

Launching the Partnership and Assessing the Challenges Ahead

Learning Lessons Year 1 and 2
Forest Partnership: From Kalimantan Districts
to the Global Market Place

Ferdinandus Agung Prasetyo
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Preface

The Forest Partnership: From Kalimantan Districts to the Global Market Place (Forest Partnership Programme, FPP) is a collaborative research initiative that traces back its origin to the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002. At this important international forum, the Dutch Minister of Development Cooperation made a commitment to support the objectives of the Asia Forest Partnership (AFP) and through it facilitate the activities of the FPP. The FPP builds on past and ongoing initiatives in the forestry sector in three districts in Kalimantan seeking to generate the optimal uptake of the results in target districts and provinces. Collaboration and learning from past experiences are indeed key, given that forestry problems in Indonesia are cross-sectoral which places them beyond the capacity of any single organisation. The FPP fuses the capacities of key project partners (WWF, TBI, CIFOR) as well national stakeholders with the aim to assist local government institutions in improving forest and natural resource governance.

One of the key components in the FPP is sharing of lessons learned and monitoring. The reporting of the lessons learned is important due to the fact that past initiatives to improve forest governance have tended to focus on the improvement process itself, with little attention is paid to the learning process that the stakeholders have to go through in order to implement and adjust to changes. The lessons learned report is also part of the process of highlighting achievements as well as challenges faced by the programme. The document is not a final product that covers the whole process. Rather, it serves as an ongoing monitoring tool, reviewing key issues and evaluating the progress made by the programme. Because this is the first lessons learned report under the FPP, the emphasis is placed on presenting the baseline situation on relevant issues against which the programme's progress is assessed.

Each chapter of the report is organised to provide description of the environment in which FPP has been operating, the activities of FPP as the response to the problems,

milestones achieved, as well as recommendations to move forward. Specifically, the report will present the current state of affairs on forest governance, international markets and forest conversion as the baseline situation in Kalimantan. In addition, the report presents the activities of three modules in terms of FPP's activities – what has been done and achieved over the period under discussion. The report also assesses the project achievements based on the logframe, aiming for a 'reality check' against the assumptions. This involves analysing which assumptions hold and which do not and discussing the resultant implications for the objectives and indicators. This discussion is structured into tables for each module.

The lessons learned report is a product of collaboration between the organisations leading the project – CIFOR, Tropenbos Indonesia (TBI) and WWF as well as with partners from the government, academia and NGOs. The collaboration at multiple levels has been key and without it this lessons learned report would not have been possible. We would like to express our gratitude to a number of organisations for their contributions to this report. Specifically, we would like to thank Yayasan Konservasi Borneo in Pontianak, BIOMA in Samarinda as well as Kresno Dwi Santosa (CIFOR coordinator of activities in Malinau Research Forest) for their participation, data collection and monitoring in three target districts.

All in all, forest governance, international markets and forest conversion are dynamic processes where different actors interact to generate benefits from forest resources. As a result, each has influenced or changed the condition of forest in Kalimantan to some extent. We expect the report to be part of this process making a contribution towards "improved forest governance and sustainable forest management" – the stated goal of the project.

Table of Contents

| | |
|--|-----------|
| Preface | iii |
| Abbreviations and Acronyms | vii |
| Glossary | xi |
| Chapter 1 Introduction | 1 |
| 1.2 Aims of the learning process approach and reports | 2 |
| 1.3 Structure of this report | 3 |
| Chapter 2 Methods and Implementation | 4 |
| 2.1 Conceptual framework | 4 |
| 2.2 Work plan, activities and their implementation | 5 |
| Chapter 3 Situation at National and District Levels | 6 |
| 3.1 Developments at national level | 6 |
| 3.2 Developments in the three pilot districts | 43 |
| Chapter 4 Current Status and Major Milestones | 53 |
| 4.1 Phases of the Programme | 53 |
| 4.2 Major milestones of Phase 1 (July 2004 to December 2005) and Phase 2 (January–March 2006) | 54 |
| Chapter 5 Recommendations and Ways Forward | 58 |
| References | 60 |
| Annex I. Activities involved in the preparation of the report of lessons learned | 64 |
| Annex II. Logical framework of the Modules in the Forest Partnership Programme | 65 |

List of Tables

| | | |
|-------------|---|----|
| Table 3.1. | Forest concessions (HPHs) on 5 major islands of Indonesia (1994 to 2003) | 7 |
| Table 3.2. | Structure of cost management for natural forest according to location/zone, 1998–2001 | 10 |
| Table 3.3. | Summary for the Foundations | 18 |
| Table 3.4. | Summary for Tier-1 | 25 |
| Table 3.5. | Summary for Tier-2 | 31 |
| Table 3.6. | Number of HPHs assessed by Smart-Wood and other FSC certifiers | 35 |
| Table 3.7. | HPH assessment results | 35 |
| Table 3.8. | Summary for Tier-3 | 39 |
| Table 3.9. | Summary for Tier-4 | 41 |
| Table 3.10. | Summary for Tier-5 | 43 |
| Table 3.11. | Land and forest use in Kapuas Hulu | 45 |
| Table 3.12. | Land and forest use in Malinau | 47 |
| Table 3.13. | Land allocation in Pasir | 50 |
| Table 3.14. | Forestry-based industries in Pasir | 51 |
| Table 3.15. | Non-forest use land (KBNK) allocated for plantations in 2004 | 51 |

Abbreviations and Acronyms

| | |
|---------|--|
| AAC | Annual Allowable Cut |
| AF&PA | American Forest and Paper Association |
| AFP | Asia Forest Partnership |
| APHI | <i>Asosiasi Pengusaha Hutan Indonesia</i> (Indonesian Association for Forest Concession Holders) |
| APKI | <i>Asosiasi Pulp dan Kertas Indonesia</i> (Indonesian Pulp and Paper Association) |
| APKINDO | <i>Asosiasi Panel Kayu Indonesia</i> (Indonesian Wood Panel Association) |
| B&Q | Block & Quayle |
| Bappeda | <i>Badan Perencanaan Pembangunan Daerah</i> (District Development Planning Agency) |
| BI | <i>Bank Indonesia</i> (Indonesian central bank) |
| BMP | best management practice |
| BPK | <i>Bina Produksi Kehutanan</i> (Forest Production and Development) |
| BPS | <i>Biro Pusat Statistik</i> (Central Statistical Agency) |
| CAR | Corrective Action Request |
| CBFM | Community-based Forest Management |
| CGIF | Consultative Group on Indonesian Forestry |
| CIFOR | Center for International Forestry Research |
| CITES | Convention on International Trade in Endangered Species of Wild Flora and Fauna |
| CoC | Chain of Custody |
| CSR | Corporate Social Responsibility |
| CWG | Criteria Working Group |
| DAS | <i>Daerah Aliran Sungai</i> (Watershed) |
| DFID | UK Department for International Development |
| DGIS | <i>Directoraat-Generaal Internationale Samenwerking</i> (Directorate |

| | |
|--------|--|
| | General for International Cooperation, The Netherlands) |
| Diklat | <i>Pendidikan dan Latihan</i> (Education and Training) |
| DJK | <i>Dana Jaminan Kinerja</i> (Performance Guarantee Fund) |
| DKN | <i>Dewan Kehutanan Nasional</i> (National Forestry Council) |
| DIPH | <i>Dana Investasi Pelestarian Hutan</i> (Investment Fund for Forest Conservation) |
| DPK | <i>Dewan Penentu Kebijakan</i> (Policy Decision Assembly) |
| DR | <i>Dana Reboisasi</i> (Reforestation Fund) |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FLEG | Forest Law Enforcement and Governance |
| FMU | Forest Management Unit |
| FPP | Forest Partnership Programme |
| FSC | Forest Stewardship Council |
| FTN | Forest Trade Network |
| GAPKI | <i>Gabungan Pengusaha Kelapa Sawit Indonesia</i> (Indonesian Association of Palm Oil Producers) |
| GDP | Gross Domestic Product |
| GFTN | Global Forest Trade Network |
| GOI | Government of Indonesia |
| GTZ | <i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> (German international cooperation enterprise for sustainable development) |
| ha | hectares |
| HCVF | High Conservation Value Forest |
| HoB | Heart of Borneo |
| HP | <i>Hutan Produksi</i> (Production Forest) |
| HPH | <i>Hak Pengusahaan Hutan</i> (Forest Concession) |
| HPT | <i>Hutan Produksi Terbatas</i> (Limited Production Forest) |
| HRD | Human Resources Development |
| HTI | <i>Hutan Tanaman Industri</i> (Forest Plantation) |
| IIUPH | <i>Iuran Ijin Usaha Pemanfaatan Hutan</i> (Forest Utilisation Business Permit Fees) |
| IPB | <i>Institut Pertanian Bogor</i> (Bogor Agricultural University) |
| IPPK | <i>Ijin Pemanfaatan dan Pemungutan Kayu</i> (Small-Scale Logging Concession) |
| ISO | International Organization for Standardization |
| ITTO | International Tropical Timber Organization |
| IUPHHK | <i>Ijin Usaha Pemanfaatan Hasil Hutan Kayu</i> (Forest Concession) |
| JCP | Joint Certification Programme |
| KBNK | <i>Kawasan Budidaya Non Kehutanan</i> (Non-Forest Use Land) |
| KKS | <i>Kelompok Kerja Sertifikasi</i> (Certification Working Group) |
| KSU | <i>Koperasi Serba Usaha</i> (multipurpose, or multiactivity, cooperatives) |

| | |
|---------------|--|
| KYC | Know Your Customer |
| LATIN | <i>Lembaga Alam Tropika Indonesia</i> (The Indonesian Tropics Institute) |
| LEI | <i>Lembaga Ekolabel Indonesia</i> (Indonesian Ecolabelling Institute) |
| LMD | <i>Lembaga Masyarakat Desa</i> (Village Community Institution) |
| LPI | <i>Lembaga Penilai Independen</i> (Independent Verification Body) |
| m | metres |
| MoF | Ministry of Forestry |
| NFP | National Forestry Programme |
| NGO | Non-Governmental Organisation |
| NGO–DFF | NGO–Donor Forum on Forests |
| No. | Number |
| NRM | Natural Resource(s) Management |
| P&C | Principles and Criteria |
| PAD | <i>Pendapatan Asli Daerah</i> (Originally-generated District Income) |
| PBS | <i>Perkebunan Besar Swasta</i> (Privately-owned Plantation) |
| PKDT | <i>Persatuan Dayak Kalimantan Timur</i> (Association of Dayak Communities in East Kalimantan) |
| PFTN | Producer Forest Trade Network |
| PMDH | <i>Pembangunan Masyarakat Desa Hutan</i> (Forest Village Community Development) |
| POKJA PA-PSDA | <i>Kelompok Kerja Pembaruan Agraria dan Pengelolaan Sumberdaya Alam</i> (NGO Working Group on Agrarian Reform and Natural Resource Management) |
| PP | <i>Peraturan Pemerintah</i> (Government Regulation) |
| PPh | <i>Pajak Penghasilan</i> (income tax) |
| PPN | <i>Pajak Pertambahan Nilai</i> (Value Added Tax) |
| Prodn | production |
| PSDH | <i>Provisi Sumber Daya Hutan</i> (Forest Resource Rent Provision) |
| PTP | State-owned Plantation |
| RIL | Reduced Impact Logging |
| RKT | <i>Rencana Karya Tahunan</i> (Annual Work Plan) |
| Rp | Indonesia Rupiah |
| RPJP | <i>Rencana Pembangunan Jangka Panjang</i> (Long-Term Development Plan) |
| RSPO | Roundtable on Sustainable Palm Oil |
| RT | Roundtable |
| SFM | Sustainable Forest Management |
| SFMP-GTZ | Sustainable Forest Management Project (GTZ) |
| SNI | <i>Standar Nasional Indonesia</i> (National Product Standards) |
| SWPP | <i>Sumbangan Wajib Pembangunan Propinsi</i> (Mandatory Contribution for Provincial Development) |
| TBI | Tropenbos International–Indonesia Programme |

| | |
|-------|--|
| TFF | Tropical Forest Foundation |
| TFT | Tropical Forest Trust |
| TNC | The Nature Conservancy |
| TPI | <i>Tebang Pilih Indonesia</i> (Indonesian Selective Logging) |
| TPTI | <i>Tebang Pilih Tanam Indonesia</i> (Indonesian Selective Logging and Planting System) |
| UK | United Kingdom |
| UNECE | United Nations Economic Commission for Europe |
| UNEP | United Nations Environment Programme |
| US | United States (of America) |
| USA | United States of America |
| VA | Voluntary Agreement |
| VVNH | <i>Vereniging Van Nederlandse Houtondernemingen</i> (Netherlands Timber Trade Association) |
| WGT | Working Group on Forest Land Tenure (MoF) |
| WSSD | World Summit on Sustainable Development |
| WWF | World Wide Fund for Nature |
| YAP | <i>Yayasan Adat Punan</i> (Punan Adat Foundation) |

Glossary

| | |
|------------------------|--|
| <i>adat</i> | indigenous or customary (institution) |
| <i>bupati</i> | head of district |
| DOEN Foundation | DOEN Foundation is the fund of the Charitable Causes Lotteries. DOEN Foundation finances initiatives that are both enterprising and sustainable through subsidies, loans, guarantees or participations in the areas of Sustainable Development, Culture and Welfare. |
| <i>hak ulayat</i> | customary rights |
| <i>masyarakat adat</i> | people governed by custom ('indigenous people') |
| <i>Pemangku</i> | someone who holds a position as a leader in a group of customary communities |
| <i>Perda</i> | <i>Peraturan Daerah</i> (District or Provincial Regulation) |
| <i>Perum Perhutani</i> | a state-owned forestry company, mainly operating in Java |
| <i>Pokja</i> | <i>kelompok kerja</i> (working group) |

Chapter 1

Introduction

1.1 Background

The Forest Partnership: From Kalimantan Districts to the Global Market Place (**Forest Partnership Programme, FPP**) arose from the commitment made by the Dutch Minister of Development Cooperation during the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002 to support the objectives of the Asia Forest Partnership (AFP). The AFP is a partnership among governments (with Indonesia and Japan playing leading roles), intergovernmental organisations, NGOs and the private sector, focused on promoting sustainable forest management in Asia by addressing urgent issues such as governance, control of illegal logging, and restoration of degraded lands. The Netherlands has expressed interest in supporting a forest partnership initiative in line with AFP objectives that can provide substantial input from different perspectives, sharing experiences and lessons learned.

FPP involves five lead partners—WWF International, WWF–Indonesia, Tropenbos International–Indonesia (TBI) and the Center for International Forestry Research (CIFOR). It is funded by the Netherlands Ministry of Foreign Affairs (DGIS). FPP aims to promote sustainable forest management in Kalimantan.

FPP was built to address the need for collaboration among various parties and stakeholders (such as local and central governments, private sector actors and civil society organisations), linking improved forest governance in Kalimantan (Indonesian Borneo) with international trade in Asia and Europe. This is a 5-year initiative based on past and ongoing initiatives and projects, with the aim of improving coordination, synchronisation and the effectiveness of different activities with similar objectives that have taken place or are currently taking place in Kalimantan and beyond. The Forest Partnership's implementation consists of four modules:

Module 1: Good forest governance and area-based conservation – Linking community planning and priority setting at the political level in the districts to national planning and policy formulation in central government.

Module 2: International markets – Defining pathways and creating market chains for businesses to promote and reward sustainable forestry practices in Malaysia and Indonesia.

Module 3: Forest conversion – Collaborating with responsible actors in the oil palm industry and other stakeholders to promote better practices and ensure that plantations do not replace or threaten High Conservation Value Forests (HCVFs).

Module 4: Sharing lessons learned and monitoring – Sharing lessons learned among partners and beyond for replication and to prevent duplication of effort.

The development of lessons learned is important for at least one reason. Past initiatives to improve forest governance have tended to focus on the improvement process itself, while ignoring the learning process that the stakeholders have to go through in order to implement and adjust to the changes. They have not capitalised on previous experiences, they have not learned and adapted, and only rarely have they disseminated to other stakeholders the lessons that they have learned. It is the intention of FPP to adopt a learning process approach to maximise the likelihood of project success and to support replication by other stakeholders. Wide dissemination of information will also demonstrate transparency and whether the project is impacting its core constituents.

1.2 Aims of the learning process approach and reports

Sharing mechanisms (for information and lessons learned) will be used for adaptive management by the partners, and capacity building and training of stakeholders and local institutions. Where necessary, lessons will lead to actions that need to be taken at national and international levels in tackling the root causes of local problems. The aims of the learning process approach and this report are:

- ◆ To provide critical assessments of the situation on the ground in relation to forest governance—area-based conservation, international markets and forest conversion project modules;

- ◆ To identify the points of intervention, or areas where the project is likely to have greatest impact, thereby supporting informed priority setting within the project;
- ◆ To highlight adjustment(s) needed for project targets and milestones in the light of the baseline findings;
- ◆ To document and disseminate technical and procedural lessons learned by the partners in implementing the project.

Module 4 of the FPP (lessons learned) is designed to improve the likelihood of achieving the main goal of the FPP, i.e. *improved forest governance and sustainable forest management*. This goal is elaborated into four specific objectives:

- ◆ Good forest governance is incorporated into sustainable development planning and policy, and contributes to improved livelihoods;
- ◆ Market incentives for responsible forestry are strengthened, and so is the capacity of forest managers in Indonesia and Malaysia to respond to those incentives;
- ◆ Districts and key companies adopt policies and land-use plans that exclude conversion of HCVF and apply sound environmental practices in their operations;
- ◆ Partners and stakeholders have improved knowledge of, and access to, each other's lessons learned, information and relevant outputs.

