9,535	422	10,245
10	Kota	Banjarmasin	-	-	-	322	-	322	6,731	-	6,731	422	7,475
11	Kota	Banjar Baru	-	-	-	290	-	290	6,731	38	6,769	422	7,481
12	Kab.	Balangan	-	-	-	371	-	371	16,212	161	16,373	422	17,166
13	Kab.	Tanah Bumbu	-	-	-	654	-	654	13,984	151	14,135	422	15,212
	Province + Districts in Kalimantan Selatan		-	-	-	8,588	704	9,292	201,925	3,409	205,334	5,491	220,116
	Kalimantan Timur												
	Prov. Kalimantan Timur		289,234	898,147	1,187,381	36,993	3,665	40,658	92,925	946	93,871	-	1,321,911
1	Prov.	Berau	46,400	144,633	191,032	9,789	-	9,789	25,504	448	25,952	422	227,196
2	Kab.	Bulungan	46,628	144,633	191,261	18,376	7,970	26,345	15,487	140	15,627	422	233,656
3	Kab.	Kutai (Kertanegara)	300,200	1,060,545	1,360,745	11,719	-	11,719	37,411	1,440	38,851	422	1,411,737
4	Kab.	Kutai Barat	46,400	144,633	191,032	24,207	3,024	27,231	34,026	534	34,560	422	253,246
5	Kab.	Kutai Timur	47,065	144,633	191,698	17,620	-	17,620	103,727	675	104,402	422	314,143
6	Kab.	Malinau	46,400	144,633	191,032	11,214	2,948	14,162	15,487	-	15,487	422	221,104
7	Kab.	Nunukan	46,400	144,633	191,032	15,536	-	15,536	16,258	62	16,320	422	223,310
8	Kab.	Pasir	46,400	144,633	191,032	8,683	720	9,403	41,008	266	41,274	422	242,132
9	Kab.	Penajem Paser Utara	57,641	145,751	203,392	6,166	-	6,166	15,487	0	15,488	422	225,467
10	Kab.	Balikpapan	46,400	144,633	191,032	6,166	-	6,166	15,487	2	15,489	422	213,109
11	Kota	Bontang	47,084	146,566	193,650	6,166	-	6,166	15,487	3	15,491	422	215,728

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
12	Kota	Samarinda	51,034	149,476	200,510	6,166	-	6,166	20,841	216	21,057	422	228,155
13	Kota	Tarakan	47,156	144,074	191,229	6,166	-	6,166	15,487	-	15,487	422	213,305
	Province + Districts in Kalimantan Timur		1,164,440	3,701,620	4,866,060	184,965	18,327	203,292	464,624	4,732	469,356	5,491	5,544,199
	Sulawesi Utara												
	Prov. Sulawesi Utara		-	-	-	182	-	182	949	120	1,069	-	1,251
1	Kab.	Bolaang Mongondow	-	-	-	361	-	361	271	404	676	422	1,459
2	Kab.	Minahasa	-	-	-	52	-	52	271	17	288	422	763
3	Kab.	Sangihe Talaud	-	-	-	52	-	52	271	1	272	422	746
4	Kab.	Kep. Talaud	-	-	-	52	-	52	392	-	392	422	866
5	Kab.	Bitung	-	-	-	52	-	52	271	0	272	422	746
6	Kota	Manado	-	-	-	52	-	52	271	0	271	422	746
7	Kab.	Minahasa Selatan	-	-	-	55	-	55	1,899	56	1,955	422	2,432
8	Kota	Tomohon	-	-	-	52	-	52	271	-	271	422	745
	Province + Districts in Sulawesi Utara		-	-	-	908	-	908	4,867	599	5,466	3,379	9,753
	Gorontalo												
	Prov. Gorontalo		-	-	-	105	548	653	-	4	4	-	656
1	Kab.	Boalemo	-	-	-	54	2,191	2,245	-	4	4	422	2,671
2	Kab.	Gorontalo	-	-	-	150	-	150	-	11	11	422	584
3	Kota	Gorontalo	-	-	-	53	-	53	-	-	-	422	475
4	Kab.	Pohuwato	-	-	-	92	-	92	-	-	-	422	514
5	Kota	Bone Bolango	-	-	-	71	-	71	-	-	-	422	494

