Closer to People and Trees: Will Decentralization Work for the People and the Forests of Indonesia?

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1. Introduction and Objectives
Following new openness after the 1997/98 economic and political crises, there were demands for political, administrative, and economic reforms, which Indonesians frequently refer as \textit{reformasi}, both in Jakarta and in the regions. In Jakarta, people focused on bringing the New Order Government’s previous leadership and his cronies to trial for corruption and for the rewriting of political laws. In the regions, the new environment provided a vent to channel the long kept disappointment against the biased central government’s policies, which created a big gap in the development of the regions and that of Java. Regional leaders wanted to have a greater role in running their own affairs. They also demanded for a more justified share of natural resource proceeds produced in the regions (Kompas 1998).

People in the regions sought to turn around the injustices and the inequitable development, which prevailed during the New Order period. In many places villagers were reclaiming lands and forest resources that have been taken and controlled by outsiders and demanding compensation from logging companies who had logged their traditional lands.

As cries for reform became stronger, some provinces demanded immediate autonomy. Figures in the most resource rich provinces of Irian Jaya, Aceh, and Riau, threatened to cede from the unitary republic. The fear of national disintegration became an urgent issue for the government ministries in Jakarta.

The situation was such that the highest authority of the state, the People’s Consultative Assembly (\textit{Majelis Permusyawaratan Rakyat} or MPR) decided to hold a special session in November 1998. The deliberations resulted in an important stipulation (Ketetapan MPR RI No. XV/MPR/1998) setting out the principles for the ‘Organization of Regional Autonomy, the Equitable Arrangements, Division and Utilization of National Resources, and Balanced Finance of the Central and Regional Government in the Context of the Unitary State of the Republic of Indonesia.’ Regional Autonomy and a more justified redistribution of resources were now perceived urgent to prevent national disintegration, and decentralization had become a matter of national priority.

Two different ministries were responsible to carry out the mandate directed by this MPR’s stipulation. A team from the Ministry of Internal Affairs was formed to draft the new law on regional governance and the ministry of finance to draft the law regarding the financial balance between the center and the regions. In April 1999 the House of Representatives (\textit{Dewan Perwakilan Rakyat}, or DPR) passed Law No. 22/1999 concerning Regional Governance and Law 25/1999 concerning the Balance of Fund, which were signed in May by the then President Habibie.

\textsuperscript{1}This paper is based on the findings of CIFOR research on decentralization of policy making and the administration of policies affecting forests in Indonesia, conducted in collaboration with Institut Pertanian Bogor, University of Adelaide, Murdoch University, Australian National University and preliminary findings of research on the same topic in collaboration with Universitas Tanjungpura, Universitas Hasanuddin, and Brandeis University. Fieldwork was conducted in nine districts in 2000 and three districts in 2001.

The country has seen various forms of decentralized government in its earlier years of independence. In the early 1950s until 1960s the country adopted a federal system where the locus of decision-making power was at the then first level regional government (i.e., provinces). Later, for three decades it adopted a highly centralized system and attempts to decentralize remained largely rhetorical and limited to the weakest form of decentralization, i.e., deconcentration (where central government’s vertical line agencies and sectoral ministries perform tasks as representatives of the central government) and co-administration (where provincial and local governments carry out activities on behalf of the central government).3

For the last thirty-two years prior to 1998, the forestry sector in Indonesia was heavily centralized and was oriented towards large-scale commercial development. Beginning in early 1970s, facilitated by 1967 Basic Forestry Law, the New Order government distributed of millions of hectares of Outer Island forests to private and state-owned timber companies. It marked the beginning of large-scale commercialization of Indonesian forests which placed Indonesia as the world’s leading exporter of tropical logs. In 1985, the government imposed a national ban on log exports to push domestic timber companies to invest downstream in plywood production. It was argued that by exporting raw logs Indonesia lost the opportunity to enjoy the added value of processed timber products. In the 1990s we saw the expansion of the pulp and paper industry supported by the development of timber plantations. In each of these industries, the government adopted policies that placed the concentration of forest resources in the hands of a few conglomerates associated with government elites.

Until recently, decentralization of forestry matters has been applied on trivial matters and was perceived by many to be more of a paper exercise than practice (Resosudarmo and Dermawan 2002). Failures of past experiences to decentralize suggest even more of the greater importance of the enactment of these two recent laws.

