Decentralisation of Policies Affecting Forests and Estate Crops in Kutai Barat District, East Kalimantan

Anne Casson

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Decentralisation and Forests in Indonesia: An Overview of the Study

Since early-2000, the Center for International Forestry Research (CIFOR) has conducted research on the decentralisation of forest administration and policies affecting forests in Indonesia. This project has sought to document the real and anticipated impacts of decentralisation on forest management, forest community livelihoods, and economic development at the provincial and district levels. During the initial phase of this research, CIFOR conducted case studies in nine kabupaten or districts, in four provinces: Riau, East Kalimantan, Central Kalimantan, and West Kalimantan. These case studies were carried out in 2000, with follow up visits to some districts conducted in early 2001. As such, the findings presented in the present report and the companion case studies reflect the conditions and processes that existed in the study districts during the initial phase of Indonesia's decentralisation process.

The following reports have been produced by this project. The first of these represents a synthesis of the major findings from the nine case studies, accompanied by a historical analysis of forest administration and forestry sector development in Indonesia, and a discussion of the origins and legal-regulatory basis of the nation's ongoing decentralisation process. Each of the nine case studies is published as a separate report (with the exception of the study districts in Riau, which have been combined) in order to make the information contained therein more readily accessible to decision-makers involved in the decentralisation process. It is hoped that readers of the case studies will refer to the synthesis report in order to situate the specific case study findings in a broader historical and policy context.

During 2002, CIFOR will publish additional case studies from research on decentralisation and forests in West Kalimantan, South Sulawesi and Irian Jaya. CIFOR also plans to carry out follow-up research at several of the original case study districts, and will publish periodic findings from the sites.

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Editor's Preface

Overview of Indonesia's Decentralisation Process

Since late-1998, Indonesia has undergone a process of rapid and far-reaching decentralisation. With this process, considerable degrees of administrative and regulatory authority have been transferred from the national government in Jakarta to the country's provincial and district governments. This transfer of authority has occurred across broad segments of the nation's economy and has sharply redefined the roles and responsibilities of government agencies at each level of the nation's administrative structure. With the locus of decision-making shifting decisively away from the national government, Indonesia's ongoing decentralisation process marks a dramatic break from the highly-centralised system of governance that characterized Suharto's New Order regime during the period 1966-1998.

To a significant extent, the process of decentralisation now occurring in Indonesia has been driven by the demands of provincial and district governments whose jurisdictions are rich in timber, petroleum, and other natural resources. Officials from resource-rich regions have long complained that the vast majority of the benefits from these assets have flowed away from their regions to the national government and to private sector companies closely associated with decision-makers in Jakarta. While the New Order government kept a tight lid on calls for greater regional autonomy and regional control over natural resource revenues, the post-Suharto government has not been able to ignore these demands. On the contrary, since 1998 the country's senior leadership has recognised that its ability to maintain Indonesia's integrity as a nation may ultimately depend on its capacity to strike a more equitable balance of power between the national government, on the one hand, and the provincial and district governments, on the other.

Over the last three years, the national government has issued several important pieces of legislation aimed at transferring authority to the provincial and district governments, and at allowing resource-rich regions to retain a larger share of the fiscal revenues generated within their jurisdictions. The most significant of these have been Law 22 on Regional Governance and Law 25 on Fiscal Balancing, both of which were issued in May 1999. Together, these laws provide the legal basis for regional autonomy, laying out a broad framework for the decentralisation of administrative and regulatory authority primarily to the district level. These laws have been supported by a variety of implementing regulations and sector-specific decentralisation laws, including Law 41 of 1999, a revised version of Indonesia's Basic Forestry Law, which outlines the division of administrative authority in the forestry sector under regional autonomy.

In many parts of Indonesia, provincial and district officials acting in the spirit of regional autonomy have instituted reforms that extend well beyond the authority granted to them under the national government's decentralisation laws and regulations. Indeed, the formal decentralisation process has been driven, to a significant degree, not by policy decisions made at the national level but, rather, by decisions made by provincial and district level actors. This process has often been ad hoc in nature, with national policymakers frequently finding themselves in the position of having to react to fast-moving changes that have occurred in the provinces and districts. Far from being a well-planned and carefully-managed exercise in bureaucratic reorganization, the implementation of regional autonomy in Indonesia has been characterized by intense struggles among the different levels of government, each of which represents a competing set of political and economic interests. In this way, regional autonomy has stretched well beyond the formal decentralisation of administrative and regulatory authority; in practice, it also involves a significant, if largely informal and unplanned, devolution of power from the national government to its provincial and district-level counterparts.

The formal and informal processes of decentralisation have been accompanied by a wide-ranging set of governance and economic reforms, collectively known as reformasi, that are associated with Indonesia's transition away from Suharto's New Order regime. Broadly defined, reformasi refers to the transformation and dismantling of the policies, practices, and institutional structures through which the New Order leadership and a handful of well-connected conglomerates controlled the political and economic life of the country prior to Suharto's resignation in May 1998. While significant elements of the reformasi agenda coincide with the changes occurring under regional autonomy, these reform processes are also quite distinct. Whereas reformasi refers to a shift away from the constellation of interests and power structures that have supported a particular regime, decentralisation and regional autonomy refer to the transfer of authority from the national government to Indonesia's provincial and district governments.

Decentralisation of Forest Administration

The formal and informal processes of decentralisation that are now occurring in Indonesia have far-reaching implications for forest management and for the livelihoods of communities living in and around forested areas. On the positive side, experience from other countries suggests that decentralized systems of forest management often lead to more sustainable and equitable use of these resources, as decision-makers are physically located closer to where their policies will be implemented (Conyers 1981; Rondinelli, Nellis, and Cheema 1983). This proximity often brings with it improved understanding of the specific biophysical, social, and institutional conditions influencing forest management at the field level; better capacity to monitor the activities of forest user groups; and greater access to local knowledge about the management and utilization of forest resources - which are sometimes highly specific to particular social groups and/or ecosystems (Carney 1995).

In addition, decentralized forest administration often allows for greater participation on the part of forest communities in policy decision-making processes, and more direct accountability of policymakers to peoples whose livelihoods depend on forests (Brandon and Wells 1992). Decentralisation also frequently implies a more equitable distribution of benefits from forest resources, as local communities and governments in forested regions are able to secure a greater portion of revenues from the extraction of timber and other forest products (Ascher 1995; Ostrom 1990).

In addition to providing opportunities for expanded equity and improved forest management, however, decentralisation also carries significant risks. In many countries, national governments have decentralized without first creating the necessary institutional capacity at the provincial or district levels to administer forests effectively (Rivera 1996). Often, national governments assign tasks to provincial and district governments without giving them adequate resources for carrying out these tasks. Most provincial and district governments lack essential technical skills and must look to other entities for advice, training, and technical information. In cases where local elites have been strong and/or traditionally marginalized groups have been unable to organize themselves, decentralisation has often strengthened pre-existing power relations, rather than promoting democratic decision-making processes (Utting 1993). Finally, even when elite groups do not dominate provincial and district governments, it is often that case that these governments have little interest in sustainable forest management.

Indonesia's Forestry Sector

The manner in which decentralisation affects forest management, community livelihoods, and economic development is of particular significance in Indonesia due to the scale and importance of the country's forest resources. Indonesia has the world's third largest tract of tropical forests, surpassed in area only by those of Brazil and Congo. In 1997, the country's total forest cover was officially estimated to be 100 million hectares (MOFEC, cited in World Bank 2001). It has been conservatively estimated that at least 20 million people depend on Indonesia's forests for the bulk of their livelihoods (Sunderlin, *et al*. 2000). Over the last three decades, the national government has allocated over 60 million hectares of forest to commercial logging companies, and Indonesia's forestry sector industries have long ranked second only to petroleum in terms of their contribution to GNP (Barr 2001). The forestry sector currently generates approximately US$ 7 billion in annual revenues.

Well before the country's ongoing decentralisation process began in late-1998, Indonesia's forestry sector had entered a period of crisis. From the mid-1980s onward, deforestation is estimated to have occurred at a pace of 1.6 million hectares per year (Toha 2000). A major factor driving this high level of deforestation and associated forest degradation has been overcapacity in the nation's wood processing industries. Through the mid-1990s, Indonesia's sawnwood, plywood, and pulp industries are collectively estimated to have consumed 60-80 million cubic meters (m3) of wood per year (Barr 2001; Scotland *et al*. 1998). Log consumption on this scale has stood well above the Indonesian government's own widely-cited sustainable timber harvest threshold of 25 million m3 per year. Moreover, with few effective regulatory structures in Indonesia's forestry sector, domestic demand for timber has resulted in large volumes of wood being harvested from illegal sources (ITFMP 1999). At the same time, a decline in the nation's HPH timber concession system, coupled with rapid expansion in oil palm and other forms of agroindustrial plantations, has meant that a growing portion of the nation's wood supply has been obtained through clearing of natural forest rather than selective harvesting at multiple-rotation timber concessions (Barr 2001).

Scope and Methods of the Present Study

The present study examines the preliminary effects of decentralisation on forests and estate crops in Kutai Barat district, East Kalimantan. It is one of nine district level case studies carried out during 2000 and early 2001 by the Center for International Forestry Research (CIFOR) in four provinces: Riau, East Kalimantan, Central Kalimantan, and West Kalimantan. The findings presented in these studies reflect the conditions and processes that existed in the study districts during the initial phase of Indonesia's decentralisation process.

Each of the case studies used a rapid appraisal methodology for gathering data at the district and provincial levels. For each case study, preliminary visits were made to the district and provincial capitals to establish initial contacts and to identify key issues. Second visits for data gathering were then carried out for periods of 10-14 days in each district, with shorter amounts of time in the provincial capitals. The collection of primary data involved semi-structured interviews with key informants, including: government officials; forest industry actors; members of communities living in and around forests; political party representatives; officers from the regional military and police force; informal district leaders; representatives from nongovernmental organizations (NGOs); university researchers; and individuals involved with donor agencies and development projects. Data collection also involved the review of primary and secondary documents, including: district and provincial laws and regulations; government statistics; regional news media articles; industry publications; research studies; and reports prepared by NGOs and donor agencies.

Each of these case studies is structured to focus on processes that have occurred at the district and, to a lesser extent, the provincial levels. To avoid repetition, more general information on the history of forest administration and forestry sector development in Indonesia, as well as significant national policy and legal-regulatory reforms associated with decentralisation, has been placed in an accompanying report which synthesizes the project's major findings (see Barr and Resosudarmo 2001). Readers are encouraged to review the case studies in conjunction with this synthesis in order to appreciate the broader historical and policy contexts within which the district and provincial decentralisation processes are now occurring.