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Province + Districts in Gorontalo		-	-	-	525	2,738	3,264	-	19	19	2,112	5,394
	Sulawesi Tengah												
	Prov. Sulawesi Tengah		-	-	-	1,548	542	2,090	0	76	76	-	2,166
1	Kab.	Banggai	-	-	-	1,087	2,166	3,253	0	-	0	422	3,675
2	Kab.	Banggai Kepulauan	-	-	-	387	-	387	0	-	0	422	809
3	Kab.	Buol	-	-	-	770	-	770	0	11	11	422	1,204
4	Kab.	Donggala	-	-	-	431	-	431	0	15	15	422	868
5	Kab.	Parigi Moutong	-	-	-	645	-	645	0	36	36	422	1,104
6	Kab.	Morowali	-	-	-	989	-	989	0	213	213	422	1,624
7	Kab.	Poso	-	-	-	1,066	-	1,066	0	2	2	422	1,491
8	Kab.	Toli Toli	-	-	-	431	-	431	0	10	10	422	863
9	Kota	Palu	-	-	-	387	-	387	0	18	18	422	827
	Province + Districts in Sulawesi Tengah		-	-	-	7,741	2,708	10,448	1	381	382	3,801	14,632
	Sulawesi Selatan												
	Prov. Sulawesi Selatan		-	-	-	941	183	1,124	11,659	169	11,829	-	12,952
1	Kab.	Bantaeng	-	-	-	70	-	70	864	-	864	422	1,356
2	Kab.	Barru	-	-	-	599	-	599	864	-	864	422	1,885
3	Kab.	Bone	-	-	-	70	-	70	864	-	864	422	1,356
4	Kab.	Bulukumba	-	-	-	70	-	70	864	-	864	422	1,356
5	Kab.	Enrekang	-	-	-	70	-	70	864	-	864	422	1,356

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
6	Kab.	Gowa	-	-	-	70	-	70	864	-	864	422	1,356
7	Kab.	Jeneponto	-	-	-	70	-	70	864	-	864	422	1,356
8	Kab.	Luwu	-	-	-	183	-	183	864	42	905	422	1,511
9	Kab.	Luwu Utara	-	-	-	72	-	72	864	-	864	422	1,358
10	Kab.	Majene	-	-	-	87	-	87	864	-	864	422	1,373
11	Kab.	Mamuju	-	-	-	845	368	1,213	864	-	864	422	2,499
12	Kab.	Maros	-	-	-	70	-	70	864	-	864	422	1,356
13	Kab.	Pangkep (Pangkajene Kep.)	-	-	-	70	-	70	864	-	864	422	1,356
14	Kab.	Pinrang	-	-	-	70	-	70	864	-	864	422	1,356
15	Kab.	Polewali Mamasa	-	-	-	75	-	75	864	-	864	422	1,361
16	Kab.	Mamasa	-	-	-	70	-	70	864	-	864	422	1,356
17	Kab.	Selayar	-	-	-	70	-	70	864	-	864	422	1,356
18	Kab.	Sidrap (Sidenreng Rappang)	-	-	-	76	-	76	864	-	864	422	1,362
19	Kab.	Sinjai	-	-	-	70	-	70	864	-	864	422	1,356
20	Kab.	Soppeng	-	-	-	70	-	70	864	-	864	422	1,356
21	Kab.	Takalar	-	-	-	70	-	70	864	-	864	422	1,356
22	Kab.	Tana Toraja	-	-	-	70	-	70	864	-	864	422	1,356
23	Kab.	Wajo	-	-	-	70	-	70	864	-	864	422	1,356
24	Kota	Pare-pare	-	-	-	70	-	70	864	-	864	422	1,356
25	Kota	Makassar	-	-	-	79	-	79	864	-	864	422	1,365
26	Kota	Palopo	-	-	-	70	-	70	864	-	864	422	1,356
27	Kab.	Luwu Timur	-	-	-	125	-	125	23,319	635	23,954	422	24,501