These two laws, which became effective on January 1, 2001 would profoundly affect the decision-making and administration pertaining many areas including natural resources and the forestry sector. Since 1999, new trends have occurred in the regions in the forestry sector, particularly at the district level.

The objectives of this paper are to a) observe the broader dynamics of the decentralization process in Indonesia; b) examine what has been happening in the forestry sector since the decentralization laws were enacted, with emphasis at the district level; and c) observe the initial implications of decentralization on forests and local communities.

We begin by observing the key actors of the broader decentralization process in Indonesia, including their changing roles as a consequence of decentralization. We also examine the dynamics of the relationships among these actors that have developed and influenced the process. These are then followed by sections that explain how decentralization has played out in the forestry sector, in the period beginning immediately after the inception of the laws through its first year of formal implementation, focusing particularly on the dynamics in the districts.

2. The Actors
In order to observe the major actors and their positions in the decentralization process we need to discuss briefly the major changes highlighted by the two decentralization laws. As we have seen

3 Law No.5/1974 regarding the principles of governance in the regions provided the three basic concepts of decentralization, deconcentration, and co-governance. However, this law had only suggested that in principle autonomy would be ‘real and responsible’ (otonomi yang nyata dan bertanggungjawab), without specifying the degree of autonomy given to the regions. Similarly, the district autonomy pilot programme set up through PP8/1995, to improve administrative arrangements in 26 districts were deemed to have been insufficiently successful.
above, in the Indonesian context and usage, decentralization is often associated and used interchangeably with the term regional autonomy. 4

The new law on regional governance restructured the political and organizational arrangements of the regional governments and their relationship with the central government. It provides for two important changes from the previous 1974 law on principles of governance in the regions. First, with the exception of strategic affairs, it transfers the authority of decision-making in most areas to regional governments. Second, it provides for the clear separation of power between regional legislative assemblies (or DPRD) and the regional executives.

Unlike other countries, in the Indonesian case, the locus of the transfer of decision making authority from the center revolve around districts and municipalities as opposed to the provinces. At the time, more power with the provinces was perceived to encourage desires to separate from the unitary republic and would pose a threat to the integration of the nation. Districts are much smaller and were perceived to be relatively weaker than provinces for the emergence of separatist aspirations. Although many would agree that local capacity at the district level is lower than that at the provincial level, the proponents of the devolution of power to districts rather than to provinces argued that being closer to the people, district and municipal governments are best placed to make decisions and provide public services that would be in line with the people’s needs and aspirations.

Law 25/1999 on fiscal balancing complements the regional governance law by setting out a new framework for the intergovernmental fiscal system. It provides the legal framework for establishing the financial capacity of regions in order to carry out tasks associated with regional autonomy. This law sets out the major components of regional revenue sources, which are regionally generated revenues, balance of fund, regional loans, and other sources. It reorganizes the system of fiscal transfer from the central government and changes the structure of revenue sharing from the exploitation of natural resources. As we see later, this law and its implementing regulations, as well as their actual implementation are key in steering the direction of the decentralization process, as they determine how various aspects are played out.

2.1 Central government and its agencies.
As noted above, the central government retains responsibility over strategic affairs, which are matters concerning foreign affairs, security and defense, justice, monetary, fiscal, religion, and others. The last or ‘others’ category involves national planning and development, balance of funds, state administration and national economic policies, human resources, utilization of natural resources and strategic high technology, conservation, and national standardization.

With many functions being devolved to the regions, accordingly many positions that used to be under the central government administration are no longer required. 5 Among others, tasks that were largely carried out by vertical line government agencies are now handled directly by districts. In the forestry sector, regional offices of the ministry of forestry at the provincial level and at the district level were disbanded.

2.2 Regional governments and regional legislative bodies
One notable change provided by the decentralization law has been the ‘downgrading’ of the positions of the provinces and the ‘upgrading’ of districts and municipalities. First, most of the

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4 The law defines regional autonomy as ‘the authority of an autonomous region to govern and administer the interests of the local people according to its own initiatives based on the peoples’ aspirations in accordance with the prevailing laws and regulations’. It further specifies autonomous regions being provinces, districts, and municipalities.