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Bogor, Indonesia

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Glossary

BAPPEDA	*Badan Perencanaan Pembangunan Daerah*, Regional Development Planning Agency
BAPPENAS	*Badan Perencanaan Pembangunan Nasional*, National Development Planning Agency
BPN	*Badan Pertanahan National*, National Land Agency
BPS	*Badan Pusat Statistik*, Central Statistics Agency
CDK	*Cabang Dinas Kehutanan*, Branch Office of the Provincial Forestry Service
DAS	*Daerah Aliran Sungai*, Watershed or River
DP-APKASI	*Dewan Pengurus Asosiasi Pemerintahan Kabupaten seluruh Indonesia*, Steering Committee for the Association of District Government
DPRD	*Dewan Perwakilan Rakyat Daerah*, Provincial or District Legislative Assembly
DR	*Dana Reboisasi*, Reforestation Fund
HGU	*Hak Guna Usaha*, Land Use Permit
HPH	*Hak Pengusahaan Hutan*, Commercial Forestry Concession
HPHH	*Hak Pemungutan Hasil Hutan*, Forest Product Harvest Concession
HTI	*Hutan Tanaman Industri*, Industrial Timber Plantation
IHHT	*Iuran Hasil Hutan Tambahan*, Additional Forestry Royalty
LKMTL	*Lembaga Kesejahteraan Masyarakat Tambang dan Lingkungan*, Institute for Environmental and Mining Communities Prosperity
Perda	*Peraturan Daerah*, Regional Government Regulation
PSDH	*Provisi Sumber Daya Hutan*, Forest Resource Rent Provision
RTRWK	*Rencana Tata Ruang Wilayah Kabupaten*, District-Level Spatial Plan
RTRWP	*Rencana Tata Ruang Wilayah Propinsi*, Provincial Spatial Plan
TGHK	*Tata Guna Hutan Kesepakatan*, Forest Land Use Concensus

Abstract

This study examines the initial impacts of decentralisation of policy making and policies affecting forests and estate crops in the district of Kutai Barat, East Kalimantan. Field work for this study was conducted in mid 2000 and the author has relied on secondary material and key informants to up date some information. Kutai Barat was formed through the partition of the original Kutai district shortly after the Habibie government issued Laws 22 and 25 in May 1999 on the decentralisation of authority from the central government to provincial and district governments. As a newly formed district, Kutai Barat has limited infrastructure and revenue. Local government officials also have limited capacity to develop policy and sustainably manage natural resources. However, decentralisation does provide opportunities for the government of Kutai Barat to secure a greater portion of the revenues generated by forests and mineral resources extracted within the district, and to build up the district's physical infrastructure and industrial facilities. During 2000, the Kutai Barat district government issued large numbers of small-scale timber extraction licenses, known as HPHH permits, to establish a district regulatory regime for forest exploitation. The district government also indicated that it would seek to encourage investors in the oil palm industry to establish operations in Kutai Barat. However, these plans have been undermined by continuing problems with PT London Sumatra, the district's largest estate crop investor. Social conflict resulting from large-scale mining operations at the PT KEM site is also presenting problems for the newly formed district.

1 KUTAI BARAT AND ITS RESOURCES

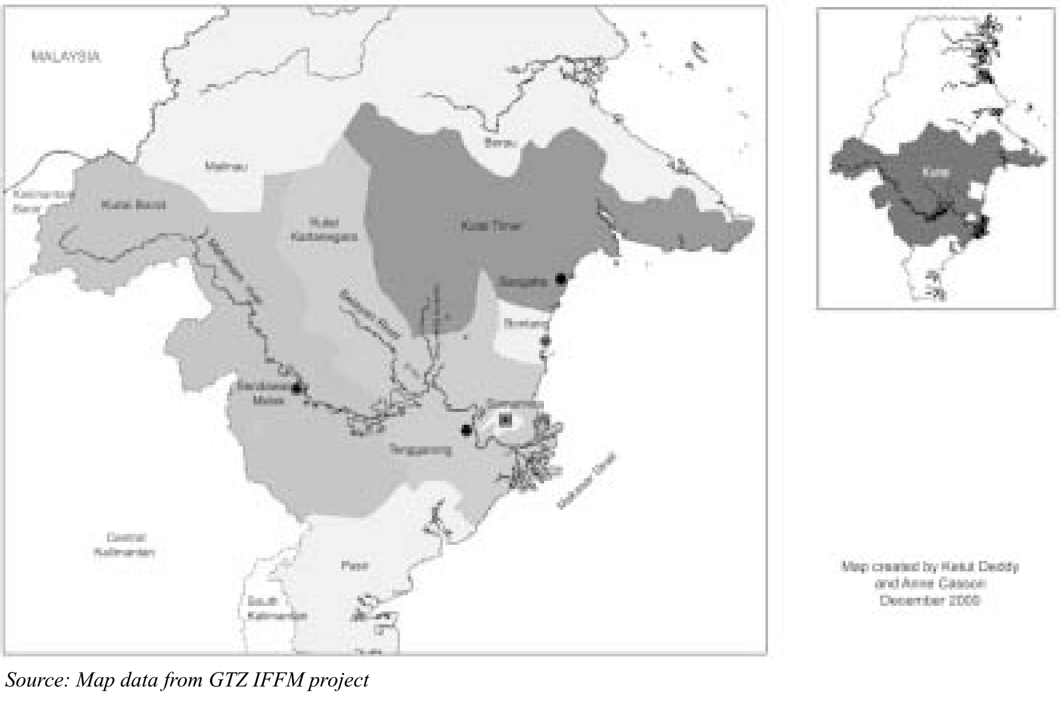
1.1 GEOGRAPHY

Kutai Barat is one of the newly formed districts (*kabupaten*) in East Kalimantan. It was officially established in November 1999, in accordance with Law No 47/1999 which outlined the division of the original *kabupaten* of Kutai[1] into three districts: Kutai Barat, Kutai Timur and Kutai Kartanegara[2] (Map 1). Before Kutai was divided into three smaller *kabupaten,* it was the largest district in East Kalimantan covering 94,629 square kilometres (km^2) or approximately 46 percent of the province's total land area (BAPPEDA & BPS 1998). Kutai also had a long history as an administrative unit, having originated from the Kutai sultanate established late in the 15th century along the Mahakam river (Magenda 1991).

The decision to divide Kutai into three districts was long awaited, as the sheer size of the original district made it difficult to administer. Indeed, several remote areas, which now primarily lie within Kutai Barat, have limited physical infrastructure and industrial facilities due in part to their isolation from the former district's administrative center. Moreover, the division followed the release of Indonesia's regional autonomy laws—Laws No 22 and 25 of 1999—which ostensibly aimed to provide an opportunity for further autonomy in the region and to allow local governments to be more responsive to local communities (Bupati Kutai 2000a).

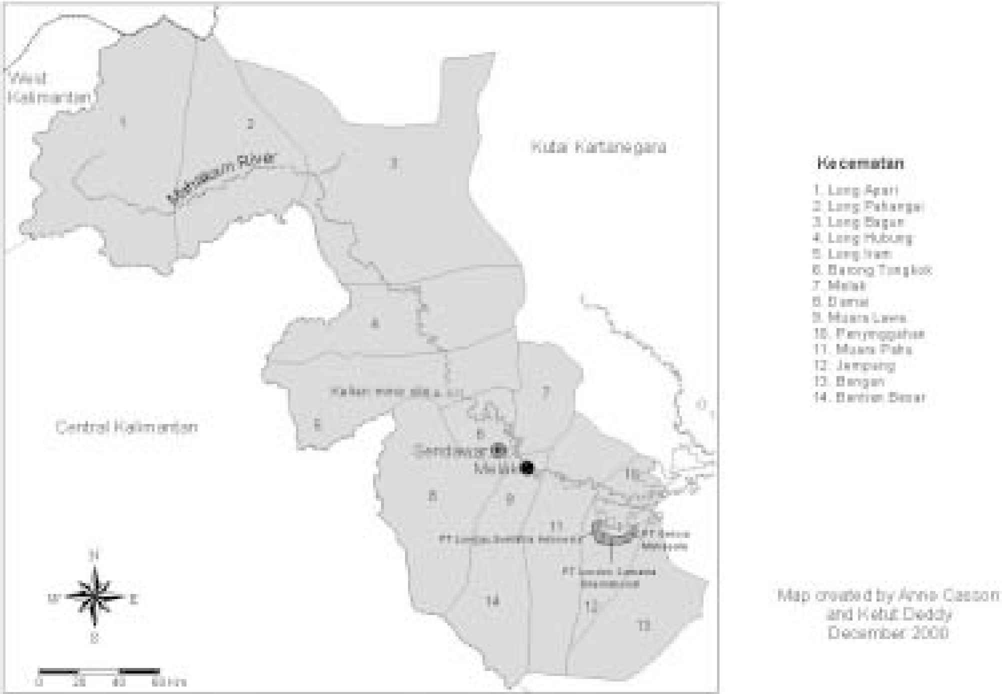
Kutai Barat now spans an area of approximately 32,000 km^2 or 16 percent of East Kalimantan's

Map 1. Kutai Region, East Kalimantan



Source: Map data from GTZ IFFM project

Map 2. Kutai Barat District, East Kalimatan



Source: Map data from GTZ IFFM Project.

total land area. It is located in the western part of the province and borders both Central and West Kalimantan, as well as the East Malaysian state of Sarawak. The newly formed district consists of 14 subdistricts (*kecamatan*), 205 villages and approximately 150,000 people[3] (Map 2). The capital of Kutai Barat is Sendawar, however all of the existing government offices are currently located within the town of Melak. When field work was undertaken in July 2000, Kutai Barat had a temporary *Bupati*, or district head, named Bp. Rama Alexander Asia. He had the difficult job of forming a new district government and District Legislative Assembly (*Dewan Perwakilan Rakyat Daerah* or DPRD) without having full authority and legitimacy to rule.[4]

1.2 ECONOMY

Most of the physical infrastructure and industrial facilities established in the original district of Kutai are now located within the jurisdiction of the new district now known as Kutai Kartanegara. As a consequence, Kutai Barat has fairly limited infrastructure, but perhaps no more so than some of the other newly formed districts in East Kalimantan such as Malinau or Nunukan. It is also quite isolated. To get to Kutai Barat one has to catch a boat from Samarinda up the Mahakam river. Depending on the boat, the trip takes anywhere between eight and 24 hours. There is one asphalt road in Melak that is 25 km long. The rest of the roads are dirt roads and almost impossible to pass during the wet season. In fact, five sub disticts can not be reached by road: Long Apari, Long Pahangai, Long Bagun, Long Hubung and Penyinggahan. Because of the transportation difficulties, most of the funds presently available to the new district are being directed to the construction of a bridge over the Mahakam River that will enable land transport to reach Melak from Samarinda. Eventually, the current *Bupati* hopes to extend this road through to Balikpapan.

Government offices in Kutai Barat also have limited facilities and are poorly resourced[5] . In fact many offices had not yet been established when field work for this study was conducted.[6] In June 2000, for instance, there was no district government forestry agency, only a branch office of East Kalimantan's Provincial Forestry Service (*Cabang Dinas Kehutanan* or CDK). The CDK staff hoped that its status would be raised to that of a District Forestry Service (*Dinas Kehutanan*) by the end of 2000. Public servants working in the district openly admitted that they were poorly trained and presently lacked the knowledge required to run a district and develop regional policy (personal communications with various Kutai Barat government officials, 28 July 2000). The closest university is in Samarinda, and there are just two secondary schools—one in Melak and the other in Long Iram. Other community services in the district are also extremely poor. For instance, there is no hospital and no reliable telephone or electricity supply.

To facilitate development in the region, the Kutai Barat government divided the newly formed district into three development zones: upstream (*Ulu Riam*); rivers (*Daerah Aliran Sungai),* lakes (*Danau*) and swamps (*Rawa-Rawa*); and highlands (*Dataran Tinggi*) (GTZ 2000). The upstream development zone includes the sub-districts of Long Apari and Long Pahangai. Both of these areas are difficult to reach and in need of physical infrastructure. A road development is therefore being planned that will run through to Long Apari from Long Iram, thereby connecting the remote sub-district to the district's administrative center in Melak. Local transport subsidies will also be provided for short trips in order to facilitate local trade. In addition to transport developments, other local government projects will focus on forest conservation, protection for sparrow nesting sites and the development of rice fields and vegetable farming to enable the region to become self sufficient.

The river, lake and swamp development zone includes transit areas, mostly in the sub-districts of Penyinggahan, Jempang, Muara Pahu, Melak, Long Iram, Damai, Long Hubung, Long Bagun and Muara Lawa. These regions are within 5 km of the river bank. The development priorities for these areas include improvements to farming, rice fields, fisheries, animal husbandry and small and medium scale industry. Road networks will also be built between villages and sub-districts.

The highland development zone includes the sub-districts of Barong Tongkok, and sections of Melak, Damai, Muara Lawa, Long Iram, Long Bagun, Long Hubung, Bentian Besar, Jempang and Muara Pahu. These regions are more than 5 km from the river bank. Development priorities in these areas include the construction of roads and bridges to facilitate transport, as well as the improvement and expansion of farming, plantations and animal husbandry.