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
28	Kab.	Mamuju Utara	-	-	-	366	365	731	864	-	864	422	2,017
	Province + Districts in Sulawesi Selatan		-	-	-	4,703	916	5,618	58,297	846	59,143	11,826	76,588
	Sulawesi Tenggara												
	Prov. Sulawesi Tenggara		-	-	-	619	-	619	1,905	142	2,047	-	2,666
1	Kab.	Buton	-	-	-	310	-	310	635	31	666	422	1,398
2	Kab.	Kendari	-	-	-	750	-	750	649	192	841	422	2,013
3	Kab.	Kolaka	-	-	-	387	-	387	3,796	345	4,142	422	4,951
4	Kab.	Muna	-	-	-	367	-	367	635	-	635	422	1,424
5	Kota	Kendari	-	-	-	206	-	206	635	-	635	422	1,264
6	Kota	Bau-bau	-	-	-	206	-	206	635	-	635	422	1,264
7	Kab.	Konawe Selatan	-	-	-	249	-	249	635	-	635	422	1,307
	Province + Districts in Sulawesi Tenggara		-	-	-	3,096	-	3,096	9,526	709	10,235	2,956	16,287
	Bali												
	Prov. Bali		-	-	-	-	-	-	-	-	-	-	-
1	Kab.	Badung	-	-	-	-	-	-	-	-	-	422	422
2	Kab.	Bangli	-	-	-	-	-	-	-	-	-	422	422
3	Kab.	Buleleng	-	-	-	-	-	-	-	-	-	422	422
4	Kab.	Gianyar	-	-	-	-	-	-	-	-	-	422	422

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
5	Kab.	Jembrana	-	-	-	-	-	-	-	-	-	422	422
6	Kab.	Karangasem	-	-	-	-	-	-	-	-	-	422	422
7	Kab.	Klungkung	-	-	-	-	-	-	-	-	-	422	422
8	Kab.	Tabanan	-	-	-	-	-	-	-	-	-	422	422
9	Kota	Denpasar	-	-	-	-	-	-	-	-	-	422	422
	Province + Districts in Bali		-	-	-	-	-	-	-	-	-	3,801	3,801
	Nusa Tenggara Barat												
	Prov. Nusa Tenggara Barat		-	-	-	218	-	218	31,340	410	31,750	-	31,969
1	Kab.	Kab. Bima	-	-	-	168	-	168	8,954	17	8,971	422	9,562
2	Kab.	Kab. Dompu	-	-	-	167	-	167	8,954	6	8,960	422	9,550
3	Kab.	Kab. Lombok Barat	-	-	-	62	-	62	8,954	148	9,102	422	9,587
4	Kab.	Kab. Lombok Tengah	-	-	-	62	-	62	8,954	-	8,954	422	9,439
5	Kab.	Kab. Lombok Timur	-	-	-	63	-	63	8,954	-	8,954	422	9,439
6	Kab.	Kab. Sumbawa	-	-	-	213	-	213	62,681	1,469	64,150	422	64,785
7	Kota	Kota Mataram	-	-	-	75	-	75	8,954	-	8,954	422	9,452
8	Kota	Kota Bima	-	-	-	62	-	62	8,954	-	8,954	422	9,439
	Province + Districts in Nusa Tenggara Barat		-	-	-	1,092	-	1,092	156,702	2,049	158,751	3,379	163,222