1.3 Structure of this report

This report is organised as follows. Chapter 2 discusses the methods use to develop the report of lessons learned, including the conceptual framework and data collection activities. Chapter 3 discusses the baseline situation at national level, to provide the national setting in which FPP has been operating, and the response of FPP to the challenges at national level as well as the pilot districts—Kapas Hulu, Pasir and Malinau. Chapter 4 discusses key milestones of FPP. Chapter 5 presents the conclusions and recommendations of the first 2 years of the FPP.

Chapter 2

Methods and Implementation

2.1 Conceptual framework

The conceptual foundation underpinning this report of lessons learned is the FPP original project proposal's logical framework (logframe, presented in Annex II). For each module, the logframe consists of elements such as (expected) outcomes, indicators, assumptions and risks. The logframe is a critical element of this report, since measurement of success and recommendations for improvement will be based on the juxtaposition between the plan and (interim) achievements.

The first report of lessons learned by the Forest Partnership Programme (FPP) will involve, among others, the following steps:

- ◆ Presentation of the current state of affairs on forest governance, international markets and forest conversion. This will be the baseline situation, and is described by the 'pyramid of good governance' approach (Mayers *et al.* 2002), which is believed to be able to comprehensively depict the situation in Indonesia over the last decade;
- ◆ Presentation of the three modules in terms of FPP's activities—what has been done and achieved over the period under discussion;
- ◆ Relating the achievements to the logframe, aiming for a 'reality check' particularly against the assumptions. This would involve analysing which assumptions hold and which do not, and discussion of the implications for the objectives and indicators. This is will be structured into tables for each module.

The reporting of lessons learned is part of the process of highlighting achievements as well as challenges to the success of the programme. Therefore, the document is not a final product that covers the whole process. Rather, the document will emphasise key issues facing the programme during its implementation. For that purpose, the

emphasis of this first report is to present the baseline situation. This is the point to which the programme's progress is assessed.

2.2 Work plan, activities and their implementation

The development of this report included coordination meetings; deciding upon the structure of the report; collecting data (including policy dialogues with relevant stakeholders); participating in key events; preparing, writing and finalising the report.

Coordination meetings, both internally at CIFOR and with partners, have been underway since the inception of FPP. Among key issues that were discussed in the meetings were: seeking the common ground in project issues; synergies with other activities carried out by CIFOR; and developing the structure of the report of lessons learned as the key output of Module 4 of the FPP.

Data collection started in March 2005. CIFOR and local partners (NGOs) interviewed key actors in the districts of Kapuas Hulu, Pasir and Malinau. Several visits were made to districts to monitor the quality of the data, update the data when necessary, as well as continue policy dialogues with key district stakeholders.

In addition to data collection, CIFOR has been actively participating in key events, at national, provincial and district levels.¹ Through active participation in such events, CIFOR is able to obtain required data and at the same time influence the policy process; for example, through its involvement in the working group on conservation districts, as well as other initiatives under FPP.

Since there were delays in data collection, partly due to local government elections, the preparation of the report started in the last quarter of 2005. The table of contents for the report was agreed in October 2005. The process of writing the report then began.

A more detailed version on the timeframe from the preparation to the presentation of this report is presented in Annex I.

¹ For example, the national workshop on conservation district, June 2005; RSPO meetings; workshop 'Toward Good Forest Governance: Enhancing implementation of sustainable forest management through forest certification and reduced impact logging (RIL)', East Kalimantan, June 2006; national seminar on conservation district, Malinau, East Kalimantan, July 2005.

Chapter 3

Situation at National and District Levels

3.1 Developments at national level

For more than three decades, forests have played a significant role in supporting Indonesia's economic development. However, unsustainable forest management practices have resulted in degradation and destruction of natural forest. In addition, lack of clarity in land tenure rights and land ownership has given rise to a significant level of conflict, which has also contributed to the degradation of natural forest. Finally, the economic crisis that hit Indonesia in 1997 and ended the centralised governance under president Suharto, put more pressures on the forests.

As part of the post-Suharto reform process, the transition to decentralisation was expected to bring the forestry sector in the country to a better situation. However, the transition generated its own problems, including environmental and political uncertainties, inconsistent laws and regulations, as well as weakness of law enforcement, making the situation highly complex. Managing such a complex situation is extremely difficult because forest resources have linkages and interdependencies with various other resource agencies and policies, making their governance and management in a sustainable, efficient and equitable manner difficult. It is in conditions such as this, where relevant authorities have not established an effective governance system, that deforestation and degradation of forest resources is most likely to occur (Ostrom 1999).

An indication of such forest degradation, resulting from a lack of effective governance, is the forest's diminishing capacity to support economic development. *The steady decline of commercially viable forest estate over the last few decades clearly shows that unsustainable forest management has been the prevalent practice in Indonesia.* The number and area of forest concessions in five major islands of Indonesia declined sharply from 582 concessions (*Hak Pengusahaan Hutan*, HPH) with a total area of

62 million ha in 1994, to 269 HPHs covering 28 million ha in 2003 (Table 3.1). Timber production also decreased sharply from 22 million m³ to 6 million m³ over the same period.

Table 3.1. Forest concessions (HPHs) on 5 major islands of Indonesia (1994 to 2003)

| Main Islands | 1994 | | 1997 | | 2001 | | 2003 | |
|--------------|---------|------------------------------------|---------|------------------------------------|---------|------------------------------------|---------|------------------------------------|
| | No. HPH | Area (ha) (Prodn, m ³) | No. HPH | Area (ha) (Prodn, m ³) | No. HPH | Area (ha) (Prodn, m ³) | No. HPH | Area (ha) (Prodn, m ³) |
| Sumatra | 162 | 14,733,000 (6,789,515) | 115 | 8,974,022 (5,799,931) | 73 | 5,173,294 (164,618) | 42 | 2,645,951 (2,645,993) |
| Kalimantan | 316 | 32,880,570 (11,143,226) | 225 | 25,624,297 (11,636,126) | 168 | 15,967,372 (1,006,397) | 127 | 10,763,852 (2,611,574) |
| Sulawesi | 34 | 3,242,500 (1,477,880) | 42 | 3,597,637 (895,459) | 31 | 2,236,431 (143,354) | 25 | 2,020,985 (54,273) |
| Maluku | 37 | 3,376,800 (966,043) | 38 | 3,126,423 (1,131,895) | 28 | 2,257,942 (0) | 23 | 1,816,710 (64,228) |
| Papua | 33 | 8,211,000 (1,774,355) | 42 | 9,848,173 (2,834,851) | 50 | 10,751,613 (448,044) | 49 | 10,751,613 (612,571) |
| Total | 582 | 62,443,870 (22,151,019) | 462 | 51,170,552 (16,498,332) | 350 | 36,386,652 (1,762,413) | 269 | 27,870,913 (5,988,639) |

Source: Ministry of Forestry; production data from companies' Annual Work Plans (*Rencana Karya Tahunan*, RKT) approved by MoF.

Are there any policies in effect that support or enable good forest management in Indonesia?

It is increasingly clear that forestry problems in Indonesia are not due to a lack of appropriate forest estate planning, inappropriate forest management or lack of forest and timber industry related technical know-how. Many of these are in place. However, the attainment of sustainable forest management (SFM) depends upon factors far from the forest itself. This is because *governance crisis underlies many unsustainable uses of forests*. SFM depends, among others, on the extent and quality of *enabling policies*, as well as legal and institutional conditions that stemming from good (or at least improving) forest governance (Mayers *et al.* 2002). It is important to note that underlying causes of forest problems, such as deforestation and forest degradation, are often extrasectoral. Therefore, it is necessary to understand the policies that underlie forestry problems. This section examines public policies in Indonesia related to the enabling conditions for good forest governance, including their *substance, overlaps, inconsistencies and enforcement*.

For that purpose, the concept of 'pyramid of good forest governance', developed by Mayers *et al.* (2002) (Figure 3.1), is used to depict the national and district situation

in the context of the Forest Partnership Programme (FPP). This can be considered as a policy tracking tool to describe the existing policies, changes, rationale and public reactions, and to identify the best way forward. By identifying the most substantial progress and the most critical gaps, it will act as a useful frame of reference with which to identify opportunities, entry points and necessary actions to achieve FPP's goals. This pyramid is a diagnostic tool that introduces a simple means for the FPP and other stakeholders to work together in assessing the key enabling conditions for good forest governance (Muhtaman and Prasetyo 2004).

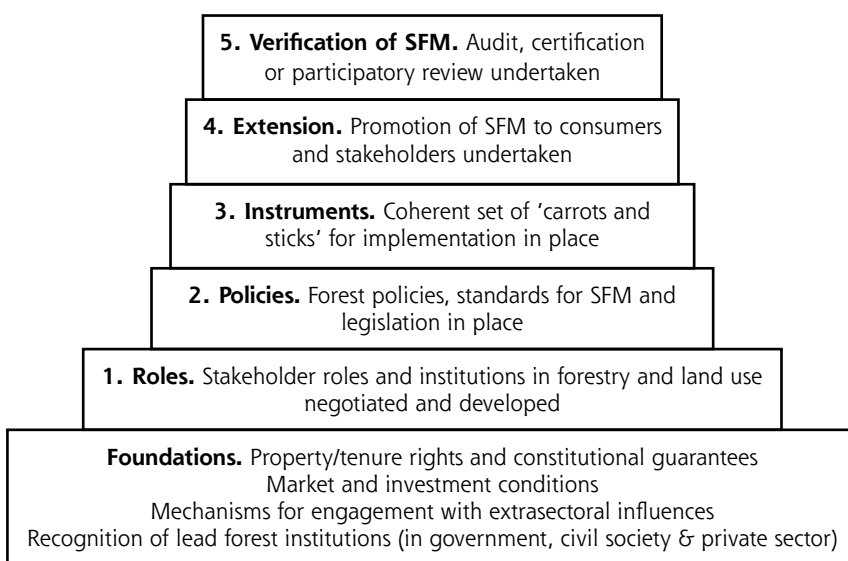


Figure 3.1. The pyramid of good forest governance.

Source: Mayers et al. (2002).

Notes:

- The pyramid describes those good governance elements which are significantly under the control of forest stakeholders.
- The pyramid foundations are less directly controlled by forest stakeholders, but are crucial to them.
- Each tier consists of a group of elements.

The following sections describe the national situation within the context of the pyramid of good governance (Figure 3.1). *Conclusions and recommendations for follow-up actions by the relevant partners in the programme are provided for each tier in a summary table.*

3.1.1 Foundations

Some of the elements of the Foundations tier are beyond the forestry sector. This tier explains how fundamental factors that affect the implementation of good governance function in Indonesia. All elements relevant to the Indonesian situation are explained. The summary of this section is provided in Table 3.3.

Element 1. Basic democratic system, human rights and rule of law accepted by society and enforced

Since 1997, Indonesia has been moving away from centralised government to a more decentralised one. In the process, the country has also strived to become more democratic. Successful general and regional elections in 2004 indicate that progress is being made towards a more democratic system in Indonesia. However, the country continues to face numerous challenges. Key among those are weak law enforcement and massive corruption.

Element 2. The importance of the forestry sector and the role/ authority of one or more lead forest institutions established and recognised by society

Traditionally, forests have been an integral part of life in rural Indonesia. Among the hundreds of ethnic groups comprising Indonesia's population, the livelihoods and cultures of many are linked directly to the forest. Sunderlin *et al.* (2000) estimate that there are about 6 million shifting cultivators in Indonesia's forests and that an additional 20 million people who earn extra/auxiliary income from forest resources. Some studies (e.g. Ginting 2000, quoted in Chidley 2002), suggest that nearly half of Indonesia's population is to some extent dependent on forests for their livelihoods.

Indonesia currently has between 90–100 million ha of forest, most of which is classified as State Forest and falls under the jurisdiction of the Ministry of Forestry (MoF). The first legal framework used to manage Indonesia's forest was the Basic Forestry Law No. 5 of 1967. This Forestry Law was subsequently amended by the Forestry Law No. 41 of 1999 and several other laws and regulations, such as Government Regulation (*Peraturan Pemerintah*, PP) No. 34/2002.

The existence of relevant decision-making forestry institutions and their policies has long been recognised by the public, especially during the Suharto regime. The Basic Forestry Law No. 5 of 1967 was a rigid top-down structure that allowed little access

Table 3.2. Structure of cost management for natural forest according to location/zone, 1998–2001

| Component | Swamp forest (%) | Lowland forest (%) |
|---|----------------------|-----------------------|
| Planning | 50 | 8.9 |
| Harvesting | 28.0 | 41.9 |
| Tending | 2.1 | 3.3 |
| Obligation (non levies) | 0.7 | 0 |
| Social and environment | 1.2 | 3.1 |
| Research and development | – | 0.3 |
| Equipment | 10.6 | 15.3 |
| Depreciation | 12.1 | 5.5 |
| General operations and administration | 40.2 | 21.6 |
| Total | 100 | 100 |
| Total cost (Rp/m ³) before tax and levies | 267,665 (US\$ 26,76) | 497,688 (US\$ 49,768) |
| Tax* and Levies** | | |
| Levies (Central government) | 61.3 | 84.2 |
| Tax (Central government) | 28.7 | 5 |
| Districts levies*** | 5.3 | 5.7 |
| Other levies | 4.8 | 5.1 |
| Total percentage | 100 | 100 |
| Total tax and levies (Rp/m ³) | 166,789 | 191,026 |
| Total general (Rp/m ³) | 434,454 | 688,714 |

Note: It is assumed that US\$1 is equivalent to Rp 10,000

Source: Tim Fakultas Kehutanan IPB (2003).

* Taxes: PPh 21 (employees); PPh 22: (imports); PPh 23 (company); PPh 26 (foreigners); PPn (VAT); PBB (land and building).

** Forest Agencies: IIUPH; PSDH ;DR; DJK; DIPH; Diklat.

*** Forest product distribution; service charge; Social cost/PMDH; HRD (human resources development); SWPP (Mandatory contribution for provincial development).

to forest resources to the poor and marginal stakeholders. Instead, it favoured large companies and personal clients of the governing bureaucratic and military elite (see Table 3.2 for an example of the distribution of benefits from natural forests). Following the implementation of decentralisation, the people's perspectives on the management of forest resources changed drastically, particularly as a result of the implementation of laws No. 22 of 1999 and No. 25 of 1999. These laws enabled district governments to manage and utilise, often recklessly, their forest resources. The conflicting laws and their differing interpretation by central and district government institutions caused an increase in unsustainable or plainly illegal forest activities. While illegal logging had long affected Indonesia's forestry, it increased tremendously in the post-Suharto period. It is estimated that each year anywhere between 30 and 50 million m³ of roundwood is extracted illegally in Indonesia. About 5 million m³

of logs and an unknown (but likely higher) volume of processed timber products are annually smuggled out of the country. The rise in illegal forest activities of this kind has been one of the major forces behind the rising rate of deforestation in Indonesia, currently estimated at 3 million ha per year (Tacconi *et al.* 2004).

Conclusions

- ◆ The transition to decentralisation and democracy has been slow in altering the top-down managerial and policy-making approach that has been adopted by district and provincial governments, while the rural poor and other marginal stakeholders are still effectively on the sidelines.
- ◆ In this situation, well-positioned actors tend to free-ride by opting for short-term benefits from illegal logging and other illegal forest activities at the expense of the environment, national economy and society.

Element 3. Economic and financial conditions of the forestry sector and its sociocultural aspects are understood by the stakeholders

Over the last three decades, forests have been contributing significantly to the Indonesian economy. Since 1997, the forestry sector's average annual contribution has been about 1.64% of Indonesia's total GDP (Bank Indonesia 2003a). Unlike such sectors as manufacturing, construction and real estate that effectively collapsed following the onset of economic crisis in 1997, the forestry sector in particular (and the agricultural sector in general) remained relatively stable (Brown 1999a).

Forests continue to play an important role in terms of generating foreign exchange earnings. In 1997, the export of forest products reached US\$ 7.3 billion or 17% of the value of non-oil and non-gas exports. In 2000, one year before the implementation of decentralisation, the combined export value of timber and pulp and paper reached US\$ 6.8 billion or 14% of non-oil and non-gas exports (Bank Indonesia 2003b). In 2004, these exports declined slightly to US\$ 5.1 billion (Bank Indonesia 2006). Even though the export of timber products has been declining since 2002, its overall importance as a source of foreign exchange remains significant.

While the forestry sector is criticised for what is seen as a negligible contribution to the national economy at a relatively high cost, it is undeniable that forestry still generates substantial employment. It is estimated that extractive and processing forestry operations employ directly up to 1.5 million workers in Indonesia. Indirectly, up to 5 million people are thought to be benefiting in terms of jobs and incomes from the forestry sector.

However, government revenues associated with the existence of the above-mentioned jobs and incomes are under threat of being lost as a result of illegal logging practices and the push to restructure the timber industries in the country. The illegal logging problem in Indonesia is caused largely by the vast overcapacity of timber processing mills, which drives the demand for timber far beyond the available legal supplies. Timber smuggling exacerbates this disparity further.

Widespread illegal logging has significant impact on timber prices. The availability of timber logged without payment of the appropriate taxes drives market prices down. It also discourages long-term investment in forests and prevents responsible forest management (Jurgens 2006). According to Mir and Fraser (2003), operational costs of illegal logging are far lower than those of legal logging. This is what is driving the prices down. It is estimated that illegal logging costs Indonesia at least US\$ 2 billion in lost tax revenue annually. Under such conditions, legal operations find it difficult to compete with illegal logging. This situation has been one of key impediments to SFM.