1.3 FOREST RESOURCES

Kutai was once covered in dense tropical forest. These forests were described by the Norwegian naturalist and explorer, Carl Bock, who was commissioned by the Dutch colonial government in the 1880s to travel half way up the Mahakam river. In a report on the journey, Bock (1881) wrote:

> Enormous trees, with massive straight stems rising sixty or eighty feet from the ground before throwing out a single branch, overshadowed the rank vegetation beneath, the thickness of which rendered it impossible to penetrate into the forest more than a few yards from the riverside.

Since the Soeharto government opened up Indonesia's outer island forests to large scale cutting in the late 1960's, most of the forest described by Bock has been cleared (Bupati Kutai 2000a). Potter (1990) estimates that around forty percent of Indonesia's log production originated from East Kalimantan during the period 1970-79. A large proportion of this timber came from the area now known as Kutai Kartanegara, just east of Kutai Barat, because the largest stands of commercial species, such as *meranti*, *keruing* and *agathis,* could be found there. The Mahakam River also provided a well developed transport system (Manning 1971).

In addition to the impact of large-scale logging, extensive areas of forest land have been converted to plantations or agriculture (Bupati Kutai 2000a). A large proportion of Kutai Kartanegara's forest cover was also severely burnt during the 1982-83 and 1997-98 forest fires (Brookfield *et al.* 1995; Hoffmann *et al.* 1999). In 2000, the landscape consequently bore little resemblance to that described by Bock. Few trees could be seen on a journey up the Mahakam river and large sawmills dominated the landscape between Samarinda and Tenggarong.

Before Kutai was divided into three districts it had 1.8 million hectares (ha) of forest land classified as 'Protected Forest'; 270,000 ha of 'Parks and Reserve Forest'; 2.6 million ha of 'Limited Production Forest'; 3.3 million ha of 'Production Forest'; 3.1 million ha of 'Conversion Forest' and 22,724 ha of 'Research Forest', based on figures from the 1982 Forest Land Use Consensus (*Tata Guna Hutan Kesepakatan* or TGHK) (Table 1). While these categories do not necessarily correspond with actual forested area, the TGHK was developed to show definitive boundaries between the various categories of land under the Ministry of Forestry's control. However, as forests were cleared and companies were granted the right to establish industrial timber plantations (*Hutan Tanaman Industri* or HTI) or oil palm estates in areas previously classified as 'Production Forest', the TGHK soon became even more obsolete. This resulted in the development of the Provincial Spatial Plan (*Rencana Tata Ruang Wilayah Propinsi* or RTRWP) classifications in the mid-1990s. A District Spatial Plan (*Rencana Tata Ruang Wilayah Kabupaten* or RTRWK) was also drawn up for the original administrative boundary of Kutai. Because Kutai Barat has only recently been formed, an RTRWK had yet to be completed when field work for this study was undertaken. However, the district government estimated that approximately 50-60 percent of Kutai Barat is still under forest (Bupati Kutai 2000a).

Before Kutai was divided into three regions, the Makaham Ulu branch office of the Provincial Forestry Service (*CDK Mahakam Ulu)* monitored forest activities and production in the area now known as Kutai Barat. The forest area monitored by this CDK has remained more or less the same since the partition of Kutai. According to Provincial Forestry service *(Dinas Kehutanan Tingkat I)* statistics which are organized according to CDK jurisdiction, the Mahakam Ulu area produced approximately 3 million cubic meters (m^3) of logs during the period 1994-98. This makes the area the fourth largest producer of logs within the province after Mahakam Tengah (now known as Kutai Kartanegara—7.3 million m^3), Berau (3.9

Table 1. Forest Area in East Kalimantan According to the TGHK Forest Land Use Consensus (ha)

District/ Municipality	Protected Forest	Park and Reserve Forest	Limited Production Forest	Production Forest	Conversion Forest	Research Forest
Pasir	184,711	53,800	185,556	314,941	331,832	-
Kutai	1,806,981	270,000	2,661,809	3,334,589	3,149,248	22,724
Berau	376,624	-	834,804	637,242	379,079	-
Bulungan	1,004,068	1,706,400	1,123,789	1,387,947	948,520	-
Balikpapan	65,406	-	141,682	117,479	101,933	2,836
Samarinda	-	-	-	-	-	-
Total	3,437,790	2,030,200	4,947,640	5,792,198	4,910,612	25,560

Source: BAPPEDA & BPS (1998).

Table 2. Production of Logs in East Kalimantan According to CDK Branch Office of the Provincial Forestry Service, 1994/94-1998/99 (m^3)

CDK	1994/95	1995/96	1996/97	1997/98	1998/99	Total
Bulungan Utara	165,123	372,869	336,919	301,127	297,937	1,473,975
Bulungan Tengah	606,313	333,036	418,501	644,630	627,277	2,629,757
Bulungan Selatan	63,277	209,931	240,876	345,480	358,120	1,217,684
Berau	600,555	846,918	732,395	1,760,912	1,040,358	4,981,138
Sangkulirang	377,198	360,334	331,611	285,382	210,776	1,265,301
Mahakam Ilir	13,356	4,489	0	0	0	17,845
Mahakam Tengah	1,935,218	1,684,816	1,858,047	1,883,047	1,643,589	9,004,717
Mahakam Ulu	818,324	804,571	797,277	669,139	619,426	3,708,737
Balikpapan	441,946	436,550	351,379	523,258	545,871	2,299,004
Pasir	85,694	83,659	106,845	253,629	150,802	680,629

Source: Dinas Kehutanan (1999).

million m^3), and Bulungan Utara (3.6 million m^3). According to official statistics, log production in the Mahakam Ulu area has gradually declined over the last 5-6 years from 818,324 m^3 in 1994/95 to 619,426 m^3 in 1998/99 (Table 2). However, many suspect that there has been an increase in illegal logging in the area over the last five years (personal communications with various NGOs based in Samarinda and staff at the district forestry office in Melak, Kutai Barat, July 2000). Official statistics are therefore likely to understate real timber production from the area. Growing volumes of timber are also expected to come out of the Kutai Barat area in the near future because much of Kutai Kartanegara has already been logged out and, as previously mentioned, badly affected by the 1997-98 forest fires (Hoffmann *et al.* 1999).

Until 1998/99, 22 companies had been granted timber concessions (*Hak Pengusahaan Hutan* or HPH) within the Mahakam Ulu region, covering a total area of approximately 2.6 million ha. However, by the time that Kutai Barat was established as a *kabupaten*, there were only 10 active HPH concessions in the region, covering a total area of approximately 1.6 million ha (Table 3). Most of these companies were operating in the far reaches of the Ulu Riam development zone where there is very little physical infrastructure and few people. Two of the 10 active HPH companies—PT Kemakmuran Berkah Timber and PT Daya Besar Agung—were working together with the state-owned forestry companies, Inhutani I and Inhutani II, respectively. In 1998, these 10 HPH-holders produced approximately 346,000 m^3 of logs. This was roughly half of Mahakam Ulu's total annual log production for the year 1997/98 and approximately 15 percent of Kutai's annual log production.

In addition to these 10 companies, five HPH companies have requested extensions of their concession licenses and are expected to become active within the next few years (Table 3). These five companies will operate over a total area of 442,500 ha. Four of these companies are working together with Inhutani I. It is possible that much of this area may also be logged before other districts with high timber potential such as Berau, because timber originating from the Kutai Barat region can more easily be transported to one of the many mills that line the Mahakam River between Tenggarong and Samarinda.

Seven companies have also been granted concession licenses in Kutai Barat to develop HTI. Areas allocated to these seven plantation companies cover a total area of 119,827 ha

Table 3. Status of HPH Timber Concessions in Kutai Barat, as of 1997/98

	Company	Location	Concession (ha)	Log prod. 1997/98 (M^3)	Joint venture with Inhutani
Active HPHs					
1	PT Barito Nusantara Indah		95,000	27,003	
2	PT Kemakmuran Berkah Timber	Long Pahangai	72,000	36,389	PT Inhutani II
3	PT Daya Besar Agung Corp/ PT Mulawarman Bhakti	Long Bagun, Long Iram	82,000	23,458	PT Inhutani I
4	PT Sumalindo Lestari Jaya II	Long Bagun	545,000	93,143	
5	PT Sumalindo Lestari Jaya V	Long Bagun	125,000	26,722	
6	PT Surapati Perkasa Corp	Long Apari, Long Pahangai	143,000	12,842	
7	PT Timber Dana Damai, Muara Lawa	Long Iram, Barong Tongkok,	175,000	53,856	
8	PT Triwira Asta Bharata	Long Iram	215,000	42,355	
9	PT Hitayaq Alan Medang	Long Bagun, Tabang	53,000	28,817	
10	PT Jatitrin	Muara Lawa, Muara Pahu,	55,000	1,280	
	Total		1,560,000	345,865	
HPH Extensions in Process					
1	PT Gelora Dayak Besar Timber	Damai, Long Iram, Ma Lawa	45,000	-	Inhutani I
2	PT Haciendawood Nusantara		42,000	-	
3	PT Dayak Besar Vincent TC		124,500	-	Inhutani I
4	PT Ratah Timber Company	Long Iram	127,000	-	Inhutani I
5	PT Roda Mas Timber Long Bagun, Muara Lawa	Long Pahangai,	104,000	-	Inhutani I
	Total		442,500	-	

Source: BAPPEDA (1997) & Kantor Wilayah Propinsi Kaltim (1998).

(Table 4). Most of these plantations are located in the south-east of Kutai Barat within the highland development zone. Two of these HTI companies—PT Riau Timas and PT Marimun Timber—are private timber estate companies, which operate independently. The remainder are participants in the government's HTI-trans program, initiated by the Suharto government to provide employment for transmigrants form Java and other more populated parts of Indonesia. These estates are established on areas formerly managed as HPH. Most of the HTI plantation companies are run by timber companies operating in the area, however PT Alas Cakrawala is managed by Inhutani I. To date, only 23,914 ha have been planted to timber estates in Kutai Barat, amounting to 20 percent of the total concession area allocated. Most of the planted area falls within concessions managed by three companies: PT Anangga Pundinusa, PT Hutan Mahligai and PT Kelawit Wana Lestari.

1.4 AGRO-INDUSTRIAL ESTATE CROPS

As of 1999, the three main agro-industrial plantation crops cultivated within the original administrative boundary of Kutai were oil palm (40,164 ha), rubber (33,935 ha) and coconut (20,109 ha) (BAPPEDA & BPS 1998). Rubber and coconut are traditional crops and most of the estates were owned and managed by smallholders in 1998. In contrast, oil palm estates are a relatively new development and all of the estates have been established by private companies over

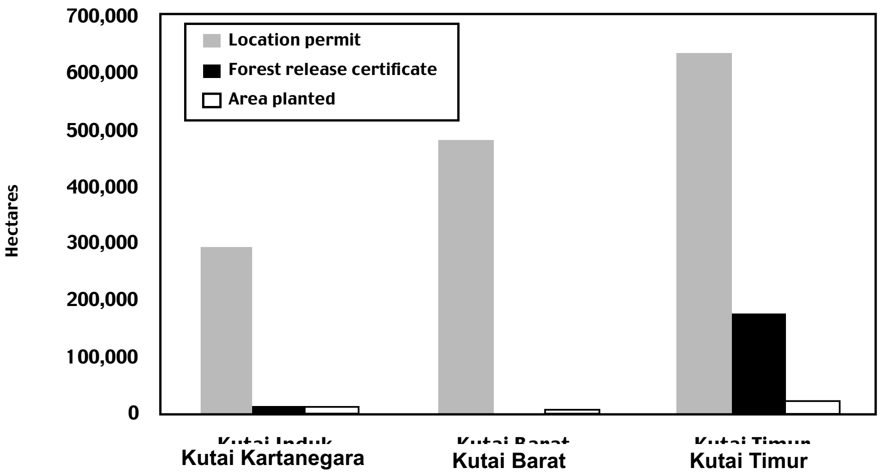
Table 4. Industrial Timber Estates in Kutai Barat, 1998

Company	Company type	Location	Concession	Area planted	Species planted
PT Riau Timas	Private	Muara Pahu	35,000	1,294	P. *falcataria* P. *canescens*
PT Marimun Timber	Private	Melak	8,000	893	P *falcataria* Dipterocarp
PT Anangga Pundinusa (Limbang Praja Timber)	HTI Trans	Long Iram	31,000	9,027	P. *falcataria* G. *arborea* *Eucalyptus* sp *Hevea* sp
PT Hutan Mahligai (Timber Dana)	HTI Trans	Damai, Muara Pahu	16,747	5,235	P. *falcataria* G.*arborea* *Hevea* sp Dipterocarp
PT Dirga Rimba (Sumber Mas Timber)	HTI Trans	Jempang	15,000	1,397	P.*falcataria* A. *magnium* *Hevea* sp G. *arborea*
PT Kelawit Wana Lestari	HTI Trans	Muara Pahu	9,180	5,540	P. *falcataria* *Hevea* sp
PT Alas Cakrawala (New Timber Raya Corp)	HTI Trans Inhutani I	Melak, Muara Pahu	4,900	528	P. *falcataria* *Hevea* sp
Total			119,827	23,914	

Source: BAPPEDA & BPS (1998).

the last five to ten years (BAPPEDA & BPS 1998). Within the original administrative boundary of Kutai, most oil palm development has occurred in Kutai Timur, followed by Kutai Barat and Kutai Kartanegara. All three regions have ambitious plans to develop the sector and many companies have already received location permits, especially in the districts of Kutai Timur and Kutai Barat. A considerable area of forest land designated for conversion (more than 600,000 ha) has also been released for oil palm development in the district of Kutai Timur. However, little has yet to be released in Kutai Barat or Kutai Kartanegara (Figure 1).