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Nusa Tenggara Timur												
	Prov. Nusa Tenggara Timur		-	-	-	46	-	46	16	3	19	-	65
1	Kab.	Alor	-	-	-	11	-	11	2	-	2	422	435
2	Kab.	Belu	-	-	-	6	-	6	2	-	2	422	431
3	Kab.	Ende	-	-	-	6	-	6	2	-	2	422	431
4	Kab.	Flores Timur	-	-	-	11	-	11	2	-	2	422	436
5	Kab.	Kupang	-	-	-	14	-	14	2	-	2	422	438
6	Kab.	Rote Ndao	-	-	-	6	-	6	2	-	2	422	431
7	Kab.	Lembata	-	-	-	6	-	6	2	-	2	422	431
8	Kab.	Manggarai	-	-	-	8	-	8	32	11	43	422	473
9	Kab.	Ngada	-	-	-	6	-	6	2	-	2	422	431
10	Kab.	Sikka	-	-	-	48	-	48	2	-	2	422	472
11	Kab.	Sumba Barat	-	-	-	11	-	11	2	-	2	422	436
12	Kab.	Sumba Timur	-	-	-	12	-	12	2	-	2	422	436
13	Kab.	Timor Tengah Selatan	-	-	-	12	-	12	2	-	2	422	437
14	Kab.	Timor Tengah Utara	-	-	-	8	-	8	2	-	2	422	432
15	Kota	Kupang	-	-	-	15	-	15	2	-	2	422	439
17	Kab.	Manggarai Barat	-	-	-	6	-	6	2	-	2	422	431
	Province + Districts in Nusa Tenggara Timur		-	-	-	232	-	232	80	13	93	6,758	7,083

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Maluku												
	Prov. Maluku		507	-	507	2,693	-	2,693	-	20	20	-	3,220
1	Kab.	Maluku Tengah	1,015	-	1,015	1,789	-	1,789	-	-	-	422	3,226
2	Kab.	Maluku Tenggara	254	-	254	1,348	-	1,348	-	79	79	422	2,103
3	Kab.	Maluku Tenggara Barat	254	-	254	1,346	-	1,346	-	-	-	422	2,022
4	Kab.	Pulau Buru	254	-	254	4,941	-	4,941	-	-	-	422	5,617
5	Kota	Ambon	254	-	254	1,346	-	1,346	-	-	-	422	2,022
	Province + Districts in Maluku		2,537	-	2,537	13,463	-	13,463	-	99	99	2,112	18,211
	Maluku Utara												
	Prov. Maluku Utara		-	-	-	6,904	237	7,141	8,067	201	8,268	-	15,409
1	Kab.	Halmahera Barat	-	-	-	2,075	-	2,075	2,305	51	2,356	422	4,853
2	Kab.	Halmahera Tengah	-	-	-	2,896	949	3,845	4,639	109	4,748	422	9,015
3	Kota	Ternate	-	-	-	1,972	-	1,972	2,305	-	2,305	422	4,700
4	Kab.	Halmahera Timur	-	-	-	2,778	-	2,778	11,896	525	12,421	422	15,621
5	Kota	Tidore Kepulauan	-	-	-	2,354	-	2,354	2,305	-	2,305	422	5,081
6	Kab.	Kepulauan Sula	-	-	-	5,723	-	5,723	2,305	-	2,305	422	8,450
7	Kab.	Halmahera Selatan	-	-	-	7,609	-	7,609	2,305	69	2,374	422	10,405
8	Kab.	Halmahera Utara	-	-	-	2,207	-	2,207	4,209	49	4,258	422	6,887
	Province + Districts in Maluku Utara		-	-	-	34,518	1,186	35,704	40,336	1,003	41,339	3,379	80,422