5 An estimated 2.1 million central government civil servants were to be transferred to regional governments (Usman 2001, Kompas 2001).
decision making power is transferred to districts and municipalities, and not to provinces. Second, there is no longer a hierarchical relationship between the provinces and district and municipalities. Whereas previously district or municipality heads reported to their respective governors, now they are accountable directly to local legislative assemblies. This is a marked difference from the past centralized era and has influenced the changing relationships between provincial and district officials.

Provinces are defined as autonomous regions but also carry out deconcentration functions. As an autonomous region a governor is accountable to the provincial legislative assembly, while in carrying out deconcentration tasks he/she reports to the president. As an autonomous region a province is mainly responsible on matters that cut across district boundaries.

The law not only decentralizes most of the power to districts and municipalities but also provides for the separation of power between the local legislative body and the executives, thus effectively boosts the power of local legislatives. This means that local legislative assemblies now elect the district heads or bupati and accordingly a bupati is responsible to the local legislative assemblies ( DPRD kabupaten). Previously DPRDs were part of the executive body of regional governments and were subordinates of the executives (CSIS, 8). Their major functions are no longer ‘endorsing’ regional legislation, but to produce them together with regional governments and to provide the check and balances to control and monitor regional governments. The bupati is also required to work together with the DPRD in the planning of district budgets.

Through the people’s representatives real power ultimately rests with the constituents, i.e., the people. In this context Indonesia does not carry out popular election, as the state adopts a proportional representation system to elect members of the legislative assemblies at national, provincial, district and municipal levels. This system does not provide for people to directly elect their local members but instead to vote for political parties. Thus members of the assembly represent political parties that have secured sufficient number of electoral votes and may not necessarily secure their position due to their knowledge of local affairs or their skills.

While not the focus of this paper, it is probably important to note that the decentralization law has also provided for a fundamental change concerning village governance. First, if implemented, there is now a legislative body at the village level, called the Badan Perwakilan Desa or Village Representative Board. The village headperson is responsible to the village population through this representative board and each year must provide an accountability report to the district head. Village heads as before are elected directly by their constituents and must be agreed to by the bupati. Second, the law also recognizes the diversity, differences in culture, conditions, and traditional customs and disbanded the old system of treating village administration uniformly across the country.

2.3 Civil Society
Though probably not as developed as NGOs in other countries, NGOs in Indonesia have played a critical role in environmental issues. At present, local NGOs working in the regions concentrate on advocacy to empower group professions such as farmers, fishermen, workers, and small businesses. Other NGOs are more oriented to environmental and consumer protection related activities. These types usually focus more on the process and the policies of regional governments. Local NGOs also follow the political processes occurring in the regional institutions. However, a recent study conducted by the Center for Strategic and International Studies suggested that while these are important efforts, in general NGOs and their activities do not yet have a strong influence on the lives of ordinary citizens (CSIS 2001).

Local NGO developments and their relationships with the local governments are also uneven, where some areas have stronger and more established NGOs than others. For instance, in Central Kalimantan, local NGOs have limited capacity that prevent them from holding a

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6 For a discussion on village governance, see Antlov 2000 and Bennet 2002.
constructive dialogue with local government (Casson 2001b, 39). In the district of Kutai Barat, East Kalimantan, however, NGOs have a closer relationship with the district government. In this district they play an important role as partners to the district government and other stakeholders in planning forestry developments in the district (KKKPD 2001). In Jambi province, NGOs and the local government worked together and succeeded in requesting a change for increased status of a conservation area to a national park.

An important actor that has played a significant role in the process of regional autonomy has been the media, i.e., local press and the radio. The importance of the media has shown particularly in its ability to penetrate to even remote villages. In the previous government, radios proved to be a useful tool in conveying central government’s policies down to the village level (Antlov 2000). In this context, CSIS (2001) reported that issues concerning regional autonomy have been getting more coverage and intensity in the local media.

3. Central State Relations with Local Institutions

The implementation of decentralization depends to a great extent on the relationship between the central government and regional institutions. First, the new legal structures of power and power relationship have changed the relations between the state and regional institutions, as well as between provincial and district institutions. Second, perhaps influenced by the experiences of historical failure to devolve power, there lingers a sense of mistrust in the regions (Potter and Badcock 2001; McCarthy 2001; Usman 2001, 7).

The sense of mistrust in the regions was documented even early in the beginning of the decentralization process. In year 2000 many district figures were skeptical about the commitment of the central government of handing over significant power to regions. These skepticisms are reflected in how regions referred to regional autonomy: as ‘half hearted autonomy’, ‘the center lets go of the snake’s tail but not the head’, and ‘only the shirt has changed’ (Potter and Badcock, McCarthy, 2001).