Figure 1. Actual and Planned Oil Palm Development in Kutai Kartanegara, Kutai Barat and Kutai Timur, as of March 2000



Source: BAPPEDA & BPS (1998), unpublished statistics from the Kutai Kartanegara plantation office.

2 DECENTRALISATION IN KUTAI BARAT

Kutai Barat faces many challenges in the years ahead. As a Benuaq Dayak, the district's *Bupati*—Rama Asia—was very popular when he was first elected because he was born and raised in the area. Many were therefore of the opinion that he would work for the best interests of the Dayak people and be more approachable than someone from a different ethnic group (personal communications with several Kutai Barat inhabitants, July 2000). His position as the *Bupati* of Kutai Barat was, however, weakened by the fact that he was initially installed as a temporary *Bupati*. This situation continued until the district assembly was established and elections were held to formally elect the first official *Bupati* of the district. When field work was undertaken for this research, it was hoped that the district assembly would be formed by October 2000 and that the *Bupati* would be elected in December 2000. Many were skeptical that this would occur in such a short time span and the district assembly only elected the *Bupati* in March 2001[7].

At the beginning of 2000, it seemed likely that Rama Asia would be formally elected as the first *Bupati* of Kutai Barat. Four villages (Desa Bermai, Muara Nilik, Besiq and Mantar, in the sub-district of Damai), had officially pledged their support for Rama Asia as he was thought to meet all the necessary criteria to lead the district: a basic education; a Kutai Barat origin; an understanding of the local culture; experience in government; a reputation of being free from corruption; and a commitment to regional development (*Kaltim Post* 2000d). However in mid 2000, numerous problems arising from the formation of a new district threw obstacles in his way. The *Bupati* was frequently called upon to settle disputes arising over the division of Kutai into three districts and the establishment of Sendawar as the capital city. For instance, in March 2000, it was reported that local people in the subdistrict of Bongan wanted to split from Kutai Barat and return to Kutai Kartanegara. Community members said that they primarily wanted to be included in Kutai Kartanegara because they were concerned about the amount of time it would take them to travel to the capital of Kutai Barat. The journey from Bongan to Sendawar takes 12 hours by public transport, while the journey from Bongan to Tenggarong only takes three hours. The *Bupati* tried to resolve the problem by publicly stating that he would ease their concerns by prioritising road developments in the area so that it would be easier for them to get to Sendawar. However, he also stated that it would be hard for the sub-district of Bongan to leave Kutai Barat because its inclusion had been officially validated by Law No 47/1999 (*Kaltim Post* 2000a). Several community members from Bongan were not satisfied with this response and continued to oppose the subdistricts inclusion into Kutai Barat. Eventually Bp. Asia gave into their demands and stated that he would not object to Bongan becoming part of Kutai Kartanegara as long as the request represented the aspirations of all of the people from the area (*Kaltim Post* 2000i).

In addition to the above dispute, there were heated discussions about the decision to locate the capital of Kutai Barat in Sendawar[8]. Sendawar was chosen as the capital because of its historical importance[9]. According to local legend, the original Dayak king came down from the heavens to Sendawar. It was here that he met his wife who originated from a bamboo tree. The couple had five children who are thought to have established the five main Dayak groups in the area: Benuaq, Kutai, Bahau, Tonyol (Tanjung), and Madang. Sendawar was a thriving town until World War II when it was destroyed by Australian troops who bombed the town during the Japanese occupation (personal communication with Ibu R, 30 July 2000). Nowadays, there are only a few abandoned Dutch colonial era buildings in the area.

While many were happy that Sendawar had been chosen as the capital because of its historical significance, others were concerned that Melak would be left behind and that the establishment of a new capital and the associated infrastructure would be too costly for the newly established region. To compensate for this, the *Bupati* pledged that Melak would be firmly established as a port and trade town. Barong Tongkok would be developed as a centre for education and Desa Linggang Bigung as a trading centre between Malaysia. In mid-2000, a consulting company based in Samarinda—PT Trijasa Binamanunggal Samarinda—had already been chosen as the consultant to build up the necessary infrastructure in these three villages and determine what was needed in order to establish Sendawar as the capital (*Kaltim Post* 2000g).

2.1. PROBLEMS ARISING FROM A LACK OF DISTRICT INCOME (PAD)

Before Kutai was divided into three districts, it was the richest district in the province of East Kalimantan. Most of this income came from the district's natural resource base. In fact, Kutai has a long history of natural resource use and extraction. The modern founder of the Kutai sultanate (Sultan Mohammad Sulaiman, 1845-1899) also had a great talent in commercial activities, leasing out Kutai's lands for coal exploitation and plantations (Magenda 1991). Revenues also came from taxes levied on forest products transported down the Makaham river and royalties received from coal and plantation activities. Shortly after coal and oil were discovered in the sultanate in the late 1890s, a new sultan (Sultan Alimuddin 1902-1920) had to sign a treaty with the Dutch relinquishing certain rights over taxes. The treaty also stipulated that the Ulu Mahakam area, now known as Kutai Barat, would be governed by the Dutch. With the acquisition of the Ulu Mahakam area, the Dutch were able to control traffic along the Mahakam river and restrict the activities of the Kutai sultanate. With the imposition of these restrictions, the sultan received an annual salary of 25,000 guilder in addition to 50 percent of oil royalties and 10 percent of forest royalties (Magenda 1991).

During the timber boom of the late 1960's and 1970s[10] , the Kutai government again benefited from the exploitation of forest resources in the Mahakam region (Manning 1971; Magenda 1991). While the central government profited the most from extensive logging via taxes obtained from the HPH License Fee (*Iuran Hak Pengusahaan Hutan* or IHPH), a 10 percent export tax and a Forest Product Royalty (*Iuran Hasil Hutan* or IHH), the Kutai government still received a great deal from their own state-run timber companies (*Perusahaan Daerah*) as well as taxes from timber and log pond retribution (Magenda 1991).

In the financial year 1997/98, Kutai had a regional income of Rp 184 billion (or approximately US$ 18.4 million).[11] This is more than double the income of other districts in the region. For instance, Pasir only had a regional income of approximately Rp 68.7 billion (US$ 6.8 million) and Berau's was Rp 55.2 billion (US$ 5.5 million) (Table 5). Since oil and gas were found in Kutai, the districts economy has been largely dominated by the oil and natural gas industry[12] (42.24 %), followed by the forestry and agriculture sector (25.24 %), the processing industry sector (13.72 %), the building sector (8.55 %), and the trade, hotel and restaurant sector (8.25 %) (Bupati Kutai 2000a).

Table 5. Regional Income and Expenditures for Districts in East Kalimantan (Rp '000) 1997/98

Fiscal year	Receipt	Expenditures	
		Routine	Development
Pasir	68,725,102	30,412,347	33,869,877
Kutai	184,439,378	112,572,296	71,902,412
Berau	55,244,600	19,902,125	27,183,121
Bulungan	78,097,178	39,395,705	37,984,699
Balikpapan	74,197,297	46,791,613	22,629,630
Samarinda	69,813,847	43,334,067	23,537,108

Source: BAPPEDA & BPS (1998)

In light of the above, a considerable percentage of district revenue was also generated from taxes obtained from the mining and forestry sectors in the years 1997/98 (Table 6). For instance, Kutai received approximately Rp 83.9 billion (US$ 8.4 million) from the mining sector and Rp 26.7 billion (US$ 2.7 million) from the forestry sector. Again this was more than other districts received over the same period of time: Pasir only received approximately Rp 4.6 billion (US$ 460,000) from the forestry sector and Rp 12.9 billion (US$ 1.3 million) from the mining sector in the year 1997/98. Pasir did, however, generate more revenue (Rp 1.4 billion or US$ 137,000) from the plantation sector than Kutai because the majority of the East Kalimantan's plantation estates fall within this district.

2.1.1. District Revenues After the Partition of Kutai

After Kutai was divided into three districts, the provincial government expected Kutai Barat to generate the least revenue in the area because it is the least developed and most isolated region in the Kutai area. A paper released by the *Bupati* of Kutai Kartanegara shortly after division projected that Kutai Barat would generate just Rp 21 billion (US$ 2.1 million) of revenues in 2000, while Kutai Kartanegara and Kutai Timur were expected to generate Rp 56 billion (US$ 5.6 million) and Rp 62 billion (US$ 6.2 million), respectively (Bupati Kutai 2000a). This clearly highlights the financial problems Kutai Barat is expected to experience over the next few years of regional autonomy, as its projected income is expected to be considerably less than the two other districts. The district

Table 6. Receipt of Taxes From Various Sectors by District/Municipality (Rp '000) 1997/98

District/municipality	Sectors				
	Rural	Urban	Plantation	Forestry	Mining
Pasir	225,436	335,601	1,376,007	4,610,148	12,993,455
Kutai	150,766	2,028,103	1,200,574	26,759,425	83,917,371
Berau	22,896	458,736	173,674	9 439,876	7,535,703
Bulungan	71,117	323,546	394,663	12,927,540	17,924,863
Balikpapan	-	2,456,257	-	1,233,964	17,919,975
Samarinda	-	2,894,641	-	1,233,965	10,475,698
Tarakan	-	633,964	-	1,140,143	3,049,537

Source: BAPPEDA & BPS (1998).

government was also concerned that regionally-generated revenues (Pendapatan Asli Daerah or PAD) would not be sufficient to establish a new district, capital city and all the associated infrastructure (personal communication with the Kutai Barat Head of BAPPEDA, July 2000).

Realising this, the governments of Kutai Kartanegara and Kutai Timur said that they would provide Kutai Barat with Rp 3 billion (US$ 300,000) to finance some of the infrastructure needed to establish a new district. By mid 2000, Kutai Kartanegara had apparently supplied Rp 75 million (US$ 7,500) while the provincial government supplied Rp 6 million (US$ 6,000). The remainder was to be given to the newly formed government by the provincial government. The funds were to be used to establish the necessary government offices as well as the houses for the *Bupati*, Assisant *Bupati*, the District Secretary and heads of district government agencies. (*Kaltim Post* 1999).

In May 2000, the provincial government donated a further Rp 29 million (US$ 2,880) to the new district for regional development (*Kaltim Post* 2000c). The Kutai Barat government pledged to use these funds to: prepare land for farming in the sub-districts of Melak, Barong Tongkok, Damai and Long Iram; improve and build roads and bridges; and establish primary schools in Melak, Bongan, Jempang, Muara Lawa, Barong Tongkok, Penyingahan Damai, Long Bagun and Long Iram. Some of the money would also be put toward clean water supplies (*Kaltim Post* 2000c). While the above financial supplements can be expected to assist with the development of Kutai Barat, they are still far from sufficient.