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Papua												
	Prov. Papua (a)		878	-	878	4,974	-	4,974	53,514	431	53,945	-	59,797
	Special Autonomy (b)		16,402	-	16,402	-	-	-	-	-	-	-	16,402
	Total Province Papua (with Special Autonomy) (= a + b)		17,281	-	17,281	4,974	-	4,974	53,514	431	53,945	-	76,199
1	Kab.	Biak Numfor	135	-	135	901	-	901	-	-	-	422	1,459
2	Kab.	Jayapura	135	-	135	2,200	-	2,200	-	461	461	422	3,218
3	Kab.	Jayawijaya	135	-	135	553	-	553	-	99	99	422	1,209
4	Kab.	Merauke	135	-	135	1,170	-	1,170	-	-	-	422	1,728
5	Kab.	Mimika	135	-	135	2,695	-	2,695	107,028	561	107,589	422	110,842
6	Kab.	Nabire	135	-	135	1,290	-	1,290	-	14	14	422	1,861
7	Kab.	Paniai	135	-	135	553	-	553	-	532	532	422	1,642
8	Kab.	Puncak Jaya	135	-	135	553	-	553	-	21	21	422	1,131
9	Kab.	Yapen Waropen	135	-	135	622	-	622	-	36	36	422	1,215
10	Kota	Jayapura	135	-	135	553	-	553	-	-	-	422	1,110
11	Kab.	Sarmi	-	-	-	1,031	-	1,031	-	-	-	422	1,453
12	Kab.	Keerom	-	-	-	587	-	587	-	-	-	422	1,010
13	Kab.	Yahukimo	-	-	-	553	-	553	-	-	-	422	975
14	Kab.	Pegunungan Bintang	-	-	-	553	-	553	-	-	-	422	975
15	Kab.	Tolikara	-	-	-	553	-	553	-	-	-	422	975
16	Kab.	Boven Digoel	-	-	-	3,870	-	3,870	-	-	-	422	4,293
17	Kab.	Mappi	-	-	-	553	-	553	-	-	-	422	975
18	Kab.	Asmat	-	-	-	554	-	554	-	-	-	422	976
19	Kab.	Waropen	-	-	-	553	-	553	-	-	-	422	975

			Oil and Gas			Forestry			Mining			Fishery	Total
			Oil	Gas	Subtotal	PSDH	IHPH	Subtotal	Royalty	Landrent	Subtotal		
			(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)	(8)	(9)=(7)+(8)	(10)	
	Province + Districts in Papua		18,632	-	18,632	24,869	-	24,869	160,541	2,156	162,697	8,025	214,223
	Irian Jaya Barat												
	Prov. Irian Jaya Barat		-	-	-	4,139	234	4,373	-	82	82	-	4,455
1	Kab.	Sorong	19,488	285	19,773	2,801	-	2,801	-	11	11	422	23,007
2	Kab.	Manokwari	135	-	135	1,689	-	1,689	-	-	-	422	2,246
3	Kab.	Fak-fak	135	-	135	1,306	-	1,306	-	317	317	422	2,181
4	Kota	Sorong	135	-	135	1,035	-	1,035	-	-	-	422	1,592
5	Kab.	Sorong Selatan	-	-	-	1,423	-	1,423	-	-	-	422	1,845
6	Kab.	Raja Ampat	-	-	-	1,861	-	1,861	-	-	-	422	2,283
7	Kab.	Teluk Bintuni	2,214	42	2,256	1,947	938	2,885	-	-	-	422	5,563
8	Kab.	Teluk Wondama	-	-	-	-	-	-	-	-	-	-	-
9	Kab.	Kaimana	-	-	-	2,909	-	2,909	-	-	-	422	3,331
	Province + Districts in Irian Jaya Barat		22,108	327	22,434	19,109	1,172	20,281	-	410	410	3,379	46,505
		Total - Indonesia	8,122,973	6,595,916	14,718,889	593,823	37,614	631,437	1,272,234	35,197	1,307,431	175,278	16,833,035

Source: Direktorat Dana Perimbangan (processed) www.djpkpd.go.id/dp/bagi_hasil/rekap_realisasi_dbh_sda_ta_2004.pdf