The long history of authority over lucrative areas at the center on the one hand, while the sudden opportunity struck by the regions to gain control on the other, as well as the mistrust on the part of the regions for the center’s commitment to implement regional autonomy, set out the dynamics of the decentralization process that are played out by central government and regional leaders. There has been a tug of war over authority of certain areas between the center and the regions, demonstrated by the constant and continuous negotiations that began during the formulation of the law and persists to date.

Provincial and district leaders now actively come to Jakarta to seek, clarify and particularly negotiate issues for the province’s or the district’ benefits. One positive development arising from the decentralization has been the much greater independence of the bupati to interact with central and provincial government officials, the private sector, and other district leaders (Potter and Badcock, 2001).

In interacting with the central government, regional governments unify to cohesively make advances to influence the implementation of regional autonomy that would lead towards a better outcome for regions; similar ‘level’ of governments work together with their counterparts. District governments formed an association, APKASI, with the objective of sharing information, improve communication among district leaders and for strengthening their positions in regional autonomy. Similarly, the association of provincial governments or APPSI, was formed to function as an organization that enables for enhanced communication among provincial leaders and for developing strategies to address issues on decentralization that may work against their interests.

Negotiations and clarifications are important because certain sections of the laws are ambiguous and contradictory, thus provide for loopholes and different interpretations. For example, among the most notable and critical, are the sections concerning the authority over natural resources. The explanation of section 7 of the law states that utilization of natural
resources remains with the central government, while section 10 states that regions are authorized to manage natural resources within their territories.

In year 2000, five issues were reported by the then Minister of Regional Autonomy of conflicting interests between the center and the regions: the financial relationship between the center and the regions, marine affairs, transportation and communication, forestry and plantation, and mining and energy (Van Zorge Report 2000). As a result, the preparation of the implementing regulation of Law 22 necessitated serious and intense consultations between the Ministry of Regional Autonomy with representatives of these sectors (Van Zorge Report 2000).

The forestry sector was among the ones that had exerted a strong resistance to surrender authority, with the ministry of forestry arguing that districts lack the capacity to manage Indonesia’s forests. It was reported that problems with the ministry of forestry was among the last ones to be resolved (Bisnis Indonesia 2000; Kompas 2000; Media Indonesia 2000; Van Zorge Report 2000; personal communication with various people in Ministry of Forestry and other ministries).

The much-awaited implementing regulation (Government Regulation No. 25/2000) that had been expected to clarify responsibilities that are ambiguous in the laws was introduced one year later, but it failed to explicitly clarify district responsibilities. Instead, this regulation sets out the responsibilities of the central and provincial governments. Implicitly therefore, it assumes that all other authorities beyond those mentioned in the regulation go to district governments.

Provinces have also demonstrated resistance to the present form of regional autonomy, as the handing over power to the district governments, which were previously of lower status to the provincial government, in effect, bypassed provincial governments. In a national meeting of the association of provincial governments, one topic of discussion was reportedly a request for the House of Representatives and the central government to amend the two regional autonomy laws (Kompas 2001). One section proposed for amendment was that dealing with the structural relationship between provincial, district and municipal governments (which states that there is no hierarchical relationship between them).

Resistance from the provinces is not without reason. Many government positions at the provincial level were abolished as a result of decentralization. In South Kalimantan, for example, more than 3,000 officials within the provincial government would lose their seats (Kompas 2001).

Several districts and municipalities have shown a tendency to disobey provincial instructions and are indifferent about the continuing existence of the provincial governments (Kompas 2001). For example, as early as 2000, bupatis did not bother to attend a meeting to discuss forestry development in Riau held at the forestry regional office in the capital of Riau province, demonstrating that districts still did not take seriously the need to work with the provincial level forestry authorities to ensure a smooth transition to decentralization of forests and estate crops (Potter and Badcock 2001).

There have indeed been ongoing discussions on plans to amend the regional autonomy laws. In a hearing with the House of Representatives in mid-February 2001, Surjadi Soedirja, then the minister of home affairs and regional autonomy, revealed the government’s plan to revise Law 22/1999. Earlier in that week, President Megawati Soekarnoputri, at the time was still the vice president, stated that many provinces were not ready to implement regional autonomy (The Jakarta Post 2001). In January 2002 the ministry of home affairs is ‘socializing’ the amendment of law 22, arguing that it is not the government’s intention to take back power from regions, but merely to put regional autonomy back in the right track (TVRI News, 21 Jan 2002).