Tax and levies for concessions in lowland and swamp forest are about 27% and 38% of total cost, respectively (Table 3.2). With timber prices depressed since 1997 due to widespread availability of illegal timber, legal concessionaries have been increasingly unable to compete. However, the anti-illegal logging operations of 2004 and 2005 have drastically reduced the volume of illegal timber on the market, which resulted in timber prices nearly doubling from Rp 500,000 to Rp 900,000 per cubic metre (Djafar Hamna, Chairperson of APHI in East Kalimantan, personal communication). While far from dismantling illegal logging altogether, it is clear that effective forest law enforcement in Indonesia is possible. If such measures are not taken, the legal timber will simply not be economically viable.

Social costs that had been marginal in the Suharto period are now a major factor for forestry business. Forest concessions have been facing unresolved conflict, violence and confiscation of assets since 1998. Conflict is not merely caused by disgruntled local communities, but it is often due to the uncertainty over the role of institutions to negotiate the people's rights without effective facilitation by the government. Open and balanced information prior to forestry operations is a critical step to avoid conflict and additional social costs.

Conclusions

- ◆ Despite its decline in recent years, forestry is still important in terms of foreign exchange earnings and jobs.
- ◆ Widespread illegal logging has been making legal timber business unprofitable.
- ◆ Since additional costs are involved in realising SFM in Indonesia, it is vitally important that illegal logging be brought under control.

- ◆ The urgency of this matter is increasingly well understood by all stakeholders and effective law enforcement measures are helping to improve the prospects of the legal timber business.

Element 4. Land and property tenure is secure, clear, documented and non-discriminatory against forestry

In the past, the Indonesian Government has rejected the term ‘indigenous peoples’ as applying in Indonesia. The late 1990s, however, saw the emergence of a national movement of self-identified *masyarakat adat* (people governed by custom), who are demanding recognition of their right to self-government, the exercise of their customary laws, the legitimacy of their customary institutions and the right to their lands and forests. Now the Indonesia Government accepts that these *masyarakat adat* are those referred to as ‘indigenous peoples’ in international discourse (Colchester *et al.* 2003).

This does not mean that indigenous peoples in Indonesia have clear and firmly established rights. Colchester *et al.* (2003) provide a detailed analysis of the fact that all tenure in Indonesia is subordinate to state interests to a degree that far exceeds prevalent concepts of ‘*eminent domain*’. Inside ‘State forest land’, the legal recognition of proprietary rights is by definition impossible and customary rights are treated as a weak form of usufruct that are subordinate to the interests of concessionaires.

However, the concessionaires are scarcely the clear winners in this situation. Their legal position, theoretically superior to the rural communities living inside or around forest concessions, is undermined by the competition between various levels of government bureaucracy (district, provincial, central) for key decision-making powers. This results in contradictory and often counterproductive policies and regulations that the concessionaires are expected to observe.

Conclusions

- ◆ Although the policies on indigenous people and their resource/land rights have been improving, effectively there are few substantive changes taking place. This leads to increasing disputes and conflicts.
- ◆ The forestry sector gains very little from its legally superior position *vis-à-vis* the indigenous people. It is stymied by on-the-ground conflict with the communities and the competing demands of the forestry decision makers from different administrative levels to adhere to their respective policies.

Element 5. Full range of international obligations/conventions, targets and principles that affect the forest sector understood and engaged by relevant stakeholders

Most international conventions relevant to the forestry sector are recognised at the official ministerial level:

- ◆ CITES (Convention on International Trade in Endangered Species of Wild Flora and Fauna)
- ◆ FSC (Forest Stewardship Council) principle on HCVF
- ◆ The UNEP Statement by Financial Institutions on the Environment and Sustainable Development
- ◆ The World Summit on Sustainable Development (Johannesburg, September 2002) Plan of Implementation, which was signed by a large number of countries—including Indonesia
- ◆ The September 2002 Financial Sector Project of the World Business Council for Sustainable Development statement signed by the chairmen of 11 major international financial institutions
- ◆ The Collevocchio Declaration on Financial Institutions and Sustainability, launched in January 2003 by a number of environmental NGOs from all over the world
- ◆ The Equator Principles, launched in June 2003—a set of guidelines developed for managing social and environmental issues related to the financing of development projects.

Other forestry stakeholders have minimal or no knowledge of these conventions and other obligations. CITES is the best known international convention among relevant forestry stakeholders. However, technicalities and implications of this convention are often not properly understood. Awareness raising of and dialogue on forest certification could be a useful channel to introduce international conventions into forestry administration and forestry business.

Conclusion

- ◆ International agreements have been promoted to the public and constituents through various channels. However, beyond the central government level there are few stakeholders who have actually been informed, understand and are concerned with these international treaties and conventions.

Element 6. Market, investment, trade conditions and flows understood and engaged by stakeholders

Element 6 relates to the basic situation of timber production in Indonesia and how it is understood by relevant stakeholders, including international buyers. It relates to the barriers and impediments to more efficient forest management and timber trade in Indonesia. The explanation of these issues requires some reference to the history of the forestry industry in Indonesia.

Market links and investment in wood products

Plywood

In 1967, the New Order government distributed over 60 million ha of forest to privately owned timber companies (Brown 1999b). During the 1970s, Indonesia was the world's largest exporter of tropical timber, shipping nearly 300 million m³ to the international market (Barr 2001). In the mid-1980s, the government banned the export of logs to stimulate investment in plywood production. This action spawned 132 plywood producers capable of generating over 12 million m³ of panels per year (APKINDO 1990). That is about 70% of the world's plywood market and the export of plywood generated an average of US\$ 3.5 billion in annual revenues.

During the Suharto era, the Indonesian Wood Panel Association (*Asosiasi Panel Kayu Indonesia*, APKINDO) functioned as a cartel and tightly controlled the export of all plywood. APKINDO had sales offices in China, Japan and the Middle East. However, with the dissolution of APKINDO's marketing network in 1998, mills have had to find their own market outlets and the importance of direct marketing and of traders has grown substantially (Jurgens 2006).

Sales to traders probably account for at least a quarter of Indonesia's exports. Sales to the Middle East mostly go through traders in Singapore, sales to China go through traders based in Hong Kong, and sales to the USA often go through Japanese trading houses. Some Japanese trading houses now have buying offices in Indonesia, whereas previously they used to deal with APKINDO's Nippindo office in Japan. Some end users, such as large construction firms and large furniture manufacturers in Japan and Europe, are increasingly making an effort to create more direct market linkages to producers and to bypass the traditional importing firms (Jurgens 2006; Rutten and Hock 2004).

In most cases, there are several links in the timber supply chain that separate the concession company from the final retailer. For example, for the international plywood trade, the most common trade channels are (Rutten and Hock 2004):

- ◆ direct contract sales to overseas customers, often through sales offices or agents—this is the common form of trade for sales to continental Europe;
- ◆ sales to traders, predominantly based in Singapore and Hong Kong;
- ◆ sales to representatives of overseas companies who are buying directly at origin.

In the UK, unlike the rest of Europe, timber agents play a central role in the timber import trade. The agents take orders from manufacturers and retailers and seek out timber suppliers that can provide timber at the right specifications. Until the 1980s, agents imported most of the UK's tropical timber, but then a number of large manufacturers began to import directly from their own overseas sources (Jurgens 2006; Gale 1998).

In Japan, trading houses, or *Sogo Soshas*, play a central role in the distribution of tropical timber and buy approximately 70% of domestic and imported panels. The *Sogo Soshas* tend to have a global reach and dominate the entire export and import industry. Several of them are vertically integrated into all aspects of the tropical timber trade (Cashore *et al.* 2006). Major *Sogo Soshas* involved in the import of Indonesian plywood include Marbeni, Itochu, Sumitomo Corporation, Sumitomo Forestry, and Sojitzu (Mutai personal communication). They buy plywood for onward sale to wholesalers, who resell approximately 95% of this to other wholesalers for secondary processing and redistribution (Jurgens 2006; Rutten and Hock 2004).

Pressure from buyers at the corporate level does not necessarily translate into pressure at the concession, Forest Management Unit (FMU) or mill level. The large concessions in Indonesia tend to be held by conglomerates and the day-to-day operations at the FMU level tend to be far removed from the corporate decision making processes, which are often based in Jakarta. *Another issue related to corporate governance is that internal budgeting procedures that prioritise maximal profit and the quickest possible turnover of invested resources may not provide the proper incentives for forest managers to put in place improved forest management regimes* (Jurgens 2006).

Pulp and Paper

Pulp production capacity in Indonesia totals 6.5 million tonnes per year, making Indonesia the world's ninth largest pulp producer. Indonesia's pulp mills require 30.4 million m³ of fibre annually to run at full capacity.² The large Indonesian pulp companies face shortfalls in their plantation-grown fibre supply and continue to rely on natural forests for approximately 70% of their fibre, placing heavy demands on the nation's forest resources (Barr 2001). In 2002, production of pulp in Indonesia was 4.97 million tonnes (Djafar Hamna, Chairperson of APHI in East Kalimantan,

² Based on a roundwood conversion factor of 4.7.

personal communication 2005), equivalent to around 26 million m³ of standing timber. Non-exported pulp is sold as market pulp to the domestic paper industry or directly supplies integrated paper mills. Half of the 6 large pulp mills are integrated with paper production (APKI 2003) and Indonesia ranks as the 12th largest paper and paperboard producer. About 65% of paper production feeds domestic consumption. The export value of paper and paperboard in 2002 was US\$ 1.7 billion (APKI 2003).

In 2002, exported pulp and paper accounted for the removal of approximately 15 million m³ of timber.³ Of this, approximately 10.6 million m³ came mainly from natural forests (probably mostly conversion forest), and the remainder came from pulpwood plantations. Of total pulp and paper exports between 1999 and 2001, Asian countries accounted for 72% of imports, with China responsible for 36%, South Korea 9% and Japan 6%. The USA and Australia each imported 3% of pulp and paper exports from Indonesia during that time, while European countries imported 11%.⁴

Conclusion

- ◆ The mechanics of how the timber trade actually works is poorly understood. It is usually assumed that timber trade involves concessionaires and the retailers of timber products in consuming countries, who subsequently sell timber products to the end users. In fact, forest concessionaires themselves rarely play any part in timber trade, as they are controlled by larger conglomerates. There is a range of intermediaries (traders, trading houses) that operates between timber producers and timber consumers that complicate the process of deploying consumer pressure on the producers for SFM, certification, etc.

³ Based on a conversion factor of 4.8 m³ of standing timber per tonne of pulp.

⁴ FAO Stats 2005, US\$ values reported by importing countries.

Table 3.3. Summary for the Foundations

| Conclusions to the Foundations | What should FPP focus on |
|--|--|
| <ul style="list-style-type: none"> • The transition to decentralisation and democracy has been slow in altering the top-down forest policy making in districts and provinces. The rural poor and other marginal stakeholders are still effectively on the sidelines. • Well-positioned actors tend to free-ride by opting for short-term benefits. • Despite its decline in the last five years, forestry is still important in terms of foreign exchange earnings and jobs. • Widespread illegal logging has been making legal timber business unprofitable. Since the costs involved in realising SFM in Indonesia are higher than the costs of illegal logging, it is vitally important that illegal logging be brought under control. • The urgency of this problem is increasingly well understood by all stakeholders and law enforcement measures are helping improve the prospects of the legal timber business. • Although the policies on indigenous people and their resource/land rights have been improving, there are few substantive changes taking place. This leads to disputes and conflicts. • The forestry sector gains little from its legally superior position vis-à-vis the indigenous people. It is stymied by the on-the-ground conflict with the communities and the competing demands of the forestry decision makers from different administrative levels to adhere to their respective policies. • International agreements relating to forestry and the environment have been conveyed to various administrative levels and to the public. However, beyond the central government level there are few stakeholders who actually understand and are concerned about these international treaties and conventions. • The mechanics of how timber trade actually works is poorly understood. It is usually assumed that timber trade involves concessionaries and the retailers of timber products in consuming countries, who subsequently sell timber products to the end users. In fact, forest concessionaires themselves are rarely part of any timber trade, as they are controlled by larger conglomerates. There is a range of intermediaries (traders, trading houses) that operates between timber producers and timber consumers that complicates the process of deploying consumer pressure on the producers for SFM, certification, etc. | <ul style="list-style-type: none"> • Support capacity building and consensus building among the stakeholders from various administrative levels. • Increase their understanding of international treaties and conventions; disseminate and seek ways to practically deploy relevant conventions/treaties in the regions (environmental payment schemes, etc.). • Seek to better understand the timber trade dynamics to find ways for more effective actions to influence producers' behaviour. |

3.1.2 Tier-1: Stakeholder roles and institutions in forestry and land use negotiated and developed

Tier-1 consists of six elements: mutual recognition and level play among current sectoral policy makers, consultation during decision making processes, relationships among stakeholders, basic forestry institutional structure, capacity of the lead forestry agency, the role of NGOs, and the role of international agencies. The summary of this section is provided in Table 3.4.

Element 1. Mutual recognition and level play among current sectoral policy makers is important to be addressed

The poor inter-departmental/ministerial collaboration and lack of trust and equity in efforts to develop policies that benefit forests have been an enduring problem in Indonesia. Most, if not all, of the contribution of the forestry sector comes from the exploitation of forest products (mainly timber), with conservation and environmental services confined to the margins. Even within the forestry establishment responsible for the exploitation of timber, there are different interests and outright conflicts. In the early years of decentralisation, deforestation was driven largely by massive timber exploitation carried out under district governments' licensing that put it at odds with provincial and central government institutions.

In mid-2005, the Government of Indonesia (GOI) announced a plan to open the world's largest oil palm plantation in Kalimantan along Indonesia's border with Malaysia. This plan was intended for security purposes as well as to provide jobs. This plan, however, led to debates among relevant policy making ministries concerned about how little consultation there had been before the announcement of the plan. The public outcry against the project was based on the experience with a similar undertaking to open almost 1 million ha of peat land for agriculture in Central Kalimantan which ended in environmental and human disaster.

Conclusions

- ◆ The forestry sector is not an equal player when it comes to the consideration of such issues as infrastructure development, border security and agro-industry in Indonesia.
- ◆ Forest conservation is even further down the list of priorities when it comes to trade-offs with other issues on the national agenda.

Element 2. Organised participation system comprising a mix of stakeholders at national and local levels, for analysis, consultation and decision making

The post-1998 political reforms and decentralisation processes led to a significant improvement in the freedom of expression in Indonesia. The people have many more opportunities to voice their opinions, engage with the press and actively express their concerns to political, environmental, social and other forums. The process of amending PP No. 34/2002 about forest management has seen active participation of and input from a range of stakeholders, indicating the improvement that has taken place in public engagement in political processes.

On the other hand, decentralisation has not fully met the expectations of the public for the openness, participation and transparency of political processes. Although the fact that a substantial proportion of decision making power has been devolved from the centre to districts and provinces, the way government institutions in the regions have been making decisions has often been following the familiar top-down pattern that was supposed to be discarded.

Conclusion

- ◆ The process towards achieving more public (stakeholder) involvement in government decision making has made significant progress. However, serious limitations are still in place and these must be addressed by a continuous push to improve the government's capacity for greater openness and its willingness for the participation of other stakeholders.

Element 3. Stakeholder roles in forestry and land use, including rights and responsibilities, are based on negotiation and are clear to all

Stakeholders are also natural resource users and managers (Roling and Wagemakers 1998). Several studies have stated that Indonesian forestry stakeholders can generally be categorised as the private sector (with commercial interests), government institutions (with political objectives and who make decisions), NGOs, universities, influential individual figures and political parties. All of these can be categorised into regulators, power elites, commercial interests and civil society (Salim 2002).

The government has the dominant position in making decisions concerning the forest. The Forestry Law 41 of 1999 states that 'all forest including its natural

resources is under State authority'. Although the Law also states that the nation's forests are to be used for the benefit of the people and it acknowledges the existence of *adat* (indigenous) rights, all of this depends on the government's interpretation and perception of priorities.

The relationship between the government and private sector is currently unstable and confusing. During the New Order era, the government–private sector ties were very close, forming a model where the private sector generated a steady flow of financial benefits to the central government decision makers, who in return provided a secure and stable environment for the business. After decentralisation, this patron–client framework became less efficient and grew more complex due to regional government (provincial, district) institutions' pressure to heed their own regulations and demands. *The decentralisation of patron–client business links in Indonesia has resulted in growing confusion and rising costs for the private sector. These factors form the basis for the concern that Indonesia's economy in the post-decentralisation period has been increasingly a high-cost one.* A good example of this is the conflict in Malinau District between the district government and the Ministry of Forestry over the transfer of PT. Inhutani I forest concession to a plywood company (Intracawood Manufacturing). The conflict has gone well beyond issues of forest management, certification, etc. The fact that a smooth integration of both companies would be good for business was secondary to stakeholders' willingness to squabble over immediate economic and political benefits.

Despite the prevailing rhetoric, little progress has been made with enabling rural communities living in and around forest areas to be more involved in development processes. The engagement of rural stakeholders in development planning is one of the declared goals of district and provincial governments. Yet, they are facing a number of difficulties. Key among these is that regional governments have little capacity to effectively plan and deliver public services. A related reason is that regional governments are often caught up in implementing 'prestige projects' that are politically motivated but of little relevance to the people's livelihoods.

Conclusions

- ◆ The government continues to have the dominant role in decision making that affects forests. However, there is a fair amount of conflict between various levels of relevant government institutions as to their specific roles, powers and responsibilities.
- ◆ The decentralisation of patron–client business links in Indonesia has resulted in growing confusion and rising costs for the private sector. These factors form the basis of the concern that Indonesia's economy in the post-decentralisation period has been increasingly a high-cost one.

- ◆ Limited capacity and pressure for quick returns and ‘prestige projects’ prevent effective rural development. It is important to strengthen the capacity of local government institutions for longer-term planning that will allow the private sector to create jobs, help with infrastructure development and contribute to regionally generated income.