The Kutai Kartanegara government had also demanded that the Kutai Barat government return 60 percent of the funds generated from the oil and gas sector to Kutai Kartanegara. In September 2000, this led to several heated meetings between the two governments. At a meeting in Tenggarong, Bp. Rama Asia complained that 'Kutai Barat felt like a baby giving milk to its mother' ('*Kutai Barat merasa bak anak nyusui ibu')* (*Kaltim Post* 2000k). He then went on to say that he had no intention of passing on this income to the Kutai Kartanegara government because the latter had not yet provided most of the income previously promised to the newly formed district. He also pointed out that Kutai Kartanegara had far more revenue than Kutai Barat and he did not think it was fair for the wealthier district to make such demands (*Kaltim Post* 2000k).

The local government of Kutai Barat also wanted to be fiscally independent and able to stand on its own two feet. The *Bupati* was therefore keen to attract new investment to the region and to generate regional income from the district's natural resource base. He was also supportive of existing industries such as PT Kelian Equatorial Mining, which have potential to generate revenue for the region (personal communication with the Kutai Barat government staff, July 2000). This mine is significant and discussed in further detail below.

2.1.2 The Significance of PT KEM to Kutai Barat's Economy

PT Kelian Equatorial Mining (KEM) is the largest tax payer in Kutai Barat and therefore yields considerable influence in the region. PT KEM operates a large open-cut gold mine in the sub disrict of Long Iram (Map 2). The company is an Indonesian incorporated company, 90 percent owned by Rio Tinto Ltd of Australia and 10 percent by PT Harita Jayaraya of Indonesia. The Kelian deposit was discovered in 1976 by Rio Tinto's exploration group, however commercial production did not begin until January 1992. Since that time, the mine has produced an average of 450,000 ounces of gold and 400,000 ounces of silver per year. This production is sold into the domestic and international gold markets (PT KEM 1999).

The Kelian processing plant is one of the largest gold plants constructed in the world and it has inevitably attracted criticism from both national and international non-governmental organizations (Down to Earth 1998). Gold is extracted from the ore by a gravity separation circuit and cyanide leaching (Plate 1). Ore and waste are drilled, blasted and loaded into haul trucks by hydraulic face shovels and front-end loaders. Waste is trucked to engineered waste dumps and ore is delivered to the processing plant or stock piled for later feeding. For each tonne of ore produced, roughly five tonnes of waste rock needs to be mined (PT KEM 2000a). Given this method of operation, it is inevitable that the mine is having some impact on its surrounding environment. Mercury and manganese also naturally occur in the ore body as sulphide minerals and many fear that these by-products are polluting the local waterways and environment.

Moreover, the KEM operation is located on the Kelian River in a remote part of Kutai Barat. The surrounding community is largely made up of five ethnic groups—Dayak, Bugis, Javanese, Banjarese and Batak. These people live in about 90 villages in the sub-districts of Long Iram, Barong Tongkok Damai and Melak. The total population in the area is about 80,000 people. Before mining began, a number of people were allegedly forcibly removed from the site and resettled. This has given rise to human rights abuse issues and compensation claims (Down to Earth 1998).

The compensation settlement process has been complicated and lengthy. The first land compensation was paid by KEM in 1986 when the company acquired land in Kelian for the construction of a new camp complex for exploration personnel. In 1989, KEM compensated a number of community members for land in the village of Jelemuq—a village used for the company river wharf facility. While compensation payments for Kelian and access road areas were made in 1990, payments for additional claims were also made in 1994 and 1995 (PT KEM 2000b).

On 25 April 1998, a Kelian community group (The Institute for Environmental and Mining Communities Prosperity—or better known as *Lembaga Kesejahteraan Masyarakat Tambang dan Lingkungan* or LKMTL) facilitated by WALHI (*Wahana Lingkungan Hidup Indonesia*)—an Indonesian environmental NGO—lodged further compensation claims to PT KEM, including a demand to renegotiate compensation payment for land, buildings, and plants. The compensation claim came to a total of US$ 500 million (PT KEM 2000b). KEM initially ignored the claim but was

Plate 1. The Open Cut Mine at PT KEM. Photo taken by Anne Casson

forced to take it seriously when community groups set up a road block in April 2000. The blockade stopped the delivery of essential logistics, including fuel and lime[13], for the mine resulting in the company suspending production. KEM estimates that the blockade cost the company US$ 12.5 million in lost revenue (*Kaltim Post* 2000f).

Shortly after the crisis broke out PT KEM called upon *Bupati* Rama Asia[14] to help solve the problem as the compensation settlement process had been transferred from Kutai Kartanegara district to the Kutai Barat district. Rama Asia immediately became involved and, while he pledged to be objective, he appeared to side with the company. For instance, in a magazine released by PT KEM entitled *Warta Kelian*, he is quoted as saying the following:

> PT KEM is one of the main assets of West Kutai regency in addition to the newly operating Gunung Bayan coal mine and Turboindo coal mine which is still in the exploration stage and some timber concession companies. In addition to contributing to the income of West Kutai Regency, KEM also provides assistance through community development projects to the local community. Therefore, do not make PT KEM your foe, but make it your friend. West Kutai Regency has adequate mineral resources. However, the local government does not have enough funding to develop the region by itself. Therefore, investor presence in the region is very important. The Government can only provide 20 percent of the required funding and the private sectors provide 80 percent. Now with more autonomy being given, local government must be able to attract investors to the region (PT KEM 2000b).

In the era of regional autonomy, revenue from PT KEM is very much needed. Over the last five years, the company has already paid a total of Rp 85 billion (approximately US$ 8.5 million) to the central government and Rp 144 billion (approximately US$ 14.4 million) to the East Kalimantan provincial government[15]. Most of this revenue came from corporate income tax and land rent tax. Regional autonomy now gives the Kutai Barat government the opportunity to receive a large proportion of these taxes. In fact the *Bupati* had already had several discussions with the mine about how taxes would be distributed between the Kutai Barat government and the provincial and central governments (personal communication with PT KEM management, 31 July 2000).

The *Bupati*'s involvement in the PT KEM conflict was, however, heavily criticised by local NGOs. He was, for instance, criticised for siding with the company when he attempted to mediate a meeting between the community and the mine, and for undermining LKMTL by establishing a '*Tim Murni*' ('Pure Team') to settle the compensation issue. The '*Tim Murni*', which consisted of local government officials and village heads, began to negotiate with the mine on the behalf of the community after negotiations with LKMTL broke down. Not surprisingly, LKMTL vehemently opposed its representation by the team and rejected any agreements it made on behalf of the community. The team did, however, appear to make some progress and it was continuing to negotiate with the mine and to settle compensation claims when field work was undertaken in mid 2000. The regional government was also continuing to support the '*Tim Murni*' as the *Bupati* had already negotiated with the mine that the local government would receive four percent of the compensation payments to cover administrative costs (personal communication PT KEM management, 31 July 2000).

At the time that field work was conducted for this study, the above mentioned conflict had the potential to significantly undermine Bp. Asia's political aspirations to be elected as the *Bupati* of the region. In June 2000, rumors were circulating that his main rival, a military man, was using the case to illustrate that Bp. Asia was not capable of leadership (personal communications with Bp. B, July 2000)[16]. In light of these criticisms, the *Bupati* declined to mediate between the company and the community despite numerous requests to do so by the mine management. PT KEM was then forced into an awkward position of having to negotiate with both LKMTL and the *Tim Murni*. Since then, some progress does appear to have been made and compensation payments began in August 2000.

Meanwhile, the company has announced that it will close down its operations in 2004 (PT KEM 2000a). KEM has already embarked on an extensive community development programme which aims to prepare communities for life after the mine leaves[17]. The planned closure is causing local government officials and communities much concern, as the recent unrest over compensation has taken up a lot of time which could have been spent on developing ways to ensure that the local community will have sustainable livelihoods after closure of the mine. It also means that the region only has the potential to benefit from tax payments for two to three years. It will then be left with the consequences of the company closing down, unemployment and environmental damage caused by the mine activities. PT KEM has already admitted that it is unable to rehabilitate approximately 950 ha out of the total 1,285 ha of forest land disturbed by mining operations. This land will be turned into lakes and wetlands after the mine closure. To compensate for the land it is unable to rehabilitate, KEM is currently planting trees in two replacement areas: Linggau Plateau, which is within the CoW (Contract of Work) area and Bukit Soeharto, north of Balikpapan. Around 5,700 ha of forest land remain intact in the concession area and the PT KEM management group hoped that its status could be changed to 'Protected Forest' area after the mine closes (personal communication with PT KEM management, 31 July 2000).

To ensure that the mine closure does not have too much of a detrimental impact on the local community and the environment, local government needs to be talking to mine management now to negotiate closure arrangements. However, when field work was completed in July 2000, most mine staff, village heads and government officials were more preoccupied with solving the latest compensation crisis. The process of mine closure had also been further complicated by the decentralization process. Those involved in the mine closure programme said that they were unsure as to which government agencies they should be communicating with, as officials from all levels of government were visiting the mine making matters confusing for everyone involved. They also feared that government employees of the Kutai Barat Development Planning Agency (*Badan Perencanaan Pembangunan Daerah* or BAPPEDA) did not have the necessary skills or training required to monitor and police the mines activities (personal communication with PT KEM management, 31 July 2000).

2.2. CREATING A DISTRICT REGULATORY REGIME TO EXPLOIT FOREST RESOURCES

When Kutai Barat did not have a district assembly, the local government was bound by Kutai Kartanegara, provincial and national government regulations. However, when field work for this study was conducted in July 2000, 13 district regulations (*Peraturan Daerah* or Perda) had already been drafted with the expectation that they would be made law immediately after the Kutai Barat district assembly was elected. These district regulations legitimised the new authority of existing government offices in the district and expanded their responsibilities. None of them had yet to address the way in which forest resources would be managed.

In many policy decisions during this period, the *Bupati* of Kutai Barat followed the lead of the *Bupati* of Kutai Kartanegara—Drs H Syaukani HR. The *Bupati* of Kutai Kartanegara is a dynamic character who has a reputation of not being afraid to stand up to the central government to demand a greater share of revenue and autonomy for his district. In May 2000, he hosted a meeting in Tenggarong of 300 *Bupati*'s from Indonesia and was duly elected as the head of the Steering Committee for the Association of District Governments *(Dewan Pengurus Asosiasi Pemerintahan Kabupaten Seluruh Indonesia* or DP-APKASI). He is also a member of the Regional Autonomy Review Council (*Dewan Pertimbangan Otonomi Daerah* or DPOD*)* (*Kaltim Post* 2000e).

At the start of 2000, the *Bupati* of Kutai Kartanegara released a vision statement entitled 'Moving Towards Kutai's Development Endeavours' (*'Gerakan Pengembangan Pemberdayaan Kutai* or *Gerbang Dayaku')*. The statement, which appeared on banners throughout the region, set out his plans for regional development and autonomy. It encouraged the district assembly of Kutai Kartanegara to take on the role of creating legislation that will give the region more autonomy. In doing so, the *Bupati* expressed his hopes that this legislation would enable the people of Kutai to develop and become independent:

> With capital originating from Law No 22/1999 and Law No 25/1999, we have wide opportunities to determine and colour our future lives. We can shape the regional community of Kutai to be independent, creative and prosperous (Bupati Kutai 2000b).

2.2.1 The HPHH Issue

The most significant forest-related district regulation to be released by the *Bupati* of Kutai Kartanegara, and subsequently adopted by Kutai Barat, concerns the issuance of small-scale logging permits referred to as 'Rights to Harvest Forest Products' (*Hak Pemungutan Hasil Hutan* or HPHH). The regulation was released about eight months before the government issued Law No. 41 of 1999, granting *Bupati'*s the right to issue HPHHs after field surveys had been undertaken. Kutai Barat was required to follow the lead of Kutai Kartanegara. The regulation allows cooperatives, farmers groups, or individuals to clear timber from 100 hectares of forest land. *Bupati*'s issue these rights after the area in question has been checked by government officials from the CDK. According to district officials, the rights can only be issued for areas classified as 'Conversion Forest' or 'Production Forest' allocated for conversion. No heavy machinery is supposed to be used and the rights are only supposed to be valid within a radius of 50 m from small rivers or 100 m from main rivers.