After examining the trends of decentralization at the broader level, we will now observe the trends in the regions pertinent to the forestry sector.

4. Trends in the Forestry Sector Shaping the Impact of Regional Autonomy
Decentralization has not only given districts expanded regulatory functions and political authority, but as Law 25 on fiscal balance suggests, also the responsibility and opportunity to
meet their budgetary and development needs that are not sufficiently covered through central government transfers. Responding to the need of fulfilling budgetary requirements and together with the opportunity, immediately after the government passed the decentralization laws, regions began to calculate expected government transfers particularly concerning revenue sharing arrangements and to look for innovative ways to raise locally generated revenues (Pendapatan Asli Daerah or PAD).

4.1 The focus on getting the rightful share and the quest for locally generated revenues.

The concerns of local governments to meet their financial needs to carry out their new functions and to develop their areas are key to the implementation of decentralization. On the one hand the law on fiscal balance and its implementing regulations do not provide regions with a significant increased authority to raise revenue, as suggested by several analysis (Alm et. al. 2001; Ford 2000; Usman 2001) since they mainly provide for expenditure decentralization. Other than the provisions for revenue sharing, the laws do not give local governments meaningful tax instruments such as income tax or tax on assets to raise revenue. On the other hand, research has demonstrated that many local governments believe that the successful implementation of decentralization will depend on their capability to raise local revenues to support themselves as autonomous regions (McCarthy 2001a; Potter and Badcock 2001; Usman 2001). Forestry issues, therefore, need to be discussed in this context.

4.1.1 Natural Resource Revenue Sharing Arrangements in the Forestry Sector

To better understand the role of the forestry sector for districts in the context of the new fiscal arrangements, it is relevant to review briefly the composition and sources of a district budget, with emphasis on the income side. The major components of the income side of a district budget comprises of the following: 1) Locally generated revenue or PAD; 2) Balance of Fund or central government transfers; 3) Regional Loans; and 4) Other sources. PADs are revenues generated within a region’s jurisdiction based on regional regulations. Balance of Fund or central government transfers consist of a) regional shares of Land and Building Tax, Fees for Land and Building Acquisition, and Natural Resource Revenues; b) general allocation funds; and c) specific allocation funds. General allocation funds (or DAU) are mainly provided to cover routine expenditures such as the salaries of civil service – many of which now administratively become regional employees. The amount of DAUs for each region is assigned by the ministry of finance and is based on the weighting of calculated needs and capacity of each region, including its population, area, and economic potential. Specific allocation funds (or DAK) are provided to cover the expenditures for specific needs. With regard forestry, one of the most important DAK is reforestation funds or (DR). Regional loans are loans that are sought by regions. Other sources include grants and emergency funds.

Of the new (central) government transfer arrangements above, the implementation of natural resource revenue sharing arrangements has been one of the most notable and contentious issue, particularly for resource-rich regions. This was hardly surprising since it is the first time in thirty years that natural resource-rich regions enjoy a substantial portion of their riches, notably that of oil, gas, and forests. With regard forestry, a significant increase of percentage earned from this sector, i.e., from timber extraction rights, is now transferred back to regions.

7 Responding to pressures from international financial institutions such as the IMF and the World Bank, the government has delayed the implementation of regional loans by two years.
8 The first year of effective regional autonomy has seen a contentious process on the allocation of general allocation funds (DAU) as well. The calculation of DAU for each autonomous region has not been transparent. As a consequence some regions received less than they have expected and are demanding more. Furthermore, the actual transfer from the central government was done way into the year resulting in regional protests.
With decentralization, the increase in percentage terms of the share of revenue generated by the forestry sector is as follows. Thirty percent of the revenue from forest concession rights levy (Iuran Hak Pengusahaan Hutan or IHPH) was previously retained by the central government, while the remainder was distributed to the provincial governments. Law 25/1999 and its implementing regulation stipulate that only 20% is to be retained by the center and 80% distributed to the regional governments—16% to the provincial governments and 64% to the producing district or town. Similarly, 20% of the forest resource provision (royalty or PSDH) will now be retained by the central government and 80% distributed to the regions. Yet in the regional allocation, while the province receives 16%, the producing district or town will get 32%, and the remaining 32% will be distributed equally among the other districts or towns within the province. Previously, revenue from these royalties was divided as follows: 30% to the provincial government, 15% the district or town, 40% to national forestry development, and 15% to regional forestry development (Presidential Decree 67/1998). As for reforestation fee (Dana Reboisasi or DR payments), the new arrangements are 40% for producing regions, while 60% is retained by the central government.