Element 4. Basic forestry institutional structures and decision making rights and powers agreed and in place

The objectives of the process of decentralisation in Indonesia are good governance marked by improved efficiency, accountability, transparency and a balance of power between different political levels. In practice, the process of devolving power over forest resources has resulted in conflicts among all actors, both vertically and horizontally. The reason for this is that power, authority and responsibility have not been delegated clearly and completely. Higher levels of government have tended to retain powers to overrule the provinces and districts even in matters over which the latter have officially been granted full responsibility. This leads to dualism and overlap. In some districts, two separate and competing systems of forest administration are in place, which is confusing and ineffective. There is continuing dispute between different administrative levels about who has the authority to issue permits for the utilisation of forest resources (particularly timber).

Despite repeated revisions of various decentralisation legislatures, many questions regarding the division of power and responsibility between central, provincial and district forestry institutions remain unsolved. Law 32/2004, seen by many as the most comprehensive effort so far to reduce administrative uncertainties in forestry, is also subject to the criticism that it partly reverses decentralisation!

Conclusion

- ◆ It is clear that basic forest institutional structures are still in a process of transition that can lead to uncertainty for the private sector and for the rights of other users.

Element 5. Capability of the lead agency to drive the improvement of human resources among stakeholders developed. Mechanism for the development of skills, motivation and interactions of all stakeholders in place

The central government has set the standard competence requirements for forestry officials at every level of the forestry bureaucracy. The private sector also applies a similar set of standards to management and other staff positions. In theory, a candidate for a job in forestry administration anywhere in Indonesia is expected to possess a Bachelor's Degree, preferably in forestry. Managerial positions require at least a Bachelor's Degree, but increasingly forestry managers possess a Master's Degree. Overall, however, the quality of human resources in the forestry administration (particularly in the outer/rural parts of Indonesia) is still low. Often, a few key staff with degrees and diplomas are surrounded by subordinate staff many of whom have only high-school credentials.

The district and provincial governments provide increasingly more opportunities to improve the quality of the forestry administration through various courses and workshops. As communication and data-transmission systems improve, the information and opportunities to use it become increasingly available in districts and provinces. What is still lacking is the capacity to analyse, modify and apply the data to specific tasks.

Conclusions

- ◆ The quality of human resources in the forestry administration in districts and provinces is improving, although in some areas competent staff are still in short supply.
- ◆ All stakeholders have access to appropriate information. However, their capacity to use that information effectively for planning, policy making and other purposes in the districts and provinces needs to be improved.

Element 6. International agencies and NGOs supportive of nationally agreed priorities for forest governance

The NGO–Donor Forum on Forests (NGO–DFF) initiative was established to enable frequent discussions at NGO–DFF meetings to facilitate communication among NGOs and the donor community focusing on the issue of sustainable forest management in Indonesia. The main activity of this forum is to share information that can provide a better perspective to stakeholders so that they can be more objective in sharing information and communication on forestry related activities.

International donors and researchers have been working in Indonesia since the 1970s through more than 100 projects. Their efforts have focused on sustainable forest management, community empowerment, strengthening capacity of forestry institutions at central and local levels, and conservation and protection of natural forest. Among the most notable examples of donor and NGO support for government priorities on forest governance is the overwhelming approval for the current government's focus to combat illegal logging and illegal timber trade, and to restructure-cum-revitalise the forestry industries. The World Bank is working closely with the Ministry of Forestry and NGOs on an initiative supporting transparency and openness in the forestry sector. The World Bank, EU, WWF and other donors and research organisations are also supporting MoF in the Asia Forest Law Enforcement and Governance (FLEG) process and in the current scoping of voluntary agreements (VAs) with buying countries for trade in legal verified timber. The Nature Conservancy (TNC) has assisted MoF with the development of the (internationally acceptable) legality standard of timber in Indonesia—work currently continued by the Indonesian Ecolabelling Institute (LEI). The UK Department for International Development (DFID) has been working closely with MoF (Working Group on Forest Land Tenure, WGT) to push for progress on land and forest resource tenure issues.

There has been a lot of work done in Indonesia's forestry sector with the assistance of foreign donors, NGOs and research institutions. There is strong commitment to continue this support. There are also concerns, however, that the crucial issues of resource and indigenous communities' rights are not making sufficient progress.

Conclusions

- ◆ International donors, NGOs and research institutions are broadly accepting the priorities set by the government in the forestry sector.
- ◆ There is a lot of financial and technical support being provided for issues of certification, legality definition, VAs, FLEG processes, etc.
- ◆ There is a lingering sense that the crucial issues of forest resource and tenure rights are not being adequately addressed.

Table 3.4. Summary for Tier-1

| Conclusions for Tier-1: | What should FPP focus on |
|---|---|
| <ul style="list-style-type: none"> • The forestry sector is not an equal player when it comes to the consideration of infrastructure development, border security, agro-industry, etc., in Indonesia. • Forest conservation is far down the list of priorities when it comes to trade-offs with other issues on the national agenda. • The process towards getting more public (stakeholder) involvement in government decision making has made significant progress. However, serious limitations are still in place. • The government continues to have the dominant role in decision making that affects forests. However, there is a fair amount of conflict between various levels of the forestry administration as to their specific roles, powers and responsibilities. • The decentralisation of patron–client business links in Indonesia has resulted in growing confusion and rising costs for the private sector. These have transformed Indonesia’s economy in the post-decentralisation period into a high-cost one • Limited capacity and pressure for quick returns and ‘prestige projects’ prevents effective rural development. It is important to strengthen the capacity of local government institutions for longer-term planning that will allow the private sector to create jobs, help with infrastructure development and contribute to regionally generated income. • The basic forest administrative and operational structures are still in a process of transition that can lead to uncertainty for the private sector and for the rights of other users. • The quality of human resources in the forestry administration in districts and provinces is improving, although in some areas competent staff are still in short supply. • All stakeholders have access to appropriate information. However, their capacity to use this information effectively for planning, policy making and other purposes in the districts and provinces needs to be improved. • International donors, NGOs and research institutions are broadly accepting the priorities set by the government in the forestry sector. • There is a lot of financial and technical support being provided for certification, legality definition, voluntary agreements (VAs), FLEG processes, etc. • There is a lingering sense that the crucial issues of forest resource and tenure rights are not being adequately addressed. | <ul style="list-style-type: none"> • Actively engage in the process of amending PP 34/2002, seeking to maximise the representation of all relevant stakeholders (particularly from the regions). • Contribute to the level-play between MoF and other ministries in the context of the development of district conservation policy. • Contribute to the improvement of local government capacity through workshops and training courses on practical issues such as land-use planning, development planning, conservation planning, investment planning. |

3.1.3. Tier-2: Forest policies, standards for sustainable forest management and legislation in place

Tier-2 discusses several elements in order to assess the extent/availability of **enabling policies** for good forest governance in Indonesia. The elements discussed are: national forest priority setting, forest land allocation, clear and legally defensible rights, and stakeholders' awareness of their rights. The summary of this section is provided in Table 3.5.

Element 1. National forest sector priority setting method and criteria agreed and adopted

In 2002, through Ministerial Decree No. 7501/Kpts-II/2002, MoF established five priority forest policies: (1) Combating illegal logging; (2) Preventing/controlling forest fires; (3) Forestry restructuring; (4) Rehabilitation and conservation of natural resources; and (5) Decentralisation in the forestry sector. In 2004, through MoF Decree No. 456/Menhut-II/2004, these five priorities were reformulated as: (1) Curtailing illegal logging and illegal trade; (2) Revitalisation of the forestry sector, especially timber industries; (3) Rehabilitation and conservation of natural resources; (4) Economic empowerment of communities living in and around forests; and (5) Forest gazetting.

The elimination of illegal logging remains a top priority, followed by the revitalisation of forestry industries and development of timber plantations. Although rehabilitation and conservation have also been at the centre of government priorities, there are few incentives for local authorities to take these seriously and implement them effectively. This is because district and provincial governments view rehabilitation and conservation as central government directives that require investment, but offer no tangible gains.

The above initiatives complement the ongoing activities by National Forestry Programme (NFP). This programme was initiated at the Consultative Group on Indonesian Forestry (CGIF) meeting in 1999. It was formally endorsed by Presidential Decree No. 80/2000, specifying that this intradepartment initiative will consist of 13 departments and will be chaired by the Coordinating Minister of Economics. From 2001 to 2005, several workshops associated with NFP initiatives have taken place throughout Indonesia.

MoF has also supported the establishment of the National Forestry Council (*Dewan Kehutanan Nasional*, DKN). This support was based on Law 41/1999 that states

that DKN is the government's partner whose role is to act as a channel for public consultation and communication. This forum consists of forestry professionals, NGOs and communities.

Conclusions

- ◆ MoF work on Indonesia's current forestry problems and future planning is structured around a number of forest policy priority areas. These priority areas were first formulated in 2002. Following a review in 2004, the priorities remain essentially unchanged—focusing on the elimination of illegal logging, curbing the illegal timber trade and revitalising forestry industries.
- ◆ Both in 2002 and 2004, rehabilitation of degraded forest and conservation were also on the agenda, but these priority areas have generated little practical action.
- ◆ NFP and DKN serve as key forums for the multistakeholder discussion and deliberation of the national forestry policy priorities.

Element 2. National Permanent Forest estate design incorporates various kinds of ownership and is based on a shared vision for multiple forest uses such as protection, livelihoods and commercial production

Historically and up until now, the Indonesian Government divides the forest into the following four major categories: Conservation Forest, Protected Forest, Production Forest, and Conversion Forest. Each category has specific uses and functions. As indicated earlier, however, there are no local community rights anywhere within these forest categories and their designated functions. Although recognised in the Agrarian Law 5/1960, customary land rights were not emphasised under the basic Forestry Law No. 5/1967. Instead, the emphasis was placed on the forest being government property to be used for national development. Customary land/resource rights were given more emphasis in the Forestry Law 41/1999 as part of the process of decentralisation. However, in practice government institutions at various levels have been reluctant to move beyond rhetoric and formally endorse customary ownership/resource rights (Muhtaman and Prasetyo 2005).

Conclusion

- ◆ The national forest estate continues to be managed in a top-down manner despite decentralisation and various consultative processes. The lack of legal recognition of the rights of local communities continues to be a leading cause of conflict in the forestry sector.

Element 3. Standards (Voluntary and Mandatory) and Procedures to optimise benefits from the forests in place, so that: forest management is economically viable, incorporating environmental and social externalities; multiple benefits of forests are safeguarded during operations; efficient local processing is encouraged; equitable livelihoods are supported

A set of forestry policies that in theory should optimise benefits from forests has been put in place with the introduction of Indonesian Selective Logging (*Tebang Pilih Indonesia*, TPI) in the 1970s. In the 1980s, this system was modified into the selective logging and planting system (*Tebang Pilih Tanam Indonesia*, TPTI). The main problems with these systems were:

- ◆ The emphasis was solely on the technical aspects with relatively little attention given to environmental and social issues;
- ◆ The laws, even though technically accurate, were meaningless due to the lack of effective enforcement.

Since Indonesia entered the reform era in 1998, efforts have been made to introduce environmental and social issues as major themes in forestry policy making. PP No. 34/2002 states that ‘Forest use is aimed at gaining optimal benefits for the prosperity of the people, equity and sustainability’. In addition, other regulations established forestry behaviour and procedures that should support these ideals (e.g. *Ministerial Decree on Standards and Criteria of Sustainable Forest Management*). Despite these positive developments, the main stumbling block remains the same as before—lack of supervision and effective enforcement. As long as this continues to be the case, there is little hope for improvement in practical terms.

Establishment of voluntarily standards for SFM was initiated by the Indonesian Ecolabelling Institute (*Lembaga Ekolabel Indonesia*, LEI). Through a long and winding process since 1994, these standards have finally been used as national standards for evaluating the performance of timber concessions and SFM in Indonesia. The mandate of LEI is to: function as an independent, non-profit, third-party certification body; encourage the implementation of the criteria and indicators (for evaluating appropriateness) of certification; make final decisions on certificates; ensure transparency throughout the certification process; aim for mutual recognition of certification schemes internationally; promote certification as an incentive not a punishment for concessionaires; and implement certification on a voluntary basis (Muhtaman and Prasetyo 2005). *Both mandatory and voluntarily standards are available in Indonesia. These schemes have been used to evaluate forest concessions’ performance in Indonesia.*

Other related policies are as follows:

1. Government Decree No. 34/2002 on Forest Management
2. Indonesian Ministry of Forestry Decrees No. 252/Kpts-II/1993 and No. 576/Kpts-II/1993 on Regulation of Sustainable Forest Management—these regulate the Standard and Criteria of SFM
3. Ministry of Forestry Decree No. 4795/Kpts-II/2002 on Criteria and Indicators for Sustainable Forest Management for Natural Forest
4. Ministry of Forestry Decree 4796/Kpts-II/2002 on Procedures for Performance Evaluation of Natural Forest Concessions in Indonesia
5. Ministry of Forestry Decree No. 8171/Kpts-II/2002 on the criteria for setting limits on the standing stock to be allocated for harvesting (IUPHHK—encouraged to follow voluntary certification)
6. Ministry of Forestry Decree No. 177/Kpts-II/2003 on Sustainable Forest Management and Forest Plantations
7. Director General Forest Production and Development (*Bina Produksi Kehutanan*, BPK) No. 34/Kpts/VI-Set/2002 technical guidelines for performance evaluation of forest concessions (*Ijin Usaha Pemanfaatan Hasil Hutan Kayu*, IUPHHK)

Conclusion

- ◆ Initially, Indonesia's forestry regulations were primarily technical in nature. Since 1998, environmental, social, sustainability and other considerations have been taken into account to a much greater degree. However, ineffective enforcement of the forestry laws means that conceptual changes at the policy level have limited impact on the ground.

Element 4. Forest legislation in place, which balances controlling and enabling functions to support the previous elements; with adequately delegated powers

This element can be viewed as the conclusion of this tier. Since 1999, the changes in national forestry policies have been driven by decentralisation and regional autonomy processes. However, this should not be viewed as a smooth policy reorganisation and deployment. Rather, it has been a case of contradictory policy making at different administrative levels, to-and-from revisions, disputes, policy revocations, etc.

During the transition period to decentralisation, two important laws were passed simultaneously by the government—Law No. 22/1999 and Law No. 41/1999. The implementation of these two laws created problems between the central and local government agencies because of different interpretation of their respective rights

and responsibilities. This resulted in a progressively wider communication gap and increasing distrust between central, provincial and local governments (Siswanto and Wardoyo 2005). Many district and provincial officials were sceptical about the process of regional autonomy, seeing it as 'half-hearted' (Potter and Badcock 2001; Casson 2001).

Like other Indonesian laws, these two laws were broad and required the implementation of supporting legislature. Unfortunately, this took over a year to accomplish (Resosudarmo and Dermawan 2002). These laws were superseded by Law No. 32/2004 (disputed by many stakeholders in the regions), which reduced the former contradictions to some extent.

A convoluted process of forestry policy making in Indonesia continues to this day. It is indicative of the key problem affecting decentralisation and regional autonomy, namely poorly defined decision making powers, responsibilities and accountability process at all administrative levels. It is clear that a situation such as this will need further reform if it is to lead to improved forest governance (Ribot 2005).

Conclusions

- ◆ Indonesia's forestry sector is marred by a multiplicity of legislation, generated by decentralisation and regional autonomy processes, all of which have poorly defined decision making powers, responsibilities and accountability process at all administrative levels.
- ◆ The revision of decentralisation legislation has reduced this confusion to some extent. However, further reform is urgently required to achieve forest governance with balanced powers and responsibilities.

Table 3.5. Summary for Tier-2

| Conclusions for Tier-2: | What should FPP focus on |
|---|--|
| <ul style="list-style-type: none"> • MoF work on Indonesia’s current forestry problems and future planning is structured around a number of forest policy priority areas. These priority areas were formulated in 2002. In 2004, following a review, the priorities remain essentially unchanged—focusing on the elimination of illegal logging, curbing of illegal timber trade, and revitalising forestry industries. • Both in 2002 and 2004, rehabilitation of degraded forest and conservation were also on the agenda, but these priority areas have generated little practical action. • NFP and DKN serve as key forums for the multistakeholder discussion and deliberation of the national forestry policy priorities. • The national forest estate continues to be managed in a top-down manner despite decentralisation and various consultative processes. The lack of legal recognition of the rights of local communities continues to be a leading cause of conflict in the forestry sector. • Initially, Indonesia’s forestry regulations were primarily technical. Since 1998, environmental, social, sustainability and other considerations have been taken into account to a much greater degree. However, ineffective enforcement of the forestry laws means that conceptual changes at the policy level have limited impact on the ground. • Indonesia’s forestry sector is marred by a multiplicity of legislation, generated by decentralisation and regional autonomy processes, all of which have poorly defined decision making powers, responsibilities and accountability process at all administrative levels. • The revision of decentralisation legislation has reduced this confusion to some extent. However, further reform is urgently required to achieve forest governance with balanced powers and responsibilities. | <ul style="list-style-type: none"> • Support the government drive against illegal logging in project areas. • Provide options for feasible market links that would aid the process of industrial restructuring and revitalisation. • Highlight the advantages and benefits that can be gained from conservation. • Facilitate multistakeholder processes on forest policy making and forest/ resource rights. • Support the creation of incentives for conservation and rehabilitation that would encourage action at ground level. |

3.1.4 Tier-3: Coherent set of ‘carrots and sticks’ for implementation in place

In October 2003, Kapuas Hulu district was declared a ‘Conservation District’⁵—the first district of this kind in Indonesia. Forestry observers and policy makers saw this as a revolutionary as well as uncertain development—the latter particularly due to

⁵ ‘Conservation district’ can be defined as an administrative area that has political commitment to sustainable development and to maintaining biodiversity. The district that is being proposed as a conservation district will control and limit degradation of natural resources through a stepwise process aiming to develop adherence to the established set of criteria and indicators.

limited incentives in place for regional governments to pursue conservation. As a result, numerous questions arise such as ‘under what conditions is it appropriate for a district to become a conservation district?’ ‘What is the rationale behind it?’ ‘Has this policy been integrated into other development agendas?’ ‘Do district authorities know the consequences of being a conservation district?’ Questions such as these indicate the need for a coherent set of ‘carrots’ (rewards for appropriate action) and ‘sticks’ (punishment for inappropriate action) in district policy making to move the process forward.