When field work was undertaken for this study, many believed that the HPHH scheme had gained a lot of support among the general populace and greatly increased the power and popularity of the *Bupati*'s of Kutai Kartanegara and Kutai Barat. Three factors contributed to this impression. First, the HPHH scheme was thought to allow the district government to generate income by securing a larger share of reforestation funds (*Dana Reboisasi* or DR*)* and Forest Resource Rent Provision (*Provisi Sumberdaya Hutan* or PSDH). It was initially thought that all timber royalties could be kept within the region rather than being sent to Jakarta or the provincial government.[18] Second, it was believed that the HPHH scheme would allow timber entrepreneurs to gain access to community *adat* forests. Third, many thought that the allocation of HPHH permits would enable local people to secure a greater share of the benefits from their forest (personal communication with several NGO staff and local inhabitants of Kutai Barat).

There were, however, signs that the district government's HPHH scheme could result in added pressures on the forests of Kutai Barat. When field work was undertaken in mid 2000, local timber entrepreneurs and HPH concession-holders operating in the area were organizing local people into groups in order to gain access to new areas of forest[19]. Local timber entrepreneurs and HPH companies then cut down the forest and gave community members anywhere between Rp 25,000 (US$ 2.5) and Rp

150,000 (US$ 15) per m^3 for timber felled (personal communication with Bp. A, 30 July 2000)[20] . A official at the CDK Melak explained how this was done:

> Small 'timber kings' *('raja kayu kecil')* can organise the community to apply for large sections of land. A partner (*mitra)* provides the tools, chainsaws, etc. There's lots of different ways that the system can work and many opportunities for the *mitra* to take advantage of the situation. If the area is near an HPH, it's more than likely that the HPH will become the *mitra*. This is obviously a way for the HPHs to expand their territory (personal communication with a member of the CDK Kutai Barat, 28 July 2000).

Under such arrangements, there was a lot of potential for local people to be exploited through the process, particularly as they were dependent on their partners to supply the necessary capital[21] . There was also nothing to stop local people and their partners from cutting down timber outside the original 100 ha allocated to them. When interviewed during the course of this study, the Head of the CDK Kutai Barat admitted that his office did not have the capacity or staff to monitor HPHH activities in the field (personal communication with the District Forestry Head, 28 July 2000). By July 2000, his office was already overwhelmed with HPHH applications and his staff spent most of their time checking these applications (for a fee which included accommodation and meals) in the field before being approved by the *Bupati*.

By August 2000, the *Bupati* of Kutai Barat had allocated 223 licenses covering 22,300 ha. In doing so, the Kutai Barat government had generated approximately US$ 37,300 (*Kaltim Post* 2000j). While this revenue will certainly assist the Kutai Barat government, it is hardly enough to compensate for the environmental damage caused by uncontrolled logging. Little thought had also gone into how much of the revenue generated from these new rights would go into rehabilitation or reforestation. In mid 2000, the Mahakam river was said to be flooded with timber *('dibanjiri kayu')* from the region. One woman interviewed along the Mahakam river between Tenggarong and Samarinda, said she had not seen so much timber pass through the region since the 1970s. When interviewed about the issue, the *Bupati* defended the scheme and showed no interest in slowing down the process. Several NGOs feared he was accelerating the scheme because he was using some of the income generated from this initiative to fuel his own election campaign. The issuance of these permits had also made him popular amongst local people who felt that it was their turn to benefit from local forest resources and to increase their own standard of living[22] .

While local people will certainly reap some benefits from the new scheme, there is potential for a great deal of conflict to emerge from the HPHH initiative. In Kutai Barat local people have often staked competing claims to the same forest areas; and in many cases, the district government has allocated HPHH licenses within large timber concessions. The latter has caused provincial and national governments some concern as they face significant pressure from the timber industry to restore law and order. For instance in January 2000, 77 loggers in Kutai and Bulungan threatened to close down their operations if local and provincial governments did not prevent local people from logging their concessions and disrupting their activities (*Jakarta Post* 2000a). The Association of Indonesian Timber Concession Holders (*Asosiasi Pengusaha Hutan Indonesia* or APHI), also complained that several companies in Kutai and Bulungan were unable to continue operating as local peoples had seized their heavy equipment to demand payments amounting to billions of rupiah. To try to solve the problem, APHI, the East Kalimantan provincial government and the local Dayak Federation agreed to channel support funds of between Rp 100 million (US$ 10,000) and Rp 300 million (US$ 30,000) to each local cooperative or community organization (*Jakarta Post* 2000a). APHI did, however, insist that the revenuesharing agreement should be stipulated in a government regulation so that all timber companies would have clear guidelines to carry out the programme. The amount to be distributed to local people would also have to be reasonable and the procedures for allocating funds would have to be clearly defined (*Jakarta Post* 2000b:9).

In February 2000, some 10 foreign investors and plywood buyers, mainly from South Korea, also threatened to pull out of their contracts due to concern over escalating conflicts between timber companies and local people. The buyers said that they were worried that plywood mills would not be able to meet delivery schedules as many timber companies had stopped logging operations as a result of prolonged disputes with local people. In national media reports, the chairman of APHI was quoted as saying that foreign companies were astonished to see the complete inability of local authorities to stop people from squatting on concessions and forcing timber companies to halt logging operations (*Jakarta Post* 2000a).

In early 2000, the central government realised that it had lost control over the allocation of HPHH permits and was losing large amounts of potential revenue from district timber regions. The Ministry of Forestry and Estate Crops (MOFEC) then suspended its earlier regulation giving *kabupaten* governments the right to allocate small-scale logging permits. When field work was carried out for this study, both the *Bupati* of Kutai Kartanegara and Kutai Barat were ignoring this decision and arguing, that under regional autonomy, they were duty bound to ensure that local people would directly benefit from forest resources (personal communication with the *Bupati* of Kutai Barat and Kutai Kartanegara, 5 August 2000). In both districts, local people were supportive of the *Bupatis'* efforts. In an interview, a village head in Kutai Barat said that 'the allocation of these rights allowed local people to benefit from their forest resources rather than Soeharto's cronies. Regional governments also have the opportunity to generate revenue through taxes. We are therefore very supportive of this new development' (personal communication with Bp. B, 30 July 2000). This attitude has undoubtedly caused the central government some concern and the Secretary General of the Ministry of Forestry, released a statement in October 2000 saying that the central government would take these *Bupati's* to court for violating the law (*Jakarta Post* 2000c). However, no mechanism yet exists in the regional autonomy legislation for the Ministry of Forestry to carry out this threat.

Provincial and local NGOs were also confused by this new development because they did not feel that they could reject outright the HPHH scheme, as it was supposedly designed to allow local people to share in the benefits of timber exploitation. Nonetheless, they were increasingly concerned about the impact that the HPHH operations were having on the environment (personal communications with the several Samarinda-based NGO personnel, July 2000). In July 2000, a number of Samarinda-based NGOs collaborated to write a draft position paper on the issue that they intended to deliver to the *Bupati*'s of Kutai Kartanegara and Kutai Barat. In the position paper they raised concerns about the potential for HPHHs to increase conflict among communities and individuals; the potential for HPHH rights to be manipulated by government officials and outside interests; and the potential for the issue to give negative connotations to decentralisation and devolution. They called upon the *Bupati*'s of both regions to give tenure rights to local people, to ensure transparency and to educate local people about how they can save money generated through the HPHH schemes. To conclude they stated:

> We support the allocation of HPHH rights to the community and efforts being made to ensure that communities can benefit from forest resources, however, we hope that *Bupati*'s will take more care to ensure that the decentralisation process is not ruined.

Because of the difficulties and criticism district governments face in relation to this issue, officials in Kutai Barat were understandably reluctant to discuss it or to reveal information on how many licenses they had issued. During an interview, one official in the *Bupati*'s office said the information was 'secret' (*rahasia)* and it would be too 'dangerous' (*bahaya)* for him to give me any information about it (personal communication with a Kutai Barat government official, 1 August, 2000). This implies that the process is not transparent and many fear that the scheme will lead to further misunderstandings and conflict between local people[23] .

2.3. OPPORTUNITIES FOR GREATER PARTICIPATION AND CONSULTATION IN DISTRICT DECISION-MAKING

Despite a lack of transparency in the HPHH process, there has been a lot more community consultation and participation in local government decision-making since the decentralisation process began in late 1999. A number of NGOs working in Samarinda and Balikpapan now have the personal mobile phone numbers of the *Bupati*'s of Kutai Kartanegara and Kutai Barat, and they are often invited to local government meetings and discussions. Many of the Samarinda and Balikpapan NGOs have committed themselves to helping the local governments build up their expertise, skills, knowledge and revenue (GTZ 2000). Some, such as PLASMA are also helping the district governments to draw up district regulations. This is a new and positive development that most stakeholder groups apparently hope will continue. Previously, under the Soeharto regime, NGOs were not given a voice and were forced to use covert methods to influence government policy. By opening up a dialogue with the *Bupati* and local government, NGOs can have a real voice in decision-making and work towards establishing better governance at the local level.

The role of NGOs in local decision-making in Kutai Kartanegara and Kutai Barat is quite unique and may not be found in other districts within Kalimantan. For instance, NGO representation and participation in local decision-making is extremely weak in Central Kalimantan[24] . It is difficult to say why NGOs in East Kalimantan are more active in local government and decision-making. One reason could be that Mulawarman University in Samarinda is highly regarded and thought to produce good graduates. In contrast to Central Kalimantan, there are also two long-term international development projects in the area, the USAID-funded Natural Resource Management Project (NRM) and the GTZ Sustainable Forest Management Project. Both of these projects have been playing an active role in the decentralisation process and have helped to build up the capacity of local NGOs working on the issue. The NRM project has devoted much of its time to the decentralisation issue and it is hopeful that decentralisation can have a positive influence on the way natural resources in the area are managed. It is therefore seeking to facilitate the process by providing information and advice, as well as coordinating meetings between local NGOs and district government. These international agencies and local NGOs believe that the central government has proved that it cannot manage natural resources sustainably, and they are confident that decentralisation can improve the situation if it is implemented in a manner that supports good governance (Usher 2000).

3 DECENTRALISATION AND THE OIL PALM SUB-SECTOR IN KUTAI BARAT

When field work was undertaken in mid 2000, the local governments of Kutai Kartanegara and Kutai Barat were very keen to develop the oil palm sub-sector as they saw it as a potential revenue generator. However, they were becoming increasingly frustrated with the central government, which i implemented a moratorium on further forest conversion for plantation development in 1998 (Casson 2000). At a meeting held in Samarinda, the Assistant Head of East Kalimantan's Provincial Legislative Assembly (*Dewan Perwakilan Rakyat Daerah* or DPRD), publicly stated that provincial and district governments would no longer allow the central government to limit their ability to establish and promote further oil palm developments in the area.

> If the government continues to insist that they will not give out forest release permits to companies or communities in East Kalimantan, then the Kutai government is ready to seize them (*Kaltim Post* 2000b).

He then went on to say that carrying out autonomy in the current era of globalization is a great opportunity for East Kalimantan to move forward and open one million hectares of forest land for plantations, be it oil palm or other crops (*Kaltim Post* 2000b).

In order to open one million hectares for plantation development, the Assistant Head of the East Kalimantan DPRD said that the provincial and district governments would seize control of the forest release permits in order to facilitate development. He then went on to say that they would legitimise this process by issuing their own legislation on the release of forest land for plantation development (*Kaltim Post* 2000b). The *Bupati* of Kutai Kartanegara was very supportive of these actions, and he has stated that there were over 200 entrepreneurs waiting to invest in the sector. Many of these entrepreneurs were said to be from overseas countries including: Germany, Japan, Korea, Singapore and Malaysia (*Kaltim Post* 2000h).