Several forest-rich districts, however, were not satisfied with the new arrangement of the existing fees and sought to secure a larger portion of these fees (Casson 2001a; Barr et. al. 2001). Among the timber-related fees, the most lucrative is the Reforestation Funds (Dana Reboisasi or DR), which can be as much as three times the PSDH. Consequently it is a potential source of dispute between districts and the central government, and between districts and provinces. For instance, to access the DR funds, each district must submit proposals to be examined and subsequently accepted or rejected by the province (Potter and Badcock 2001).

‘Closer’ access to forestry funds is also used as leverage by the district governments in negotiating their demands with the provincial or the central governments. Barr et. al. 2001 reports that in October 2000 several districts and one municipality in East Kalimantan threatened to break away from the province if their demands for reforestation payments (DR) to be retained by the district governments were not fulfilled by the provincial government. Later, one of the districts’ head confirmed that the threat was made only to gain a more positive outcome for timber-rich districts (Barr et. al. 2001). The district of Kapuas Hulu of West Kalimantan delayed the transferring of timber-related payments collected within its jurisdiction to the central government and demanded a greater share. This occurred despite the fact that there are specific procedural directives from the ministry of forestry and the governor of West Kalimantan to submit these payments on time, directly to the central government (Alqadrie et. al. 2001).

One year into the implementation of decentralization, it turns out that the transparency of the process of collection of these payments from the regions and the redistribution of these payments back to the regions are as important as the predetermined percentage of the redistribution. For example, regions must keep track of how much IHPH, PSDH, or DR fees associated with timber produced within their jurisdictions to ensure that they receive their proper share. The timing of transfers has also been an issue because it affects regions’ cash flow (Kompas 2001). The delay associated with the redistribution of these fees from the central government has encouraged regions to threaten to retain fees like DR payments (Kompas 2001).

By mid 2001 or six months after the formal implementation of regional autonomy, news media reported that regions began to complain that the DR funds, which have been included in the state budget since 1998 (previously they were included in the category of non budgetary funds), had been sitting too long with the central government without being redistributed to the regions as the Special Allocation Funds (Dana Alokasi Khusus or DAK) (Kompas 2001). Administrative difficulties affected the timeliness of the redistribution of other natural resource based revenues as well, such as that from oil and gas, but the calculations of forest based revenues took even longer to complete (Kompas 2001). The ministry of forestry attributed the delay to the lengthy time the ministry ministry needed to reconcile the amount of fees that each
In September 2001, the ministry of finance finally issued a decree (SK Menteri No. 491/LML.02/2001) assigning the allocation of the reforestation funds to regions as part of the DAK of year 2001. However, there has been another substantial delay between the time the decree was effective and the funds’ actual disbursement. By October, again news media reported that some regions had not received their share of PSDH and DR funds (Kompas 2001). Although delays such as these are expected -- since there is bound to be problems when the decentralization process is only in the stage of infancy-- actual disbursement of DR funds nearing fiscal year end means that there is very little time to use the money. A forestry observer predicted that the use of the funds might not be effective since the funds could be manipulated due to the requirements that they must be used up by the end of the (fiscal) year (Kompas 2001). If this happens it would be very wasteful. The government needs to find ways to speed up the process of redistribution, perhaps by making calculations based on the previous year’s regional payments, rather than based on ongoing year payments.

The uncertainty and less than transparent calculation and process of natural resource revenue transfer may affect the relationship between the regions and the center negatively by potentially reinforcing the feeling of mistrust, and at the end could shape the decentralization outcome. On the environment side, it could pose a disincentive for regional governments to manage their forest resources well if regional governments perceive the share to be less than of what had been intended, or if the process to obtain what has been calculated as their rightful share is made difficult. This will give a justification for the regional governments’ arguments to retain a bigger share or at the extreme not to surrender the payments to the national government at all. Less payment to the national government will affect its ability to subsidize poorer regions, creating a further gap between rich and poor regions. This would be trigger conflicts and an obstacle to holding the nation together.