The above questions about Kapuas Hulu are answered in detail later in this report (section 3.2.1). In Tier-3, the focus is on the national-level situation regarding ‘carrots and sticks’ in forest policy making. The specific issues discussed in this section are: the forestry sector’s knowledge and capacity for using the relevant instruments, clear regulatory instruments, market instruments, institutional contractual structures and development of capabilities around agreed roles, and the capability to monitor these elements. The summary of this section is provided in Table 3.8.

Element 1. The stakeholders know about the availability, purpose, degree of choice, implications, and capacity necessary to use the instruments employed in the forest sector

The forest sustainability policies in Indonesia historically belong to two categories: mandatory and voluntary. During the first two decades of forest management based on the system of logging concessions and associated wood-processing industries, there was a lot of leeway in applying (and defying) effective regulations—most of which were mandatory. Subsequently, the trend has been towards the application of more voluntary forestry guidelines and compliance (such as providing market-based incentives for the principle criteria of SFM) that are in line with the regulations, particularly following the issuance of Law No. 41/1999 and PP No. 34/2002 and associated MoF decrees No. 4795/2002 and No. 4796/2002. However, the key problem, as often stated before, has been that mandatory regulations of this kind result in minimal benefits if incentives are lacking and enforcement is weak.

Things began to change in the late 1990s, when LEI and the Forest Stewardship Council (FSC) offered Indonesian logging concessions voluntary assessment schemes towards certification and sustainability, linking certification to specific market incentives (price premiums, high-end buyer markets, etc.). Even though it has been a slow process, since the mid-1990s, forestry stakeholders have become broadly familiar with the necessity to fulfil sustainability requirements to tap into the expanding buyer market for sustainable timber in order to negotiate administrative

incentives from the government. A number of Indonesian forest concessions have been certified and these provide substantial experience and lessons learned about implementing sustainability, Corporate Social Responsibility (CSR) and moving towards certification. Clearly, most *key forestry stakeholders possess a basic knowledge of SFM principles and to some extent attempt to adopt them.*

Conclusions

- ◆ Most early forestry regulations were mandatory, but a shift has taken place towards voluntary compliance with market-based incentives. However, the emphasis on mandatory compliance has had little effect because of weak enforcement and few market/administrative incentives.
- ◆ LEI and FSC have been attempting to induce a move towards sustainability among forestry concessionaries through voluntary assessment and a stepwise approach towards certification, with the prospect of price-premiums and high-end markets as incentives. This approach is making slow progress, but it has resulted in SFM knowledge being firmly established among forestry stakeholders.

Element 2. Coherent mix/set of instruments with the net effect of promoting both a demand for SFM and a supply of SFM (within the framework of roles and policies at the national level)

In order to enable the shift to sustainable timber harvesting and trade in Indonesia, international sustainable timber buyer groups have been established since the late 1990s. Global Forest Trade Network (GFTN) is one such buyer group, supported by WWF, Tropical Forest Trust (TFT), Tropical Forest Foundation (TFF) and other organisations. In addition to the sustainability aspect, legal standards have been developed that also incorporate incentives for legal harvesting.

All these measures face a formidable challenge from *massive illegal logging, illegal timber trade and other unsustainable uses of the forest (e.g. conversion)*. Weak law enforcement against the perpetrators has a demoralising effect on those who are willing to try a transition to SFM and ecosensitive timber markets.

The sustainable timber markets, certification bodies and NGOs all understand the challenge. They enhance the capacity of SFM networks in Indonesia, for example through regional certification working groups (*Kelompok Kerja Sertifikasi, KKS*). At the same time, they also try to exert maximum pressure on the Indonesian Government (central) to improve forest law enforcement.

Conclusion

- ◆ The framework for sustainable harvesting and trade of timber in Indonesia is increasingly well organised. However, the impunity of illegal forest practices demoralises the forestry players willing to move to SFM/certification and acts as a market disincentive. The need for more effective forest law enforcement is crucial. The bodies supporting SFM and certification understand this and strive to help improve the situation.

Element 3. Regulatory instruments: clear, practical, affordable and equitable rules and sanctions in place for the forest sector

Element 3 discusses the instruments of: clearly defined tenure and rights allocation, conservation and protection of communities and their interests in forests. Meanwhile, other factors such as market access for all stakeholders, guarantees and a revenue system based on equitable domestic and export forest product prices should also be considered.

Law 41/1999 (Section 4) states that all forest that is not occupied by any ownership is categorised as State Forest. In this context, the government (MoF) can represent the State as 'Land Owner'. Section 29 of the Law states that various stakeholders have the opportunity to manage forests according to SFM principles including: (1) Individuals, (2) Cooperatives, (3) State-owned Companies, and (4) Private Companies.

MoF issued Ministerial Decrees No. 4795/2002 and No. 4796/2002 to enforce performance evaluation of Forest Concessions (HPH), with a maximum punishment of license withdrawal if the company has a bad performance record, and a set of corrective actions will be formulated upon request if the concession is willing to improve its performance.

In 2002, the MoF revoked the licenses of three forest concessions due to poor performance according to Independent Verification Body (*Lembaga Penilai Independen*, LPI) standards. About 10 proposals for new forest concessions were rejected because they did not meet the minimum standards of forest stand volume set in Ministerial Decree No. 8171/Kpts-II/2002. In the meantime, 12 HPHs have been given the opportunity to continue their operations (MoF 2003).

Voluntary base

Promoting best forest practice through forest certification has been in place since 1990. At the initial stage, an international NGO, Smart-Wood, introduced

certification to Indonesia when it assessed *Perum Perhutani*, a state-owned forestry company mainly operating in Java, in 1990. At the same time, Smart-Wood built up contacts with local NGOs, including LATIN (*Lembaga Alam Tropika Indonesia/ The Indonesian Tropics Institute*). Later, FSC and LEI introduced the approach of certification on a voluntary basis in Indonesia using market incentives. *Although this approach has been in place for more than a decade, it has not really become well incorporated into forestry business practices in Indonesia*. About 13 forest concessions have applied for voluntary SFM certification (Tables 3.6 and 3.7).

Table 3.6. Number of HPHs assessed by Smart-Wood and other FSC certifiers

| Year | Application | Scoping phase | Full assessment | Certified (ha) |
|------|-------------|---------------|-----------------|----------------|
| 1999 | 2 | 1 | 0 | - |
| 2000 | 4 | 4 | 0 | - |
| 2001 | 2 | 2 | 3 | 90,957 |
| 2002 | 1 | 1 | 1 | - |
| 2003 | 4 | 3 | 2 | - |
| 2005 | 4 | 3 | 2 | 184,206 |

Source: Muhtaman and Prasetyo (2005).

Table 3.7. HPH assessment results

| HPH/ Management unit | Number of | | | Status, January 2004 | | |
|----------------------------------|--------------------|------------|----------------------|----------------------|------------|----------------------|
| | Pre- conditions | Conditions | Recom- mendations | Pre- conditions | Conditions | Recom- mendations |
| PT. Sumalindo Lestari Jaya | 8 | 35 | 26 | 8 | 35 | 26 |
| PT. Erna Djulawati | 5 | 28 | 14 | 5 | 28 | 14 |
| PT. Sari Bumi Kusuma | 8 | 17 | 22 | 8 | 17 | 22 |
| PT. Intracawood Manufacturing | 7 | 32 | 18 | 0 | 32 | 18 |
| PT. Inhutani I - Labanan | 6 | 23 | 19 | * | * | * |
| PT. Austral Byna | 10 | 27 | 25 | * | * | * |

* No longer in certification process

Source: Muhtaman and Prasetyo (2005).

Several companies are enjoying 'the carrot', since there is little certified wood available in the market especially from the tropical zone. Some suppliers report price premiums ranging from 5% to 65% for certified tropical milled timber and plywood. However, the higher premiums refer to speciality retail products which represent only a small portion of the output of most mills. According to Simula *et al.* (2005), the management of a mill associated with the Indonesian concession PT Diamond Raya Timber in Riau Province, estimated that CoC (Chain of Custody) certification led to an average 8% increase in wood product prices.

The forest industry in importing countries has a strong economic interest in curtailing the imports of illegally sourced wood products. According to a study commissioned by the American Forest and Paper Association (AF&PA) in 2004 (Brack 2004), illegal logging constitutes around 7%, or US\$ 5 billion of the global primary wood products trade. The study calculated that the removal of illegally sourced round wood from global trade would lead to a price increase of 2–4% of US domestic wood prices.

Several analysts point to the experience from the trade in temperate softwoods, which suggests that any price premiums are likely to erode once certified forest products become more widely available. Currently, most European softwood products come from certified sources, but it is anticipated that price premiums are so low that traders do not bother labelling them as such. This suggests that the premiums that are reported by some tropical producers are likely to reflect the current scarcity of certified tropical hardwood products. However, *with the slow rate of penetration of certification in the tropics, and a steady demand for certified wood products from Indonesia, a scarcity premium would continue to be an incentive for Indonesian producers in the short to medium term* (Jurgens 2006).

The Ministry of Forestry (MoF) has responded positively by contributing a ‘Wild Card’ in that companies that gain forest certification from LEI will get a permit to exploit the species under CITES appendix-III (Ramin, *Gonystilus bancanus*) (Ministry of Forestry Decree No. 168/Kpts-IV/2001). The most recent, and perhaps most fundamental, policy initiative aimed at bringing the annual harvest into harmony with sustainable yields is the so-called ‘soft landing’ policy, which involves gradually reducing the national annual allowable cut (AAC) and distributing this reduction across all provinces and concessions. The AAC was reduced from 21 million cubic metres in 2001 to 5.74 million m³ in 2004. It is unclear how the new and dramatically reduced AAC quota proposed by the policy was calculated. In relation to certification, it is notable that companies that hold certification from LEI will receive exemptions from reductions in AAC according to a decree from the Director of General Forest Production No. 02/KPTS/VI-PHA/2003 (Tacconi *et al.* 2004).

Conclusions

- ◆ Although Voluntary Approach has been in place for more than a decade, it has not really become well incorporated into forestry business practices in Indonesia.
- ◆ With the slow rate of penetration of certification in the tropics, and a steady demand for certified wood products from Indonesia, a scarcity premium would continue to be an incentive for Indonesian producers in the short to medium term.
- ◆ Law enforcement needs to be strengthened in order to provide a more ‘level playing field’ for forestry businesses.

Element 4. Market instruments – achieving equitable distribution of cost and benefits, and incorporation of full social and environmental externalities including: land rights based approaches to improve supply; market enabling measures; strategies for financing

Several companies that applied for voluntary certification were encouraged to do so by their buyers. After a decade, slow progress on the certified wood supply side has encouraged syndication of international buyers, with various international and national NGOs providing assistance. This is reasonable since application of sustainable forest management certification incurs additional costs. *In general, certification costs tend to be much higher for primary producers than for processors.* In contrast, market benefits of certification tend to be captured by actors down in the supply chain. Therefore, the main winners from forest certification appear to be quite far from the forest, particularly in the case of tropical forests (Simula *et al.* 2005). This situation became a concern for international and national institutions and NGOs that participate in the phase approach or stepwise approach scheme.

A land rights based approach to improve supply is incorporated in MoF's decrees and regulations. Those who apply for a new concession or renewal of their licence should fulfil SFM requirements, i.e. they should fulfil minimum standards to comply with production, environmental and social aspects.

The role of banks and other financial sector actors is also important to support implementation of good forest practices in Indonesia. They are major forces in facilitating the use of forest resources. Before the Indonesian financial crisis of 1997, Indonesian local banks provided more than US\$ 4 billion in loans to the Indonesian timber industry. The timber industry also received more than US\$ 7 billion in short-term loans and long-term financing from international financial institutions (Setiono in press). With the enactment of Law No. 25/2003 on money laundering crimes, Indonesia might have an opportunity to promote prudent banks and sustainable forest-based industries while curtailing forestry crimes. The anti-money laundering approach starts by requesting banks and other financial service providers to know their customers through the 'Know Your Customer' (KYC) principles guided by the Basel Core Principle issued by the Basel Committee on Banking Supervision in 1997. Domestic financial institutions should put a system in place for getting to know their customers. Banks should make sure that no criminals or suspected criminals put money from illegal business into the banking system (Setiono and Hussein 2005).

The most significant and innovative aspect of this regulation is that the Indonesian Central Bank (*Bank Indonesia*, BI) explicitly lists 'measures taken by the debtor to conserve the environment' as one of the issues which need to be taken into account

by the bank. BI clearly acknowledges that companies that don't pay attention to their environmental behaviour are more likely to become bad debtors. Banks should avoid lending to such companies, until these clients have taken steps to conserve the environment (van Gelder 2005).

Conclusions

- ◆ In general, certification costs tend to be much higher for primary producers than for processors.
- ◆ With the enactment of Law No. 25/2003 on money laundering crimes, Indonesia might have an opportunity to promote prudent banks and sustainable forest-based industries while curtailing forestry crimes. The threat of timber industry to the banking sector is persistent and growing. Banks are incurring financial risk from illegal logging, illegal trade, log smuggling, competing government policy, politically exposed timber industries, expansion of timber industries, transfer pricing and creative account loss (Setiono and Husein 2005).

Element 5. Institutional/contractual structures and capabilities developed around roles, including formal commitments to agreed role and policy changes, strategy for job competencies, support for poor and marginal stakeholders, clear management guidelines

There are several useful codes of conduct and management guidelines encouraging best forest practices in Indonesia (e.g. *Standar Nasional Indonesia* [SNI, National Product Standards], ISO Management and Environment). Those standards have been recognised by forestry companies and their subsidiaries. Big forestry processing industries (plywood and pulp/paper) have adapted to quality standards management (e.g. ISO, SNI) more so than forestry concessions. This is understandable since, in practice, quality management standards for industries are easier to apply than SFM standards in forests, just because there are fewer factors to deal with.

Conflict over forest resources has encouraged forest concessions to deal with social issues. These have affected ethics of conduct, prompting forest concessions to pay more attention to conflict resolution management or face the possibility of additional problems during operations. Awareness about Corporate Social Responsibility (CSR) has increased since the early 2000s. In some cases, forest certification has contributed to 'behaviour changes' in forest concessions, which need to apply new rules previously never taken into account in their daily business. Forest stakeholders can consider certification as a 'window' for negotiation over forest resources management. This offers an opportunity to all stakeholders to discuss and negotiate

over problems, especially for those who have previously been marginalised in natural resource management. However, this approach has not been fully incorporated according to several NGOs that have struggled over issues of 'land titling'. These NGOs claim that forest concessions have operated in forest land where it is illegal and have not fully incorporated principles of free and prior informed consent.

Conclusions

- ◆ Awareness about Corporate Social Responsibility (CSR) has increased. In some cases, forest certification has contributed to 'behaviour changes' in forest concessions, which need to apply new rules previously never taken into account in their daily business.
- ◆ Conflict over forest resources has encouraged forest concessions to deal with social issues. These have affected ethics of conduct, prompting forest concessions to pay more attention to conflict resolution management.

Table 3.8. Summary for Tier-3

| Conclusions for Tier-3 | What should FPP focus on |
|--|--|
| <ul style="list-style-type: none"> • Private sector understands and attempts to adopt SFM principle, but illegal logging provides cheaper timber, thereby reducing the market share for SFM. • Policies making SFM mandatory have been established. These policies also stipulate rewards and punishments. • Voluntary approach to SFM has been established through certification. • Market incentives from certification have been available for well over a decade; however, few companies have participated in the process, since it is costly and probably does not provide long-term benefits. • With the slow rate of penetration of certification in the tropics, and a steady demand for certified wood products from Indonesia, a scarcity premium would continue to be an incentive for Indonesian producers in the short to medium term. • Law enforcement needs to be strengthened in order to provide a more 'level playing field' for forestry businesses. • In general, certification costs tend to be much higher for primary producers than for processors. • There have been some efforts to improve the role of financial institutions in sustainability issues. • Awareness about Corporate Social Responsibility (CSR) has increased. In some cases, forest certification has contributed to 'behaviour changes' in forest concessions, which need to apply new rules previously never taken into account in their daily business • Conflict over forest resources has encouraged forest concessions to deal with social issues. These have affected ethics of conduct, prompting forest concessions to pay more attention to conflict resolution management. | <ul style="list-style-type: none"> • Facilitate the establishment of a market for sustainability (incentives for those applying SFM), while balancing costs and benefits. • Facilitate the government to be more proactive and continue the support to providing incentives for those supporting SFM activities. |

3.1.5 Tier-4: SFM is promoted among stakeholders

This tier explains how sustainable forest management is promoted in both producer and consumer countries. The summary of this section is provided in Table 3.9.