The Center for International Forestry Research (CIFOR) is a leading international forestry research organization established in 1993 in response to global concerns about the social, environmental, and economic consequences of forest loss and degradation. CIFOR is dedicated to developing policies and technologies for sustainable use and management of forests, and for enhancing the well-being of people in developing countries who rely on tropical forests for their livelihoods. CIFOR is one of the 15 Future Harvest centres of the Consultative Group on International Agricultural Research (CGIAR). With headquarters in Bogor, Indonesia, CIFOR has regional offices in Brazil, Burkina Faso, Cameroon and Zimbabwe, and it works in over 30 other countries around the world.

Donors

CIFOR receives its major funding from governments, international development organizations, private foundations and regional organizations. In 2005, CIFOR received financial support from Australia, Asian Development Bank (ADB), Belgium, Brazil, Canada, China, Centre de coopération internationale en recherche agronomique pour le développement (CIRAD), Cordaid, Conservation International Foundation (CIF), European Commission, Finland, Food and Agriculture Organization of the United Nations (FAO), Ford Foundation, France, German Agency for Technical Cooperation (GTZ), German Federal Ministry for Economic Cooperation and Development (BMZ), Indonesia, International Development Research Centre (IDRC), International Fund for Agricultural Development (IFAD), International Tropical Timber Organization (ITTO), Israel, Italy, The World Conservation Union (IUCN), Japan, Korea, Netherlands, Norway, Netherlands Development Organization, Overseas Development Institute (ODI), Peruvian Secretariat for International Cooperation (RSCI), Philippines, Spain, Sweden, Swedish University of Agricultural Sciences (SLU), Switzerland, Swiss Agency for the Environment, Forests and Landscape, The Overbrook Foundation, The Nature Conservancy (TNC), Tropical Forest Foundation, Tropenbos International, United States, United Kingdom, United Nations Environment Programme (UNEP), World Bank, World Resources Institute (WRI) and World Wide Fund for Nature (WWF).

Since the collapse of Soeharto's New Order regime in May 1998, Indonesia's national, provincial, and district governments have engaged in an intense struggle over how authority and the power embedded in it, should be shared. How this ongoing struggle over authority in the forestry sector will ultimately play out is of considerable significance due to the important role that Indonesia's forests play in supporting rural livelihoods, generating economic revenues, and providing environmental services.

This book examines the process of forestry sector decentralization that has occurred in post-Soeharto Indonesia, and assesses the implications of more recent efforts by the national government to recentralize administrative authority over forest resources. It aims to describe the dynamics of decentralization in the forestry sector, to document major changes that occurred as district governments assumed a greater role in administering forest resources, and to assess what the ongoing struggle among Indonesia's national, provincial, and district governments is likely to mean for forest sustainability, economic development at multiple levels, and rural livelihoods.

Drawing from primary research conducted by numerous scientists both at CIFOR and its many Indonesian and international partner institutions since 2000, this book sketches the sectoral context for current governmental reforms by tracing forestry development and the changing structure of forest administration from Indonesia's independence in 1945 to the fall of Soeharto's New Order regime in 1998. The authors further examine the origins and scope of Indonesia's decentralization laws in order to describe the legal-regulatory framework within which decentralization has been implemented both at the macro-level and specifically within the forestry sector. This book also analyses the decentralization of Indonesia's fiscal system and describes the effects of the country's new fiscal balancing arrangements on revenue flows from the forestry sector, and describes the dynamics of district-level timber regimes following the adoption of Indonesia's decentralization laws. Finally, this book also examines the real and anticipated effects of decentralization on land tenure and livelihood security for communities living in and around forested areas, and summarizes major findings and options for possible interventions to strengthen the forestry reform efforts currently underway in Indonesia.

ISBN 979-24-4649-4

Australian Government
Australian Center for International Agricultural Research

DFID Department for International Development