4.1.2 Emerging District Timber Regimes in the Quest for Locally Generated Revenues

District governments, together with district legislative assemblies, quickly establish new district regulatory regimes, among the most important, regulations enabling district revenue generation. To support this, local governments lobbied the central government to revise the taxation law (UU no. 18/97) that was passed only two years prior to the regional autonomy laws that had prohibited regions to levy taxes, among others taxes on timber and forest products. The government responded to this demand by issuing a new taxation law, UU no. 34/2000, allowing local governments to apply new taxes to raise revenues.

Many regions, however, did not feel the need to refer to the new taxation law in preparing relevant regional regulations (Peraturan Daerah or PERDA). Some regions prepared new PERDAs before they studied the new taxation law; or ‘recycled’ their PERDA regarding taxes and levies that were banned under the previous taxation law (Saad 2001). Some districts went ahead with the writing of new PERDAs even before the introduction of the new taxation law, such as the district of Kotawaringin Timur in Central Kalimantan with its new PERDA concerning levies on forest products and timber transported through the district (Casson, 2001b; McCarthy 2001b).

As expected, the pressure to raise revenues and at the same time the opportunity provided by regional autonomy has created a stimulus for forest-rich regions to accumulate revenues from forestry activities as much as possible, specifically from timber extraction. In addition to attempts of securing a bigger portion of existing fees from timber activities, districts also explored new avenues to derive revenue from this sector.

In terms of revenue generation, several reasons may help in explaining why forest activities are important. First, forest activities provide immediate income, much needed by the districts, particularly when compared to other means such as mining, industrial activities, or plantations. Second, forest activities are not new to regions. Regions are used to these activities
(although the ‘actors’ or the degree of involvement are undergoing a rapid change). Third, the market or marketing network has been established for a long time. This means that regions would only need to continue, develop and improve the previously established marketing chains or arrangements. Fourth, recent government policies liberating the market for logs mean small-scale forestry activities could easily market their timber. These include the disbanding of vertical integration of forest concessions and downstream industries, and until recently, the opening of log exports. And fifth, regions perceive higher governmental regulations accommodative or supportive (for example, regulations allowing regions to give out logging permits).

Districts’ strategy for raising locally generated revenues from forestry or forestry-related activities involves the formulation of district regulations or PERDA that would allow district to issue small-scale concession permits, applying taxes and charging levies on timber and other forest products transported through their jurisdictions, forestry-based regionally owned enterprises, and attracting new investments in forestry.

One important means of district revenue generation has been the issuance of small-scale concession licenses in various forms, known as HPHH (Hak Pemungutan Hasil Hutan or Forest Product Harvesting Rights) or IPPK (Ijin Pemungutan dan Pemanfaatan Kayu or Timber Extraction and Utilization Rights) to cooperatives or individuals.

The issuance of small scale logging permits by district government was made possible through a Government Regulation in early 1999, allowing district governments to allocate HPHH in areas classified as Forest Estate (Kawasan Hutan). Subsequently, the Ministry of Forestry produced implementing regulations, specifying, among others, that district governments could issue HPHHs up to 100 ha for timber extraction within areas classified as conversion forest, or production forest bound for conversion or reclassification. It also stated that HPHHs could not be issued on areas that have already been granted large-scale timber concession rights (Hak Pengusahaan Hutan, or HPH) or Wood Utilization Permit (Ijin Pemanfaatan Kayu or IPK).

Subsequently, however, the Ministry of Forestry issued a decree that provided for a process by which adat (or customary) communities can obtain permits to extract timber and non-timber forest products from production forests that have been assigned to HPH concessionaires.

Recognizing the threat that the district-level timber permits pose to its members’ operations, the Indonesian Forest Concessionaires Association (Asosiasi Pengusaha Hutan Indonesia, or APHI) attempted to halt the widespread allocation of HPHH and IPPK permits by lobbying intensively at both the national and provincial (Barr et al., 2001). By September 1999, the Director General in charge of production forestry requested the assistance of governors to suspend the further issuance of small-scale timber extraction and forest conversion permits by district governments. However, the efforts did not stop bupati from allocating these small-scale timber extraction or conversion permits. As discussed above, the provision of Law 22 has changed the position of the bupati vis-à-vis the governor, with no obligation on the part of the bupati to answer to the governor.