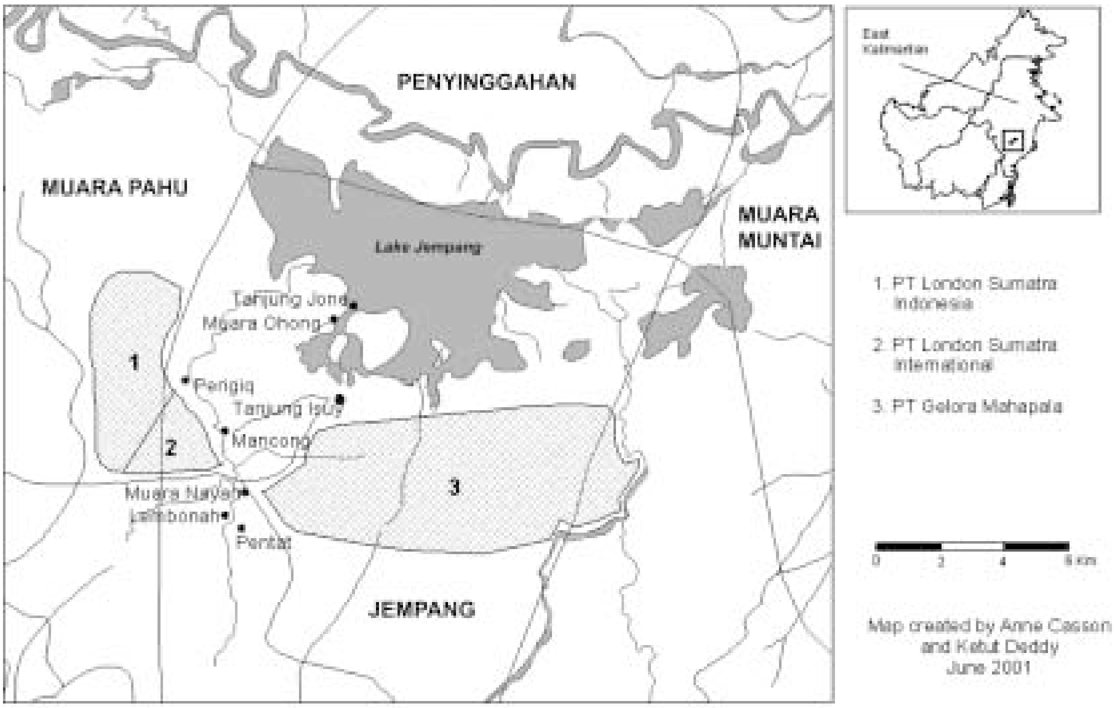
To facilitate the development of oil palm plantations in the area, the National Land Agency *(Badan Pertanahan Nasional* or BPN*)* at both the provincial level and Kutai Kartanegara district level have discussed ways in which they can speed up the allocation of permits for oil palm estates. During an interview, the head of the Provincial office of the National Land Agency explained that his office planned to lobby the provincial assembly to pass legislation that would enable them to issue location permits and land-use rights. Forest-release permits would pass through the *Dinas Kehutanan* office at the district and provincial levels to the Governor of East Kalimantan. It was hoped that the Governor would be given the authority to release forest land in the province and pass on his recommendation to central government. By cutting the central government out of the permit-allocation process, the provincial and district governments expected to be able to accelerate oil palm development and forest conversion. The central government appears to be willing to accommodate these plans, as a meeting was held in March 2001 between the BPN and BAPPENAS to review the 1960 Agrarian Law in an attempt to simplify the permit-allocation process for potential investors (*Jakarta Post* 2001). According to the provincial head of BPN, potential investors are optimistic about these plans and eagerly await their implementation (personal communication with the provincial head of BPN, August 2000).

3.1. OIL PALM DEVELOPMENTS IN KUTAI BARAT AND THE SIGNIFICANCE OF PT LONDON SUMATRA

In Kutai Barat, there are only three estates in which oil palm has already been planted: PT London Sumatra International, PT London Sumatra Indonesia and PT Gelora Mahapala. All three of these estates fall under a company known as PT London Sumatra International Tbk (PT LonSum). Similar to PT KEM, LonSum also has a significant presence in the district and is surrounded by conflict and controversy. The company has established plantations on land belonging to a number of Dayak Benuaq villages located in the Lake Jempang area (Map 3), LonSum has also been heavily criticized by grassroots organizations and NGOs for its alleged association with the 1997-98 forest fires and illegal land clearing; and for its oppressive action against local people (Muliastra *et al.* 1998: Gönner 1999; Telapak *et al.* 2000; AidEnvironment *et al.* 2000). Carrying substantial debts since the Asian financial crisis struck in mid-1997, the company's finances have also attracted a lot of interest both nationally and internationally (EIA 1998; Wakker 1999; AidEnvironment *et al*. 2000; Rainforest Action Network 2001).

British company, but later became a subsidiary of British palm oil traders Harrisons and Crossfield. Harrisons and Crossfield was established in 1844 as a wholesale dealer in coffee and tea. The company later became active as managing agents and plantation proprietors in Ceylon and Malaysia, and unusually high

Map 3. Location of Villages in the PT London Sumatra Plantation Area, East Kalimantan



Source: Map data from GTZ IFFM project[25] profit from rubber encouraged further expansion to include Sumatra's East Coast in 1907. Several concessions were then leased in Delhi for tea, coffee, rubber and tobacco, and in 1909 operations were extended to Java, where two more subsidiaries were formed. While the exact figures concerning Harrisons and Crossfield's holdings during these early years in the 1920s are unavailable, the company's land holdings were estimated to be around two million acres in Malaya, North Borneo, Indonesia, India, Ceylon and East Africa (Stoler 1985).

In the mid-1990s, Harrisons and Crossfield sold its stake in the company and LonSum became an Indonesian company publicly listed on the Jakarta and Surabaya stock exchanges. Shareholders in the company included a number of prominent Indonesians with close connections to the Soeharto family, such as Ibrahim Risjad, Andry Pribadi, and Henry Liem. Ibrahim Risjad was also one of the founders of the Salim Group—one of Indonesia's largest Chinese-Indonesian owned companies that has close ties to the former Soeharto government. He was also the founder and majority shareholder of the Risjadson Group.

Before the 1997 economic crisis, LonSum was considered to be one of Indonesia's leading private plantation companies (Tripathi 1998). The company had 54,477 ha of plantations in North Sumatra, Java and Sulawesi and its activities included the cultivation, harvesting and processing of oil palm, rubber and, to a lesser extent, cocoa, coffee and tea, and the sale of oil palm and rubber seeds. While rubber was the main crop planted by the company up until the 1990s, LonSum's management decided to focus on oil palm plantations and to let the other crops grow as a side business in 1993. Consistent with this policy, the majority shareholder, PT Pan London Sumatra—ultimately owned by Risjad, Pribadi and Liem—began an aggressive oil palm expansion program (totaling 113,750 ha) on behalf of LonSum in South Sumatra, Sulawesi and Kalimantan in 1994 (PT London Sumatra Tbk 1998). In East Kalimantan, LonSum planned to establish up to 15,000 ha of oil palm in the Lake Jempang area. It also planned to build a Crude Palm Oil (CPO) processing factory and establish a *plasma* scheme that would allow local people to establish and own oil palm plantations around the LonSum *inti* (nucleus) estate (PT London Sumatra Indonesia Tbk 1998).

PT LonSum first came to the Kutai Barat area in 1995. At this time it consulted with local government about investing in the area. Company personnel also visited several villages in the Kutai Barat area to determine the best location for the plantation. The local government seemed to be very supportive of LonSum's development plans and the company chose to invest in the Tanjung Isuy area. It was then given a location permit (*Ijin Lokasi)* by the Kutai National Land Agency (BPN) (Dinas Perkebunan 2000). All three estates, despite already clearing forest land and planting oil palm, were still waiting to obtain a forest release permit (*Ijin Pelepasan Kawasan Hutan)* and a land use permit (*Hak Guna Usaha* or HGU) from the central government at the time of field work in 2000.

While LonSum was heavily criticised for its association with the 1997-98 forest fires, trouble really began for the company in mid-1998, when around 120 members of the Dayak community occupied the LonSum base camp[26]. These community members claimed that they had been forced to occupy the base camp because the company had failed to consult them about its activities and failed to adequately compensate some members of the community for land already cleared and planted with oil palm. They also claimed that the company had failed to respect sacred areas such as Dayak graveyards (Gönner 1998; 1999; Telapak *et al.* 2000). During the period of occupation, some community members destroyed company goods and burnt down a number of buildings. They also refused to let company staff enter the premises and effectively closed down all operations. The community members occupying the base camp eventually left of their own accord but were later harassed by local authorities who ransacked their houses and jailed 10 members for destroying company property (personal communications with some of the community members involved, June 2000).

Meanwhile, PT LonSum began to experience considerable financial problems. At the beginning of the economic crisis, LonSum registered record profits. It was thought that LonSum was able to increase its profit margin by increasing its exports to 60 percent of output to take advantage of record world prices for CPO on the world market (Casson 2000). Because of its record earnings leading up to the economic crisis, LonSum was seen to demonstrate that the agribusiness sector, particularly the oil palm sub-sector, 'remained a bedrock of the region's economy' despite the economic crisis (Tripathi 1998).

However, by 1998 it became clear that LonSum had begun to experience difficulties and it was revealed that the company had not performed so well in the midst of the economic crisis. In fact, 1997 marked the first year in which LonSum's growth in net profit[27] actually declined. LonSum achieved a net profit of Rp 76.5 billion in 1997 (US$ 7.6 million), a five percent decline against Rp 80.6 billion (US$ 8 million) in 1996 (*Ing Barings* 1998). In 1998, LonSum recorded a negative net loss of Rp 274.6 billion (US$ 27.4 million). However, LonSum failed to recognise certain losses in its 1998 profit and loss statement which would have booked a net loss of Rp 1.5 trillion (US$ 150 million) in 1998 (Casson 2000)[28].

Having lost the opportunity to benefit from the fall of the rupiah and increased CPO prices on the world market, LonSum began to find it difficult to meet its loan repayments and was forced into a debt-restructuring programme. In April 1998, PT London Sumatra Indonesia appointed HSBC Investment Bank Plc as the coordinator of its debt-restructuring programme with external creditors. However, HSBC was unable to successfully restructure the company's US$ 262 million debt before it was announced that a memorandum of understanding between LonSum and Lazard Asia Investment Ltd[29] —a Hong Kong investment bank—had been entered into. In accordance with this memorandum, LonSum agreed to replace three of its board members with Lazard Asia executives[30] . Lazard Asia agreed to take over LonSum's debt restructuring programme and expressed an intent to acquire a 50 percent stake in the company through the issuance of 486.5 million new shares valued at US$ 100 million (*Financial Times* 1999). Funds generated through this transaction could have been injected directly into the company. The funds were to be used to finance the construction of a CPO processing factory and plantations (*Business Times* 1999). As oil palm takes at least three years to mature after planting, it was in LonSum's best interest to expedite the planting programme to generate cash flow to repay its rescheduled loans starting in 2003. Unfortunately, for LonSum, the transaction did not eventuate and the company is now heavily in debt and without any potential investors.

At the beginning of 1998, LonSum management reacted to the continuing adverse business conditions by deferring the construction of a new oil palm mill in South Sumatra and planting activities in South Sumatra and East Kalimantan. In 1998, the company only planted 99 ha on its new estates because the crisis had reduced the company's internal liquidity. At the time of field work in the LonSum area in July 2000, the company had stopped all planting operations due to a lack of funding. Community conflict in the area had eased as a consequence, but other elements of the community are now suffering. Not only have local people now lost their land to oil palm but they have also lost any employment opportunities being offered by the company. Many had also joined the company's *plasma* scheme in which they had been promised two hectares of oil palm estate. To join the cooperative they had to pay Rp 10,000 (US$ 1) to sign up and an extra Rp1,000 (US$ 0.10) per month (personal communication with the director of the village cooperative, 24 July 2000). When the Director of the cooperative was asked if the company had told him about their financial problems, he looked confused and said that the company had not informed them. He then went on to say that it seemed obvious as the trees had already started to bear fruit and the company was showing no signs of building a crude palm oil processing factory. He seemed to realise that this was to the detriment of the community and said that he hoped that the company can quickly resume its activities and build the factory. By mid-2000, community members were just starting to realise that there is little chance of this scheme going ahead. Moreover, many of the trees had already started to bear fruit but the company apparently had no funds to establish a factory. The fruit was then rotting on the ground or being fed to chickens as the nearest factory is in Pasir district, too far away to process oil palm fruit harvested from the LonSum sites (Plate 2).