Element 1. Forest producers, consumers and the public are equally involved in mechanisms to receive and share information on SFM practices and the rewards, costs and risks; associated legislation, instruments, incentives, markets; information flow both up and down the supply chain and on resources required for SFM

As explained in the previous tier, promotion of SFM has been conducted through various channels. Agenda No. 21 of world initiatives (Earth Summit, Brazil) formed the embryo for SFM initiatives. This agenda affects forestry stakeholders throughout the world and all wood producing countries and consumers will need to respond through various actions. The International Tropical Timber Organization (ITTO) and its members committed to apply SFM principles in their operations by the year 2000. LEI has been actively communicating with all stakeholders on the development of SFM standards in Indonesia. SFMP-GTZ, a 10 year project funded by the German Government, has actively promoted SFM principles in the province of East Kalimantan. There are also other initiatives that attempt to raise awareness of and promote SFM principles in Indonesia.

While the criteria and indicators were being developed, various public consultation meetings helped to inform the public about SFM principles. All relevant stakeholders have been informed about the rationale, rewards, costs and benefits of forest certification. Currently LEI is moving towards a more open form of organisation called 'constituents-based organisations', meaning that all stakeholders connected to forests have a 'space' to express their concerns over forestry issues.

To incorporate international ideas on SFM and to convey national initiatives for international recognition, LEI and FSC have agreed to work under the Joint Certification Programme (JCP). Both parties have agreed upon a protocol that was endorsed in 2001. Although these initiatives have increased the burden of certification costs, international recognition of LEI has begun to take place.

Conclusions

- ◆ Promotion of SFM has been conducted through various channels, both nationally and internationally. Various public consultation meetings helped to inform the public about SFM principles.
- ◆ To implement the principles of SFM, collaboration between national and international certification organisations has been established.

Element 2. Forest authorities have access to accurate, recent information on all relevant SFM practices and their extent, and have capacities and resources to communicate this information. They also regularly conduct stakeholder needs assessment for SFM, and adopt responses targeted to specific groups

The Ministry of Forestry formed a steering committee for SFM and other working groups on national SFM initiatives. This has been acknowledged as a medium for transferring SFM related information to their constituents. MoF was actively involved in the developmental phase of LEI, supporting technical and financial matters.

Conclusion

- ◆ In Indonesia, the MoF has supported efforts towards SFM by producing policies and being actively involved in various steering committees of SFM initiatives.

Table 3.9. Summary for Tier-4

| Conclusions for Tier-4 | What should FPP focus on |
|---|---|
| <ul style="list-style-type: none"> • The promotion of SFM has been carried out via national and international forums. • To implement the principles of SFM, collaboration between national and international certification organisations has been established. • There is a support for SFM initiatives from MoF. • The public and authorities are well informed about SFM agendas. | <ul style="list-style-type: none"> • Contribute to introducing green investment initiatives in natural resources in pilot districts and provinces. |

3.1.6 Tier-5: Audit, certification, participatory review, etc., undertaken

Tier-5 explains the verification of forest management (and therefore wood) according to the criteria and indicators of SFM. The summary of this section is provided in Table 3.10.

Element 1. Feasibility of certification or other audit schemes has been assessed, covering: sustainable purpose and drives; necessary preconditions and equity, efficiency and credibility concerns, and forest producers' and consumers' access to a certification or other audit scheme, which are internationally recognised where appropriate, notably for export markets

The International Organization for Standardization's (ISO's) management systems standards ISO 9000 and ISO 14000 are designed to verify management quality and environmental standards. FSC with its certification bodies (SGS and Smart-Wood), and LEI as a national initiative with its certification body (PT. MAL, TUV, Sucofindo) are currently operating voluntary SFM certification schemes in Indonesia. All these initiatives have been accepted by the national and international forestry public and the related market chain. All forestry business now has the opportunity to use those instruments in order to enter ecosensitive markets. The MoF also has a mandatory scheme, which is operated by the Independent Verification Body (*Lembaga Penilai Independen*, LPI). This scheme is considered as a step towards achieving the standards of SFM certification.

Conclusions

- ◆ There are mandatory and voluntarily standards to engage private sector with best forest practices.
- ◆ The oil palm companies (private sector) have started to implement best forest practice through the RSPO (Roundtable Sustainable Palm Oil) initiative.

Element 2. Local auditor/assessor capability exists to carry out certification/other audit at competitive cost.

The quality of local auditors has been enhanced through training and specific standards and requirements. LEI and other ISO initiatives have contributed to the

development of the training and standards for their assessors. The assessment results are also guaranteed by a specific procedure that employs a qualified peer reviewer. Most local auditors are paid according to national standard prices.

Conclusion

- ◆ Local auditors are available to carry out SFM certification auditing in forest concessions and community forests.

Table 3.10. Summary for Tier-5

| Conclusions for Tier-5 | What should FPP focus on |
|--|---|
| <ul style="list-style-type: none"> • There are mandatory and voluntarily standards to engage private sector with best forest practices. • RSPO has established criteria and indicators for best practice in oil palm development. • The tools and standards of auditing for SFM have been set. Instruments for verification are available. • Mandatory and voluntary standards need to be updated and harmonised at the earliest possible opportunity. | <ul style="list-style-type: none"> • Updating commitments of relevant parties to employ national standards. • Appreciation of national initiatives on the international market. |

3.2 Developments in the three pilot districts

Experiences from the decentralisation process describe how the dynamic situation of social, economic and politics have affected forest conditions. The passing of Law No. 22/1999 on Regional Administration and Law No. 25/1999 on the Fiscal Balance between the Centre and the Regions, transformed the concept of decentralisation and regional autonomy into reality. Law No. 32/2004 and Law No. 33/2004 (which replace Laws 22/1999 and 25/1999) were intended to resolve the problems of implementation of decentralisation. However, it is argued that these laws have reduced the 'power' of districts, shifting it to provincial government by using the 'assistance principle'.

Proponents of decentralisation argue that decentralisation is good for natural resources management, since it can incorporate local knowledge about the diverse resource base. By bringing decision makers physically closer to the people, public access is improved, thereby promoting a greater sense of ownership of rules about resource use that should increase willingness to abide by them (Carney 1995; Resosudarmo and Dermawan 2002).

In contrast, decentralisation of forest management in Indonesia has led to an ecologically unsustainable outcome. Where there are immediate trade-offs between resource conservation and local development, decentralisation and devolution of rights and management authority to local institutions may facilitate local choices in favour of short-term development options to the detriment of forest. In some districts, decentralisation has led to increased logging and forest loss in the short term. Stakeholders' uncertainty about their continuing right to forest resources is a major driver of such unsustainable use (Colfer and Capistrano 2005).

The national situation has been described through the 'Pyramid of Good Forest Governance', but will now be measured through specific indicators. As mentioned above, the three main stakeholders in the districts are the government, private sector and communities. The indicators are connected to a baseline situation in the national context regarding what is working, what is missing and what has to be done. These indicators are: (1) Condition of Natural Resources; (2) Districts' Political Commitment to the Forest; (3) Private Sector and Community Participation.

3.2.1 Situation in Kapuas Hulu

Condition of natural resources

Established in 1953, a few years after Indonesia's independence, Kapuas Hulu has a total area of 2.98 million ha. The district lies in the far east of West Kalimantan Province. It accounts for about 20% of the province's land area, and is one of the most forested districts in the province. In 2003, total population was 193,616 people, or about 6 people per square kilometre. Protected areas account for 56% of the district's total area, including Betung Kerihun National Park and Danau Sentarum National Park (together totalling 932,000 ha). The district also has production forest over 17.5% of its total area. Only about a quarter of the district's area is used for settlement, agriculture (including dryland farming) and plantation. Among the important features of the district are the facts that it is located in the 'Heart of Borneo', and that more than half of the district land area is supposed to provide services to its neighbours.

Political commitment in the district

In May 2003, through *Bupati* Decree No. 144/2003, Kapuas Hulu District was declared a 'conservation district'. This initiative was announced in national and international seminars. Within the district, following the establishment of the conservation district, the head of district (*bupati*) formed a working group for the conservation district (*Pokja Kabupaten Konservasi*). The *Pokja* consists of several people from District Development Planning Agency (*Bappeda*), the District Forestry and Estate Crops office, and NGOs. The leaders of the conservation district have not been those in the District Forestry and Estate Crops Office. The role of the District

Forestry Office remains insignificant, although there is a representative from the office as a member of the *Pokja*.

Table 3.11. Land and forest use in Kapuas Hulu

| Land and forest use | Area (ha) | Area (%) |
|-------------------------------------|------------------|---------------|
| Protected areas | 1,677,601 | 56.21 |
| 1. Betung Kerihun National Park | 800,000 | |
| 2. Danau Sentarum National Park | 132,000 | |
| 3. Danau Empangau Protection Forest | 628,973 | |
| 4. Water Catchment Area | 49,546 | |
| 5. Peat Land | 67,082 | |
| Production forests | 523,094 | 17.50 |
| 1. Restricted Production Forest | 241,116 | |
| 2. Production Forest | 201,716 | |
| 3. Conversion Forest | 80,262 | |
| Agriculture, settlement, plantation | 773,359 | 26.29 |
| Total | 2,984,203 | 100.00 |

Source: District Forestry Office

The roles of the *Pokja* are, among others, to formulate the concept of conservation district and facilitate dialogue among stakeholders regarding inputs for the concept. However, the *Pokja* is not in a position to issue formal policy at district level regarding the implementation of the conservation district concept.

Private sector

As a forest-rich district, the main actors within the private sector are the forest concessionaires. Before the enactment of regional autonomy, large forest concessionaires were the main actor. There were several concessions operational in the district whose permits were issued by the MoF, both private and military-owned ones. However, there is currently only one large concession operating in the district—Bumi Raya Utama. There are also a few large concessions with MoF permits, but they are inactive due internal management problems and the non-payment of forestry fees such as PSDH and DR (Anshari 2005).

The move to regional autonomy marked the introduction of small-scale concession permits issued by district government—concessions mostly owned by cooperatives. The number of small-scale concessions was growing enormously until the MoF revoked the authority of district government to issue small-scale concession permits in 2002. However, district government continued to issue such permits until mid-2003. There are still some small-scale concessions operating in the district, although the number is declining, and they are operating far below full capacity. The district also issued nine permits for large concessions, although none of them is currently operating.

The cooperatives that work in the forestry sector are called ‘multipurpose’ or ‘multiactivity’ cooperatives (*koperasi serba usaha*, KSU). There were 309 KSU in 2001, almost 10 times the number in 1999. The revocation of the district’s authority to issue small-scale concession permits to cooperatives has brought significant impacts. By February 2004, many cooperatives working in the forestry sector closed down, applications for new cooperatives declined sharply, and eventually revenues for the district government also declined.⁶ Ironically, 4 months before, the *bupati* had received an award from the Minister of Cooperatives and Small and Medium Enterprises for his achievement in promoting cooperatives in the district.⁷

In 2005, the district had allocated 278,000 ha in 13 oil palm plantations and 7000 ha for rubber plantation managed by one company. A few of these plantations are located in the area that is considered as High Conservation Value Forest (HCVF).

Civil society

Key implications of the establishment of Kapuas Hulu as a conservation district are that employment opportunities for communities become more limited and income generation for people who depend on forest resources is more difficult. These are important issues for the district government since the poverty rate in the district is relatively high (16% according to BPS 2005).

The most important and emerging challenge within the context of the conservation district is overcoming illegal logging. Illegal logging intensified after the designation of conservation district, as the opportunities for legal access to forest resources became limited. District government has been carrying out some activities aimed at both preventing illegal logging as well as arresting the illegal logging actors. For example, the district government has been persuading communities that illegal logging eventually provides nothing, especially in places where the flow of illegal timber is high. In addition to that, the district government also carries out some operations involving police, military and even the MoF, to arrest those who are involved in illegal logging in the district.⁸

Only a few NGOs have been working in the district, including WWF Betung Kerihun National Park, Riak Bumi, and Yayasan Konservasi Borneo. WWF has been carrying out several activities, mainly on the conservation of Betung Kerihun National Park and identification of alternative sources of income for communities living close to the park through environmental services such as ecotourism. Riak Bumi and Yayasan

⁶ Pontianak Post, 19 Februari 2004, ‘Koperasi Gulung Tikar’.

⁷ Pontianak Post, 2 October 2003, ‘Tambul Husin Terima Penghargaan Menteri’.

⁸ Pontianak Post, 14 Februari 2004, ‘Illegal Logging Kawasan Perbatasan Resahkan Warga. Jantan: Jangan Cepat Terpengaruh’. See also Sinar Harapan, 2 February 2005, ‘Hukum Belum Sentuh Aktor Intelektual “Illegal Logging”’.

Konservasi Borneo mainly work in Danau Sentarum National Park. Both carry out activities related to the management of the national park and income generation alternatives.

Summary of the situation in Kapuas Hulu and on-the-ground problem identification

This section highlights the facts detailed in previous sections.

- ◆ The district is located in the ‘Heart of Borneo’, and more than half of the district land area is supposed to provide services to its neighbours. *The forest is categorised as being in good condition.*
- ◆ The economy of the district is dominated by the agriculture sector. The share of manufacturing industry is quite low.
- ◆ The service sector has actually been driven by government and small-scale actors rather than by large private sector.
- ◆ Poor infrastructure is the main challenge in district economic development.
- ◆ The share of PAD (District Income) from district revenues was quite low.
- ◆ Forest is a ‘surplus’ sector in the district budget, where revenue is higher than expenditure.

3.2.2 Situation in Malinau

Condition of natural resources

Malinau district was established in 1999 by National Law No. 47/1999. It is located in the northern part of East Kalimantan. This area is mainly covered by forest (almost 93%), of which 47% is protected and conservation forest. Thus, the natural resources, especially forest, are still in good condition. Currently, Malinau District is in a phase of development, thus land-use planning policies are becoming important issues. District Regulation (*Perda*) No. 12/2003 concerning Land Use Planning and *Perda* No. 13 concerning Natural Resources Management have been used as a basis for sustainable development programmes.

Table 3.12. Land and forest use in Malinau

| Land use type | Size (ha) | % |
|---------------------------|-----------|--------|
| Protected Forest | 744,647 | 17.44 |
| Production Forest | 453,653 | 10.62 |
| Limited Production Forest | 1,280,836 | 30.00 |
| Natural Reserve | 1,038,178 | 24.31 |
| Non-forest area use | 752,763 | 17.63 |
| Total | 4,270,078 | 100.00 |

Source: District Forestry Office

Political commitment in the district

Although not officially declared a conservation district, it has been mentioned on several occasions that Malinau District is headed towards becoming a conservation district. There are several policies related to the initiation of conservation district status within development programmes in Malinau:

1. *Bupati* Decree No. 432/2003 concerning Establishing a Task Force for Establishment of a Conservation District Programme, 6 November 2003.
2. Letter of the *Bupati* of Malinau No. 460/371/Bapp-Bal.III/XI/2004, of 14 December 2004, concerning Management and Development of Kayan Mentarang National Park. This letter was sent to the Ministry of Forestry, mentioning that the DPK (*Dewan Penentu Kebijakan/Policy Decision Assembly*) needed to be reviewed, since this team did not work well.

Private sector in forestry

In 2004, it was recorded that about 20 forestry companies were operating in Malinau District, some of which were operating in two districts. Because there were no processing plants in Malinau, all logs were processed in other districts. There were eight timber companies (HPH) and one Forest Plantation (HTI) with concession rights granted by the Ministry of Forestry which operated in existing (limited) Production Forest (HP/HPT) equivalent to 1,519,885 ha. Between 2001 and 2003, at least 1,646,642 m³ of logs were produced in Malinau. Eleven companies held district permits (IUPHHK). Almost half of these companies are not operating today due to a delay in receiving the cutting permits from MoF and administrative matters. The rest, mostly consisting of small-scale HPHs, are still operating. The Ministry of Forestry is monitoring and verifying their performance. In 1999–2002, about 16 small-scale HPHs were working in a total area of 15,950 ha. However, in 2002 according to *Bupati* Decrees No. 261/2001 and No. 68/2002, all small-scale HPH permits were cancelled.

Private sector in agriculture (oil palm plantations)

- ◆ *Perda* No. 5/2003 regulates plantation investment—it is aimed to boost local economy. This decree also encourages foreign investors to work in this district. Most investors are interested in developing oil palm plantations. A total area of 95,497 ha was allocated for new permits (coffee, cacao, oil palm, rubber, acacia). However, by 2005 most of the companies were not yet fully operating in the field, due to substantial problems such as status of land use.
- ◆ *Perda* No. 12/2003 was made to accommodate the need for land use changes to other purposes (agricultural and plantation). This *Perda* is to anticipate the population growth from 44,316 (2003) to 52,428 by year 2012.
- ◆ *Perda* No. 5/2003 encouraged oil palm plantation development in Malinau. This has become reality, since the number of oil palm companies in Malinau has increased sharply.

Civil society and customary rights

According to Sellato (2001), in 1850 the Dutch controlled northeast Kalimantan through a political contract between the Dutch and the Bulungan Sultanate. As land was plentiful, *adat* institutions had only a limited role in land tenure, but were called on to settle cases of agricultural land-use disputes (Moeliono and Limberg 2004). *Adat* leaders were also instrumental in establishing exclusive domains such as *tanah ulen* in the Pujungan-Bahau area (Sellato 2001; Anau *et al.* 2002; Wollenberg 2003). According to Moeliono and Limberg (2004), despite high mobility, alliances and power balances between different ethnic groups remain remarkably stable. Only since about 2000 have reforms and decentralisation caused a visible shift, mainly in local control and occupation of certain resources or territories.

Fission (ongoing struggles for power or resources) is most noticeable at community level, where competition over resources directly affects livelihoods. Communities in Malinau negotiated directly with logging companies to obtain a share in the benefits. Although not explicitly written as a prerequisite in the laws, not even in the locally issued regulations, right of *adat* communities are *de facto* recognised through the small-scale logging permit (Moeliono and Limberg 2004).

Lembaga Adat Sungai Malinau, established during the Dutch colonial era and approved by government, is headed by a hereditary *adat* leader of the Merap (recognised as first inhabitants of Malinau). There are at least three *adat* institutions in Malinau: *Lembaga Adat Tidung* established in May 2001, since they had distanced themselves from the interior Dayak, but they have reclaimed back as Dayak; *Lembaga adat Punan Kabupaten* started as YAP (*Yayasan Adat Punan/Punan Adat Foundation*) in 1994, originally at provincial level with PDKT (*Persatuan Dayak Kalimantan Timur/ Association of Dayak Communities in East Kalimantan*), but PDKT is not part of the new organisation; and *Lundayeh*, consisting of *Dayak Kenyah* (Limberg *et al.* 2002).

Summary of the situation and on-the-ground problems identified in Malinau District and a short analysis

This section highlights the facts described in previous sections:

- ◆ The district is located in the 'Heart of Borneo'; *the forest is categorised as being in good condition.*
- ◆ The economy of the district is dominated by the forestry sector. The shares of agriculture and manufacturing industry are quite low.
- ◆ The service sector has been driven by government and small-scale actors rather than by large private sector.
- ◆ Lacking and poor infrastructure is the main challenge in the district's economic development.

- ◆ A large part of this area is categorised as protected forest and conservation area.
- ◆ The share of PAD (District Income) from district revenues was quite low.
- ◆ Forest is a ‘surplus’ sector in the district budget, where revenues are higher than expenditure.
- ◆ Local Government commitment to conservation district initiatives is high.

3.2.3 Situation in Pasir

Condition of natural resources

Pasir District, located in the southern part of East Kalimantan province, was established as a District in 1959. In 2002, Law No. 7/2002 split part of this district into a new district Penajam Pasir Utara—total area of Pasir District was reduced from 14,937 km² to 11,604 km².

Table 3.13. Land allocation in Pasir

| No. | Forest land-use type | Area size (ha) | (%) |
|-----------------|---------------------------|----------------|--------|
| I | Forest: | | |
| A. | Protected Forest | 116,952 | 10.08 |
| B. | Natural Reserve | 109,302 | 9.42 |
| C. | Limited Production Forest | 145,350 | 12.53 |
| D. | Production Forest | 257,126 | 22.16 |
| II | Non-forest area uses | 531,664 | 45.82 |
| Total I and II: | | 1,160,394 | 100.00 |

Source: District Forestry Agency (2004); Ministry of Forestry Decree No. 79/Kpts.II/2001.

Political commitment in the district

In year 2005, Pasir District developed its Long-Term Development Plan (RPJP) for the period 2006–2025. The RPJB considered the mission of the district to focus on district development through increasing participation of agribusiness sector. This district has been declared a conservation district.

Private sector in forestry

Official log production in 2003 was 201,634 m³. These logs were produced by 15 Forest Concessions (HPH/IUPHHK). Two forest plantation companies (HTI) are operating in this district and one veneer factory is present. In 2005, only four HPH’s were working actively, together with two forest plantations. According to the District Forestry Agency, no IPPK licenses have been awarded since 2003. Table 3.14 shows forest based industries in Pasir District.

Table 3.14. Forestry-based industries in Pasir

| Type of Industry | Production | | Production value (Rp 000) | Investment value (Rp 000) | Labour force (people) |
|------------------------|------------|----------------|---------------------------|---------------------------|-----------------------|
| | Capacity | Unit | | | |
| Sawmill | 6,949 | m ³ | 3,598,500 | 536,910 | 80 |
| Moulding | 7,866 | m ³ | 5,212,200 | 406,600 | 62 |
| Furniture | 332,860 | set | 2,305,700 | 374,950 | 123 |
| Lampit/Rattan mattress | 3,630 | piece | 250,875 | 43,580 | 46 |

Source: District Industrial Trade and Cooperation Agency (2004).

Private sector in plantations and agriculture

Plantations and agriculture have become the pre-eminent sectors in this district, especially oil palm plantations. Rubber, cocoa, pepper and oil palm are managed by 21 plantation companies in Pasir. In 2003, there was about 56,224 ha oil palm plantations, of which 70% was productive and 20% was in the development phase. Almost 44,828 ha of plantations produced 346,693 tonnes of fruit, equal to a productivity of 7734 kg/ha. Rubber plantations produced 6083 tonnes of latex from 6169 ha. Meanwhile, about 4487 ha coconut plantations existed in this district.

Part of the 279,478 ha of land allocated for non-forest use (KBNK) have already been converted into plantation area. The plantations are owned by communities, private owners and the State (Table 3.15).

Table 3.15. Non-forest use land (KBNK) allocated for plantations in 2004

| Component | Area (ha) | (%) |
|--|------------|--------|
| Reserved for plantation (not yet used) | 205,828.49 | 73.65 |
| Community plantation | 48,944.34 | 17.51 |
| State-owned Plantation (PTP) | 13,925.00 | 4.98 |
| Privately-owned Plantation (PBS) | 10,780.17 | 3.86 |
| Total | 279,478.00 | 100.00 |

Source : District Plantation Agency (2004).

Customary institutions

This information in this section is taken from a workshop on a preliminary study about the existence of customary institutions (*adat*) and customary rights (*hak ulayat*) in Pasir. Customary institutions function for resolving problems within customary communities. The structure of customary institutions is based on watersheds (DAS). Customary leaders in each region are coordinated by a *Pemangku* Leader (*Pemangku Adat*).

According to A.A. Rasyid, Customary Leader, the customary institution in Pasir District has been there since the era of King Kaka Ukop. However, *Ardiyansah*

(District Agency) said that the monarchy (as predecessor of customary institutions) in Pasir ended when the Dutch colonials occupied this district in 1900. The customary institutions have merged to create a formal Village Community Institution, LMD (*Lembaga Masyarakat Desa*), on the basis of Law No. 5 of 1974 and 1979 (Village regulation). Customary institutions in Pasir are divided into seven regions according to watershed (DAS), namely Pasir Pematang, P. Gunung, P. Ampe, P. Adang, P. Semunte, P. Telake and P. Balik.

Summary

- ◆ Pasir District is dominated by non-forestry sectors. *Forest areas are categorised as being in poor condition.*
- ◆ The economy of the district is dominated by agriculture and mining.
- ◆ The service sector has actually been driven by a large private sector in oil palm (plantations), palm oil industries and coal mining.
- ◆ The district's share of PAD from district revenues was quite low.
- ◆ Forest is a 'surplus' sector in the district budget, where revenue is higher than expenditure.

Chapter 4

Current Status and Major Milestones

4.1 Phases of the Programme

Based on the proposal to DGIS, the duration of the project is planned to be about 5 years. *For monitoring purposes this project is categorised into the following phases.*

First phase (2004–2005): Preparation Period. The concept of partnership was defined and the modalities and mechanisms of the Forest Partnership Project operationally designed. This period was a time for partners to adjust their conditions and preconceptions, among other things. Geographically, WWF-Indonesia (Module-2 and Module-3) focused on *Private Sector Engagements* (advocacy) at the international and national levels in relation to introducing best practices in forestry and oil palm development. Meanwhile, Tropenbos International–Indonesia (TBI) (which has an operation base in East Kalimantan) (Module-1) focused on engagement of the government and related communities that depend on forest resources. CIFOR (Module-4, sharing learning experiences) took steps to harmonise its work and activities with FPP in Malinau District, East Kalimantan. Heart of Borneo (HoB) initiatives were also integrated in the districts of Malinau and Kapuas Hulu. In this phase, basic data and the situation of stakeholders were examined. The results of this study are used for strategy arrangements. During this phase, *tools and instruments* for best practices were developed and introduced to relevant stakeholders.

Second phase (2005–2006): Precondition Improvement. This report of lessons learned will be a basis for understanding and taking steps to improve the preconditions for a successful programme. ‘The Pyramid of Good Government’ (explained above) is extremely important to address the critical problems that may arise. The relationship between governments, private sector and communities is a key factor to improve preconditions for good forest governance. Governments have to define *their role* towards efficient bureaucratic/administrative procedures and

better land-use allocation. After laws and regulations are in place and a healthy business environment is in place, the private sector should apply principles of best forest practices in a manner that also benefits local communities, ensuring these conditions can help reduce conflict and violence over forest resources.

Third phase (2006–2008): Engagement. In practice, this phase will focus on engagement with the *private sector* and their market chain of wood and palm oil production. A business-to-business approach will be used to engage the private sector.

Fourth phase (2008–2009): Dissemination.

4.2 Major milestones of Phase 1 (July 2004 to December 2005) and Phase 2 (January–March 2006)

Official approval of the Forest Partnership Programme was given at the end of October 2004 by DGIS, although the project had been operating since July 2004. Unfortunately, the delay in official approval—and hence the delay in finalisation of contractual and budgetary arrangements—led to significant delays in the setting up of the programme and implementation of many activities.

Milestone-1 Harmonising and integrating partners in the forest partnership

This is a crucial element for all partners involved in the Forest Partnership Program. Three organisations with different backgrounds have come together to develop one concept for the project. At the onset of project implementation, all the partners tried to identify their roles and responsibilities based on the proposal submitted, and based on their strengths and comparative advantages. WWF-Indonesia, as a global nature conservation organisation, has strength in raising awareness among the national and international public regarding the effects of unplanned land-use development on natural areas, especially in Indonesia. To voice that concern, WWF needed reliable facts and figures from the other partners, TBI and CIFOR. This is the first route for integrating actions *to maintain the issue of conservation in the frame of good governance*.

Translating international concerns on the environment to the grassroots level was a major task in Module-1, led by TBI. *Land-use* planning has been a major topic for

integration with Module-3 (forest conversion). By using the scenario of a Producer Forest Trade Network led by WWF Asia Pacific, this module introduced the scenario market incentives to encourage the private sector to participate in best forest practices. *One private company in Pasir District (PT. Rizky Karcida Riana, RKR) has signed a Memorandum of Understanding (MoU) under Module 1 and will try to link with the scenario in Module 2.*

The District Conservation Programme has been used as an approach to create better preconditions for good forest governance in the districts. TBI, WWF and CIFOR have been working together as a task force team that was endorsed by a decree from the Ministry of Home Affairs. *This has led to significant team work and progress on integration of the project's different modules to enhance synergies and foster necessary preconditions for improved governance.*

Milestone-2 Building partnerships with local and national governments

District governments

Although this phase is categorised as the preparation phase, significant progress has been made in Module-1 to engage with district governments. On the basis of its previous work and networking, TBI has become well established, especially in Pasir District. Meanwhile, TBI has succeeded in coordinating its work with CIFOR in Malinau District. CIFOR has a lot of experience in building relationships among stakeholders within Malinau District. This has been a major contribution to the work of TBI in this district. Malinau District has welcomed the FPP. As WWF Indonesia has a lot of experience with the district government in Kapuas Hulu, this has also made a significant contribution to the engagement between TBI and relevant parties in Kapuas Hulu.

Rationale and relevance:

The issue of land use has been a major problem during the transition to decentralisation in Indonesia. Partnership with district governments is a means of promoting enabling policies related to land-use allocation (it is related to Tier-2 Element 3 about Policies for sustainability). The roles of stakeholders have begun to be accommodated in the districts.

Central government

The high-profile launch of the FPP in May 2005 served to inform stakeholders from national government institutions and the private sector (e.g. forest concessions, forest industries, oil palm companies), donors and community representatives.

In June 2005, FPP initiated a national workshop on the concept of a conservation district. More than 50 representatives from government agencies (central, provincial and district), NGOs, universities, conservation area managers, and other related sectors participated in the workshop and discussed various aspects of a conservation district. Particular attention was focused on policy and regulation, criteria and indicators for a conservation district, and strategies to accelerate the process. Following several rounds of discussion, a small task force was established by the Ministry of Home Affairs. The Task Force consisted of representatives of this project's four modules: district officials, Ministry of Forestry, Ministry of Environment, Ministry of Home Affairs, and universities (Ministry of Home Affairs Decree No. 522.53-258/kep/Bangda/2005). The main remit of the Task Force is to produce a ministerial decree supporting the implementation of Conservation Districts. *This ad hoc team has the potential to exert significant influence on national and local governments to formulate enabling policies for good forest governance.*

In Tier-2 of the 'Pyramid of Good Governance', the policy of sustainability should be developed in a participative way. In Tier-3, this policy can potentially be used as a tool, serving as 'sticks and carrots' for districts to implement the principles of good forest governance.

Milestone-3 Private sector in oil palm has been made aware of best practices

Milestone-3 pertains to promoting best practice in oil palm development in national and international forums. Although the current phase is still part of the preparation period, the building of strategic alliances with non-government partners was started, since this activity is necessary for putting pressure on the private sector and the Indonesian Government to start to implement best practice in the development of oil palm plantations. This milestone is described as follows:

- ◆ Roundtable (RT) 1 has raised awareness on sustainable palm oil production, establishment of RSPO as an institution, and an industry-signed statement of intent.
- ◆ RT 2 has established a working group for development of Principles and Criteria (P&C) on sustainable palm oil.
- ◆ RT 3 has ratified the P&C and established a working group for verification, certification, supply chain and smallholders.
- ◆ Fourteen companies are undertaking the tests on P&C RSPO.
- ◆ Commitment from Cofco (China), the largest producer in China, to push Wilmar to change practices according to RSPO P&C.
- ◆ Campaigns for global audiences through reputable media (*Newsweek*, etc.).
- ◆ Three Indonesian members are in the selection process to become RSPO members.

In some cases, the implementation of this module was instrumental in introducing HCFV tolls to oil palm companies in East Kalimantan Province. There needs to be a focus on plantations in Pasir District, since this area has a large number of oil palm plantations.

Rational and relevance:

The principles and criteria of sustainable palm oil were accommodated along with some other important aspects of conservation, e.g. the conversion of primary and high conservation value forests; better practices to conserve rare, threatened and endangered species; environmental impact assessments. Some other relevant aspects covered by P&C are compliance with relevant laws; adoption of free, prior and informed consent; and acknowledgement of customary rights. This can be seen as ‘winning’ from the perspective of conservation organisations, due to the fact that the Criteria Working Group (CWG) consists of a majority of industry players.

Milestone-4 International markets in forestry-related business

Considering that many of the preconditions for best forest practice as described in the ‘Pyramid of Good Governance’ are not met in Indonesia, WWF (through Module 2) has sought to continue to influence and to negotiate with international markets that were not yet pro-sustainability. The international markets that still require influencing are China, Japan and some Middle Eastern countries. There is a need to keep informing the public that receiving or re-exporting wood from those countries should follow green procurement polices.

Rationale and relevance:

The willingness of the private sector to follow certain regulations depends on what is best for them. The government should be willing to provide incentives for other companies to be similarly certified.

Milestone-5 Building partnerships with the community

Keeping relevant stakeholders informed about implementation of good forest governance through forums and partnerships is an important way to increase awareness. By knowing their roles, rights and responsibilities, stakeholders can avoid conflicts over forest resources. Module 1 has contributed significantly towards this project output in Pasir District.

Chapter 5

Recommendations and Ways Forward

Module 1 Good forest governance

- ◆ Based on lessons from the situation described in Chapter 3, all efforts will be dedicated to improving preconditions. The proposal for a conservation budget as one incentive mechanism is currently under review by the district conservation task force and will potentially contribute to better preconditions for forest practices in the private sector. A draft ministerial decree on that issue is also being prepared.
- ◆ Module 1, which has a strong field basis within districts, has the potential to promote and facilitate implementation of this decree and help improve a business environment (enforcement of laws against illegal logging, for instance).
- ◆ To reduce conflict and violence over forest resources that have led to an uncondusive business environment, community forums in districts can potentially serve as the window for negotiation of disputes over natural resources and their management.
- ◆ Linking in the addressing of illegal logging is also needed to contribute to a better business environment for the private sector.
- ◆ This module is expected to continue to support the efforts of *ad hoc* 'District conservation' teams to formulate and endorse the draft district conservation programme.
- ◆ Learning from the emergent situations following the passing of a new Law on Regional Government (No. 32/2004), the FPP should adjust its approach so that provincial regions are also actively involved in these initiatives.
- ◆ Formulate a national policy as umbrella of conservation districts, and facilitate testing its criteria and indicators.

Module 2 International markets

- ◆ A recent development by the Japanese Government requiring wood exported from Indonesia to be certified by LEI, is considered as an opportunity to successfully reduce potential losses to the illegal market. Noticeably almost 1 million ha of forest in Indonesia have been certified by LEI.
- ◆ Linking international markets to certified wood or linking the stepwise approach of PFTN and LEI will potentially have a big impact on supplies of legal wood to international markets.
- ◆ Continuing to get closer to buyers, consumers and producers by inviting them to Indonesia is a way to demonstrate to Indonesian timber producers that they can get benefits (carrots) for doing best forest practices. This activity can be made more effective by strengthening the Certification Working Group (KKS) in East Kalimantan.
- ◆ Two forest concessions have been certified according to FSC and LEI (PT. Diamond Raya and PT. Erna Djuliawati) with more companies in the process of getting certified (Sumalindo, Dwima Jaya, and Intraca). Module 2 provides an opportunity to engage them as ‘special members’ and to try to facilitate and help to solve the Corrective Action Request (CAR) especially for FSC standards.
- ◆ Close collaboration with a national stepwise approach is as an initiative to harmonise standards is important and a priority step for engaging the private sector.
- ◆ Encouraging companies to set Chain of Custody (CoC) standards is an option to encourage downstream companies to use legal wood.
- ◆ Learning from markets in the UK (B&Q), close collaboration with LEI is needed and introduction of the B&Q standpoint to VVNH in The Netherlands.
- ◆ CoC is a strategic way to identify the route of timber flow. Once the route is identified, deciding upon possible approaches and selection of districts as targets for improvement is easier.