District government officials are obviously very concerned about this development and about the criticism and conflict the plantation has attracted. Together, all of these issues are deterring future investors to the district. In order to attract investment, the district government is trying to secure the company's land use permit and support the establishment of the factory (personal communication with the Kutai Barat district government secretary, 28 July 2000). While it looks certain that the land-use permit will soon be issued, it is unlikely that LonSum will be able to establish a factory or resume planting in the near future. Because LonSum is the only established oil palm company in the district it is doubtful that other investors will be attracted to the region until a factory is built. In the meantime, they are more likely to invest in districts such as Pasir where the infrastructure needed for oil palm processing is already well established. While the *Bupati* had visited the area on several occasions to talk to both the company and the community, there has been little he can do apart from try to ensure that conflict does not arise again if, and when, the company resumes operations. According to the base camp manager of PT Gelora Mahapala, the *Bupati* has pledged his support for the company and said that he will support further plantation establishment by the company (personal communication with the PT Gelora Mahapala base camp manager, 24 July 2000). Until then there is little hope that the district government can obtain any revenue from the company, and the company is likely to continue to be a burden to the local government because it continues to arouse conflict.

Plate 2. Oil Palm Fruit Being Collected by a Local Villager in The LonSum Area to Feed Chickens. Photo taken by Anne Casson

The *Bupati* of Kutai Barat is of the opinion that problems arising from the LonSum development are a consequence of central government control over the licensing procedures. He feels that the central government did not adequately consult or inform the local people about the company's development plans and that this has resulted in a number of misunderstandings, which led to conflict and the occupation of the base camp. He is confident that decentralisation can provide district governments with the opportunity to better manage conflict with local communities because they will be more responsive to local needs and more aware of problems arising from such developments. He also feels that local government will better understand the concerns of local communities and more able to accommodate these concerns into development plans (personal communication with Bp. Rama Asia, July 2000). It remains to be seen, however, if the local government of Kutai Barat has the skills and expertise to manage such developments and there is always the danger that it will speed up the conversion process in order to facilitate further oil palm development.

If LonSum is unable to develop a crude palm oil processing factory, the *Bupati* is unlikely to be able to attract investors to the region in the near future. This means that the company will be a considerable burden to the region in the near future as it will be unable to generate revenue and local people, who have already lost their land to the estate, will not be able to benefit from its operations. It also means that the district government is more likely to focus on revenue-generating schemes that rely on timber extraction, such as the HPHH scheme until investment can be found to establish an oil palm processing plant in the district.

4 CONCLUSION

In Kutai Barat, decentralisation has the potential to build up the physical infrastructure and industrial facilities of the district. Before Kutai was divided into three regions, most of the original districts development occurred within the area now encompassed by the district of as Kutai Kartanegara, while the outer regions of Kutai Barat were more or less neglected. Following the partition of Kutai, the Kutai Barat government now has the opportunity to focus on developing these previously neglected areas and ensuring that more funds are directed to building up local infrastructure. A Kutai Barat government is also likely to pay more attention to people of the area and listen to the needs and concerns of the local population.

However, the Kutai Barat government faces many challenges in the years ahead as it has to work with very little infrastructure, poorly skilled government officials and very little revenue. Moreover, two of the main companies operating in the region—PT KEM and PT London Sumatra—are rife with problems and may not be able to contribute much revenue to the region in the near future. PT KEM plans to close down its operations in 2004 and PT LonSum presently has no funds to continue its operations and build a crude palm oil processing factory. Because of this situation, the local government is being forced to find new ways of generating income from its natural resource base. An example of this is the new HPHH scheme that enables local government to generate income and local communities to benefit from the district's forest resource base.

While this scheme may be preferable to the former system whereby large HPH timber concessions were issued to conglomerates close to the Soeharto family, the allocation of large numbers of HPHH permits is expected to increase conflict and environmental damage in the near future. Kutai Barat's district government does not have the skills, staff or expertise to manage or monitor the scheme. While the scheme may be no worse than the Soeharto government's exploitative HPH system, assistance is undoubtedly needed to build up the district government's institutional capacity to manage forest resources.

Given the above, the Kutai Barat government is quite clearly in need of development assistance from NGOs and the donor community. While both have committed themselves to helping the newly formed region develop, more long-term help will be needed in the near future. At this early stage, assistance is particularly pressing with respect to building up the skills, expertise, infrastructure and capacity of local government so that it can develop a new district. Technical assistance with regard to district forestry plans and mapping is also required. Finally, assistance with developing new legislation and policy with regard to forest management is necessary. These new policies will also need to be reviewed on a continuous basis to ensure that they have long-term positive, rather than negative, impacts that are shared broadly among stakeholder groups.

5

ENDNOTES

[1] Kutai was established as a *kabupaten* in 1959 with the enactment of Law No 27/1959 concerning the formation of *Daerah Tingkat II* in East Kalimantan. The first *Bupati* of Kutai was A.R. Padmo.

[2] When I visited Kutai Barat in July 2000, Kutai Kartanegara was referred to as Kutai Induk, meaning the mother district. However, the people and government of this district now prefer to call it Kutai Kartanegara. This term is therefore used throughout this paper.

[3] Statistics vary on the actual area and population of Kutai Barat. According to BAPPEDA & BPS (1998), the area of Kutai Barat is 33,118 km^2 and the population 122,153 people. However in accordance with Bupati Kutai (2000a) the area is said to be 31, 628 km^2 and the population 150,871 people.

[4] The District Legislative Assembly was formed in December 2000 and the *Bupati* was formally elected in March 2000.

[5] It is perhaps interesting to note that most of the office furniture in the Regent's office had been donated by PT Kelian Equatorial Mining, a company mining gold in the area.

[6] When I visited in July 2000, the only offices to be found in Melak were: *Cabang Dinas Kehutanan* (branch office of the Provincial Forestry Service), *Dinas Pertanian* (District Agriculture Office), *BAPPEDA* (Regional Development Planning Agency), *Dinas Pendapatan Daerah* (District Income Office), *Sospol* (District Social-Politics Office), *Dinas Kesehatan* (District Health Office) and *Dinas Perkebunan* (District Estate Crops Office).

[7] Law No 7/2000, determined when the district assembly for the newly formed districts of Nunukan, Malinau, Kutai Barat, Kutai Timur and Kota Bontang were to be established. According to this Law, all of these new districts should establish a Membership Committee (*Panitia Pengisian Keanggotan or* PPK) district assembly between 27 August and 5 September 2000. This committee was to consist of five independent and non-partisan people from the local community, academia or NGO. Nominations for the *Bupati*'s position were supposed to be taken from 11 September to 17 October 2000. The district assembly was to be chosen between 18 and 26 October and sworn in between 27 and 31 October 2000.

[8] Barong Tongkok and Melak also put in a bid to be the capital.

[9] This had been documented by a local woman in the town of Mancong. This woman had decided to document the history of Sendawar because she feared that the local people of the area would soon forget their heritage. She was extremely proud of her work and happy to know that the former capital of the area would soon be established.

[10] During the 1970s, East Kalimantan produced 30-40 percent of the nation's timber exports and around two thirds of the total national timber supply (Magenda 1991).

[11] Although the *rupiah* has fluctuated considerably against the US$ since mid 1997, an exchange rate of Rp 10,000 to the US$ is used throughout this paper.

[12] Most of the oil and gas deposits lie within the area now designated as Kutai Kartanegara and Kutai Timur.

[13] Lime is needed for the treatment of water run-off into river water.

[14] It is interesting to note that Pak Asia's proposed deputy for the election was a PT KEM employee and the regional leader of the PDI Perjuangan party.

[15] Much of this revenue subsequently went to the central government.

[16] The *Bupati* had many political opponents to deal with. In late May for instance, PAN (*Partai Amanat Nasional*) put forward 14 candidates for the *Bupati*'s position. Some of the individuals named were considered to be strong candidates for the position and already held high positions in the Kutai or provincial government.
[17] A foundation called the Rio Tinto Foundation has also been established in the area to facilitate development. The Foundation will remain in the area for several years after the mine closes.
[18] These taxes are only recent requirements for timber from HPHHs and are not collected systematically.
[19] This was verified by several sources in the region. Hotels in Melak, Kutai Barat were also full of middlemen and business men from Jakarta trying to get in on the scheme.
[20] Bp. A was considering applying for a HPHH license when field work was undertaken for this study but was looking into the financial options beforehand. He did not want to rely on others to provide the capital and was unhappy with the payments he would receive if he was forced to do so.
[21] This became blatantly clear after talking to a man who had already organized 40 people into a cooperative to obtain HPHH rights. He intended to give local communities, which had obtained the rights in name only, Rp 25,000 per m^3. All of the remaining profits would go to himself and his son.
[22] For instance, at a seminar entitled: Towards a Prosperous, Fair and Even Kutai Barat (*Menuju Kutai Barat Sejahtera, Adil dan Merata)* the Regent of Kutai Barat said that local communities with rights to *adat* forests can exploit these forests by obtaining HPHH permits and thereby raise their standard of living (*Kaltim Post* 2000l).
[23] This view was expressed by most NGOs I spoke to in Samarinda.
[24] For further information, see case studies 1, 2 and 5 on the effects of decentralisation in the districts of Barito Selatan, Kapuas and Kotawaringin Timur, Central Kalimantan in CIFOR's series of reports on decentralisation and forests in Indonesia.
[25] Official map data on the location of the PT LonSum plantations in the Lake Jempang area do not yet exist because the company has not acquired a number of permits from the Ministry of Forestry and the National Land Agency. The location of the plantations shown on this map are therefore estimated from a visit to the area.
[26] This element of the community was backed by a number of NGOs from Samarinda including: Puti Jaji, Komite HAM Kaltim, Lekskip, Plasma, WALHI Kaltim, SHK, Bikal, and FP3K. A number of outside NGOs later became involved in the incident: Yayasan Padi, PBBT (Kalbar), LBP (Banjarmasin) YBSD, YLBH, WALHI, Amnesty International, Telapak and Sawit Watch. These groups collected data about the company, gave local communities advice, organised meetings, and campaigned against the company.
[27] It is important to draw a distinction between net profit and operating profit. Net profit refers to 'the net excess of all the revenues over all the expenses'. Operating profit refers to 'revenues generated from sales minus operational expenses'. The operating profit referred to in the *Far Eastern Economic Review* article by Tripathi did not, therefore, take into account expenses incurred from US dollar liabilities.
[28] These losses mainly arose from unfulfilled off-and-on balance sheet contractual obligations, including: US dollar sell forward contracts to Credit Agricole Indosuez, Union Bank of Switzerland, and Citicorp Financial Services Limited; an interest swap extension contract between the company and Citicorp Financial Services Limited; a commodity par-forward contract with Citibank; losses on advances to smallholder projects; and doubtful affiliates receivable. These losses totalled around Rp 1.2 trillion.
[29] Lazard Asia, part of the Lazard Group, attracted market attention in 1999 when it bought a controlling stake in the listed newspaper company Sing Tao Holdings which runs English and Chinese dailies in Hong Kong. In Indonesia it is the second largest shareholder of Jakarta International Hotel and Development—the owner of the five-star Hotel Borobodur.
[30] Andry Pribadi, Wilson Pribadi, Ibrahim Risjad and Henry Liem resigned from the Board in June 1999. They were replaced by four Lazard Asia executives including Chief Executive Patrick Cheung and Deputy Chief Executive Helen Wong (McCarthy 1999).

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