Module 3 Halting forest conversion

- ◆ Intervention by the international public can potentially have significant impacts on the ground. During the next phase, the project would have to test P&C to see how it works on the ground. This can be a way of translating and understanding how international concerns affect conditions at the district level. This activity can be linked to Module 1.
- ◆ The ministerial draft on Conservation District, which includes responsible and better land-use planning, can be adapted as a rationale for integrating the concepts of HCFV.
- ◆ Forums for discussion of issues and best practices in oil palm development need to be established at district and provincial levels.

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Annexes

Annex I. Activities involved in the preparation of the report of lessons learned

| Activities | Remarks |
|--|--|
| CIFOR–Pemkab seminar in Malinau District, East Kalimantan, on development and conservation in border areas | <ul style="list-style-type: none">• Together with TBI, CIFOR conducted a follow-up discussion on research logistics/coordination in relation to partnership with Pemkab.• CIFOR staff involved in FPP conducted internal meetings with other CIFOR staff members working in Malinau to obtain relevant information.• Participated in 'Introducing Forestry Partnership Programme' meeting in Malinau District. The meeting involved Malinau District government, local NGOs and FPP (WWF-Indonesia, TBI and CIFOR).• Contributed to the development of the MoU between FPP and Malinau District government. |
| Outlining steps for completing the Report of Lessons Learned for year 1: methods, field activities, analysis, report writing | <ul style="list-style-type: none">• On March 2005, CIFOR hired Dr Gusti Azhari from West Kalimantan and BIOMA NGO in East Kalimantan to collect data and identify and analyse stakeholders in Kapuas Hulu and Pasir, respectively.• Held a meeting at CIFOR, Bogor to finalise reporting requirements (i.e. narrative report, financial report and work plan for the second year).• Data collection activities in West and East Kalimantan underway. Data collection was delayed, partly due to the local government election process in the pilot districts.• The table of contents of the report of lessons learned was agreed by partners in October 2005. |

Annex II. Logical framework of the Modules in the Forest Partnership Programme

Module 1. Forest governance and area based conservation

| Outcomes | Indicators | Assumptions and risks | Potential partners |
|--|---|---|--|
| 1.1. Improved forest governance systems in three target districts grounded within district development visions based on multistakeholder input and balancing social, economic, and environmental concerns. | <p>Appropriate legal, regulatory, and institutional frameworks in place for sustainable forest management and conservation district framework</p> <p>Regulations/bylaws enforced</p> <p>Loss of natural forest cover</p> <p>Annual illegal harvested wood</p> <p>Illegal activities (including illegal logging, hunting, forest encroachment) in protected and forest areas</p> <p>Political and public society support for good forest governance.</p> | <p>No major political or policy changes</p> <p>Commitment and willingness of relevant stakeholders, particularly the district government and relevant authorities, to participate and collaborate</p> <p>Illegal logging and short-term natural resource governance visions will continue and likely worsen if the module is not implemented.</p> | <p>District government, particularly planning and forest agency</p> <p>National park and/or protected area authorities</p> <p>Judiciary and law enforcement agencies</p> <p>Parliamentary and legislative bodies</p> <p>Civil society institutions including adat groups</p> <p>National and local NGOs</p> <p>International projects/donors</p> <p>Private sector (wood industry/logging enterprises, oil planters)</p> <p>Academician/universities</p> <p>Relevant transboundary government institutions</p> |

| Outcomes | Indicators | Assumptions and risks | Potential partners |
|--|---|---|---|
| <p>1.2. Effective collaborative management of forests (including protected areas and forest reserves) in the three target districts through facilitation of better governance mechanisms, particularly spatial planning.</p> | <p>District land-use plans approved/implemented</p> <p>Strategies for sustainable forest management in place</p> <p>Community-based forest management implemented</p> <p>Collaborative management of protected and forest area agreements implemented</p> <p>Natural forest cover</p> <p>Deforested area by illegal logging and conversion</p> <p>Presence of fish and mammals.</p> | <p>No major political or policy changes</p> <p>Commitment and willingness of relevant stakeholders to participate and collaborate</p> <p>No re-allocation of land use in the target districts (e.g. for mining, logging, plantations, infrastructure) issued by national or provincial government</p> | <p>District government, particularly planning and forest agency</p> <p>National park and other protected area authorities</p> <p>Judiciary and law enforcement agencies</p> <p>Parliamentary and legislative bodies</p> <p>Civil society institutions including adat groups</p> <p>National and local NGOs</p> <p>International projects/donors</p> <p>Private sector (wood industry/logging enterprises, oil planters)</p> <p>Academician/universities</p> <p>Relevant transboundary government institutions</p> |

| Outcomes | Indicators | Assumptions and risks | Potential partners |
|--|---|---|---|
| <p>1.3. Sustainable forest management and local economic initiatives contribute to improved rural livelihoods in the three target districts.</p> | <p>Equitable distribution of revenues</p> <p>Mechanisms for revenues for local communities from NRM</p> <p>Defined access rights to land and natural resources</p> <p>Community income from CBFM</p> <p>Payment for environmental services</p> <p>Local men and women participate actively in community and district planning</p> <p>Employment and income generation</p> <p>Presence of illegal activities in the parks and forest reserves</p> <p>Direct market linkages functioning between communities and buyers</p> <p>Forest Certification in place or in process for Community managed forests.</p> | <p>Commitment and willingness of relevant stakeholders, particularly the district government and private sector to participate and collaborate</p> <p>No re-allocation of land use in the target districts (e.g. for mining, logging, plantations, infrastructure) issued by national or provincial government</p> <p>Alternative income sources are available and form an important part of local communities' livelihood</p> <p>Potential markets are available and accessible.</p> | <p>District government, particularly planning and forest agency</p> <p>National park and other protected area authorities</p> <p>Judiciary and law enforcement agencies</p> <p>Parliamentary and legislative bodies</p> <p>Civil society institutions including adat groups</p> <p>National and local NGOs</p> <p>International projects/donors</p> <p>Private sector (wood industry/logging enterprises, oil planters)</p> <p>Academicians/universities</p> <p>Relevant transboundary government institutions.</p> |

Module 2. International markets

| Outcomes | Indicators | Risks and Assumptions | Potential collaborators |
|---|---|--|---|
| 2.1. By 2009, a critical mass of companies in Indonesia and Malaysia are supplying verified legal wood from forests that are credibly certified or progressing towards certification. | <p>Number of producer members of FTNs (membership requirements to include satisfaction of legal compliance criteria and commitment to an action plan to achieve certification)</p> <p>Volume of wood from proven legal sources as a percentage of the total volume traded</p> <p>Area of forest certified or managed by FTN producer members in Malaysia and Indonesia.</p> | <p>FTNs fail to recruit producer members</p> <p>Producers can be convinced that joining FTNs will yield commercial benefits</p> <p>Laws, regulatory practices or political realities in Indonesia or Malaysia prevent achievement of certification</p> <p>Outreach and advocacy and demonstration pilots will help remove legal and political barriers to achieving certifiable standards of forest management in Indonesia and Malaysia</p> <p>The cost of robust systems to verify legal origin will be prohibitive</p> <p>Affordable and realistic mechanisms and tools can be established to assist producers to supply 'proven legal' wood.</p> | <p>GFTN corporate members with supply chains that rely on wood from Indonesia and Malaysia</p> <p>Corporate members of the Malaysian and Indonesian FTNs</p> <p>The Nature Conservancy (TNC)</p> <p>International Finance Corporation (Program for Eastern Indonesia Small-Medium Enterprise Assistance)</p> <p>Lembaga Ekolabel Indonesia</p> <p>Smart-Wood</p> <p>Woodmark</p> <p>Tropical Forest Foundation</p> <p>POKJA PA-PSDA (NGO Coalition on agrarian and natural resource reforms)</p> <p>Government.</p> |

| Outcomes | Indicators | Risks and Assumptions | Potential collaborators |
|---|--|--|---|
| <p>2.2. By 2009, targeted companies in Europe and Asia that manufacture or buy products containing wood from Indonesia or Malaysia, have adopted responsible purchasing policies and taken effective action to eliminate illegally and unsustainably harvested wood from their supply chains.</p> | <p>Number of influential companies that adopt responsible wood procurement policies and practices</p> <p>Percentage of wood procured by these companies from verified legal and certified sources.</p> | <p>Markets continue to accept products containing wood from illegal and unsustainable wood sources</p> <p>A significant number of companies will accept the 'business case' in favour of procuring wood from known, legal and sustainable sources rather than unknown or 'black-market' sources</p> <p>Responsible procurement policies fail to deter illegal or sustainable logging practices</p> <p>The adoption of responsible wood procurement policies by manufacturers, traders and end users will motivate forest managers to apply tracking systems and audits to verify their wood has been harvested legally and to pursue certification</p> <p>To minimise exposure to prosecution or NGO criticism, responsible buyers will simply refuse wood from producer countries where illegal logging or sourcing is prevalent, rather than investing in systems to distinguish acceptable suppliers from unacceptable ones in those countries</p> <p>It is possible to define robust, yet practical due-diligence measures for verifying the legality of wood, and that these will be respected by most stakeholders, even though they may not provide 100% certainty on legality.</p> | <p>GFTN corporate members with supply chains that rely on wood from Indonesia and Malaysia</p> <p>Japanese companies participating in the WWF Japan Forest Conservation Finance Program for Indonesia (e.g. Marubeni, Askul and Ricoh)</p> <p>The Nature Conservancy</p> <p>Traffic East Asia</p> <p>China Wood Traders Association</p> <p>Asia Forest Partnership</p> <p>East Asia and Europe Forest Law Enforcement, Governance and Trade processes</p> <p>World Business Forum</p> <p>VVNH – or other Dutch partners</p> |

Module 3. Forest Conversion

| Outcomes | Indicators | Assumptions and Risks | Potential collaborators |
|---|--|--|--|
| 3.1. Oil palm companies and relevant institutions become active participants in the Roundtable on Sustainable Palm Oil. | <p>Number of Indonesian oil palm companies subscribed and active in Roundtable</p> <p>Communication on the importance of the Roundtable in the oil palm/palm oil subsector esp. in Indonesia is extended to wider actors in the palm oil subsector and frequently conducted</p> <p>Information flow on the negative impacts of widespread forest conversion to private sector opinion formers and media is maintained</p> <p>European palm oil buyers, financiers and relevant institutions (incl. the Dutch Ministry of Agriculture) develop and implement appropriate chain of custody for sustainable palm oil</p> <p>Dialogues with major palm oil buyers in non-European countries (China, Japan, India – to obtain support for the Roundtable) are started and intensified</p> <p>Active participation from producers/producers' association (esp. from Indonesia) in the Roundtable process exists and is maintained – to promote the development of a credible definition of sustainable palm oil.</p> | <p>Communication on the positive leverages of the Roundtable will provide incentives for wider actors to join and support the process.</p> <p>Communication on the negative side will maintain pressure on companies to commit for the attainment of sustainable palm oil production (incl. joining the Roundtable process)</p> <p>Support from European market for sustainable palm oil products will encourage and influence Indonesian key oil palm actors to join the process of the Roundtable</p> <p>Dialogues with non-European countries' buyers will influence more companies in Indonesia to join the Roundtable</p> <p>Producers/producers' association see the usefulness and trust the process of the Roundtable.</p> | <p>WWF Switzerland, WWF International, WWF Malaysia, WWF Netherlands, WWF Germany</p> <p>Indonesian Palm Oil Commission (incl. its member GAPKI/ Indonesian Oil Palm Producers Association)</p> <p>Sawit Watch</p> <p>Key Indonesian companies (PT. Astra Agro Lestari TBK, Asian Agri, PT. SMART Tbk., Pacific Rim Palm Oil, etc.)</p> <p>Key European companies (Unilever, The Body Shop, etc.)</p> <p>Milieudefensie/Friends of the Earth</p> <p>The Ministry of Agriculture/ Indonesia</p> <p>The Ministry of Agriculture/The Netherlands.</p> |

| Outcomes | Indicators | Assumptions and Risks | Potential collaborators |
|---|--|---|--|
| <p>3-2. Districts and key companies adopt policies or land-use plans to exclude High Conservation Value Forests (HCVFs) from conversion and use 'idle' lands for plantations.</p> | <p>Three districts/companies sign and implement commitments to cease conversion of HCVF</p> <p>FSC-HCVF toolkits are applied in HCVF analyses</p> <p>Communication of the results and lessons learned of these HCVF works to private sector opinion formers and media is started and maintained.</p> | <p>Companies/associations are willing to jointly implement the work. Policy learning from these pilots will influence companies' plans and/or district spatial plans towards responsible conversion. Experience from these pilots contributes to the development of 'Better Management Practices' (BMPs)/ Guidelines in Applying HCVF Assessment and Maintaining and Restoring HCVF inside oil palm concessions/plantations</p> <p>Companies are willing to jointly hold the series of seminars/workshops/training on HCVF and to actively participate in them</p> <p>Pilot projects to apply the banks' plantations code of conduct, contribute to the halt of HCVF conversion on the ground/inside oil palm concessions/ plantations. Experience from these pilots contributes to the development of 'BMPs in Green Investment Screening'</p> <p>Communication of HCVF results and lessons-learned will maintain pressure on companies to adopt HCVF and exclude it from conversion plan.</p> | <p>WWF Switzerland esp. FCI Investment Module Leader; WWF International esp. Forest Finance Working Group; WWF Netherlands</p> <p>Indonesian Palm Oil Commission (planned pilot tests of HCVF in Riau province and West Kalimantan province – esp. in Sanggau and Kapuas Hulu districts)</p> <p>Key Indonesian Companies (PT. Astra Agro Lestari Tbk: planned pilot test of HCVF in Kutai Barat district, East Kalimantan; PT. Tunas Sarwa Erma/Korindo: planned pilot test of HCVF in Merauke district, Papua, etc.)</p> <p>Key European financiers (Rabobank International Indonesia: planned joint investment screening work on the ground starting 2004)</p> <p>Key European companies (Unilever, etc.)</p> <p>Influential European institutions (e.g. DOEN Foundation agree to support the training on HCVF/ Sustainable Palm Oil for CEO/ Plantation Managers)</p> <p>Sawit Watch.</p> |

| Outcomes | Indicators | Assumptions and Risks | Potential collaborators |
|--|---|---|--|
| <p>3.3. Major oil palm plantation companies/institutions support development of, and adopt BMPs related to mitigating conflicts between humans and wildlife.</p> | <p>A framework is produced for identifying, housing and monitoring application of better management practices for oil palm production</p> <p>Pilot projects implemented to develop BMPs for oil palm plantations.</p> | <p>BMP framework provides the basis for the entire BMP work and adoption</p> <p>This information set is available</p> <p>Companies are willing to jointly work in developing/designing BMP.</p> | <p>WWF Switzerland; WWF International esp. Regional BMP Module Leader; WWF Malaysia; WWF Netherlands</p> <p>Indonesian Palm Oil Commission, GAPKI (Indonesian Oil Palm Producers Association)</p> <p>Key Indonesian companies (PT. Astra Agro Lestari Tbk, Korindo, Pacific Rim Palm Oil, etc.)</p> <p>Key European financiers (Rabobank International Indonesia, etc.)</p> <p>The Ministry of Agriculture, Indonesia</p> <p>Relevant provincial and district government agencies.</p> |

Module 4. Sharing of lessons learned and monitoring

| Outcomes | Indicators | Assumptions and Risks | Potential collaborators |
|--|---|---|---|
| <p>4.1 Partnership members are enabled to adopt an adaptive management approach to maximize the likelihood of project success.</p> | <p>Number of partners and stakeholders actively involved in sharing lessons learned</p> <p>Number of partners and stakeholders making use of information from other partners</p> <p>Partners have adapted their management</p> <p>Lessons learning reports prepared and disseminated.</p> | <p>Partners and stakeholders will be open and transparent</p> <p>Partners and stakeholders open to new ideas and their use.</p> | <p>All stakeholders.</p> |
| <p>4.2 A two-way flow of information concerning lessons learned and outcomes between the Partnership and other networks engaged in similar activities elsewhere is developed and maintained.</p> | <p>Exchange of information and findings with partnerships in other parts of the world</p> <p>Stakeholders incorporate lessons learned from documentation into their own programmes</p> <p>Strategies, mechanisms and instruments are constantly reviewed.</p> | <p>Other networks will be open and transparent</p> <p>Other networks open to new ideas and their use.</p> | <p>AFP East Asia Forest Law Enforcement and Governance Task Force World Business Forum.</p> |

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.

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Forests have played a significant role in supporting Indonesia's economic development for more than three decades. However, unsustainable forest management practices, together with Indonesia's economic crisis in 1997, have put more pressure on the nation's forest resources. Exacerbating this have been the problems associated with the implementation of decentralized government in the post-Suharto era. These include environmental and political uncertainties, inconsistent laws and regulations, and weak law enforcement. These unfavorable trends are endangering Indonesia's forests, particularly in Kalimantan (Indonesian Borneo).

The Kalimantan Forest Partnership comes under the umbrella of the Asia Forest Partnership (AFP). It arose from a commitment made in 2002 at the World Summit in Johannesburg by the Netherlands' Government to support the AFP's efforts to promote sustainable forest management in Kalimantan. The Kalimantan activities are promoting collaboration among various parties and stakeholders, and linking improved forest governance in Kalimantan to international trade in Asia and Europe.

This report details the lessons learned from the collaborative activities in Kalimantan. It also examines the current state of forest governance in Indonesia, the conversion of forest lands, and how international markets might influence Indonesia and Kalimantan's forestry sector. The report also looks at the Kalimantan forest partnership's response to regional problems, overviews its successes and analyzes its capacity building initiatives. The report also offers several recommendations for helping to ensure the partnership achieves its stated goal of "improved forest governance and sustainable forest management".