In April 2000, as a result of district governments’ refusal to follow the calls to stop issuing HPHHs and IPPKs, the Ministry of Forestry issued a decree revoking the previous Ministerial Decision which had given the district governments authority to allocate these small-scale licences. Several district governments, however, continued to grant these permits (Casson 2001b; McCarthy 2001b).

Examples of districts that continue issuing HPHHs or IPPKs include the following. The district of Kapuas, Central Kalimantan, by July 2000 had granted 60 small scale logging permits (McCarthy 2001b). By August 2000, the district of Kutai Barat, East Kalimantan, had issued 223 of HPHH permits, generating more than 30,000 USD for the district (Casson 2001a). In December 2000 or within a time span of six months the number of permits issued in this district had become 622 (KKPKD Kutai Barat 2001). In the district of Malinau, East Kalimantan, by February 2001 the bupati had granted 39 IPPKs, projected to have generated more than 50 billion rupiah or about US$5.3 million (Barr et.al. 2001)
We have seen above that these small-scale logging permits generate significant revenues for the districts. In addition, they also benefited lower level of governments. For example, in Kapuas Hulu district of West Kalimantan, cooperatives with these permits must pay a formal fee of 500,000 rupiah per year to the village treasury. Similarly, in Kutai Barat district, there is a substantial fee per cubic meter of timber cut through the HPHH permit that must be submitted to the village where the area is located (KKPKD Kutai Barat 2001).

In addition to generating revenues for local governments, there are several other major reasons why the issuance of HPHHs or IPPKs have proliferated. McCarthy (2001b) illustrates the case of Kapuas district, Central Kalimantan, where it is suggested that the HPHH initiative has several advantages for the district. First, it is particularly attractive for district governments because it provides direct cash flow for the district. For example, the district’s regulation on HPHH indicates that PSDH taxes and DR payments are still collected and forwarded to the central government. However, only 20% is forwarded to the central government while the district retains the remaining 80%. This avoids the problem of transparency and delay of redistribution back to the district, as it is the case when the entire amount is forwarded to the central government. Second, it benefits local people who now would have the opportunity to become ‘owners’ and develop the local economy. Third, it can curb illegal logging. Those who potentially bear the loss, such as the HPHH permit holder or who apply for these permits will seek to maintain control over these activities.

Another notable initiative to collect locally generated income from forest resources has been the creation of district regulations that validate timber harvested outside the formal forestry regime. These regulations allow timber to be exported out of a district provided that those involved pay the fees due to the central government as well as district charges on forest products. District governments would impose charges on confiscated timber instead of going through the previously normal procedures of auctioning confiscated illegal timber. Timber that has been paid for is then provided with documentation, allowing them to be transported and traded with a semblance of legality (McCarthy 2001a). The districts of Kotawaringin Timur and Barito Selatan, Central Kalimantan, demonstrated such cases (Casson 2001b, McCarthy 2001a). The district of Kotawaringin Timur generated a substantial amount of revenue through this initiative. In the months of April, May, and June 2000 alone, the district raised Rp 24 billion by taxing illegal timber coming out of Kotawaringin Timur (Casson 2001b).

In this case districts appear to be more interested in the revenues that are collected, i.e., whether the relevant charges have been paid, rather than whether the timber came from legal sources. This initiative is effectively legalizing illegal timber.

Unfortunately, however, it appears that the enthusiasm of regional governments to gain as much as possible from forest resources in the quest for local income generation, has not been accompanied by a comparable level of eagerness to return a share of the benefits to the forests. Research in nine districts in Riau, West, Central and East Kalimantan carried out by CIFOR and its partners demonstrated that --unlike the issue of PAD generation from forests which stood out clearly--, this issue was hardly mentioned. For example, little attention has been given to forest rehabilitation or reforestation (Casson, 2001a). In addition, negligible amounts, if any, have been secured in regional budgets for forestry development (Oka et.al. 2001; Soetarto et.al. 2001).

5. The challenge of maintaining conservation areas

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9 It is unclear how this 80% is distributed between province and the other districts within the province, since Law 25/1999 specifies that the 80% share should be distributed between the province, the producing district, and the other districts within the province.
The decentralization law defines that under regional autonomy the management of conservation areas remain the responsibility of the central government, which includes both their management and their financing. This and the lack of capacity determine the extent of involvement of regional governments in the management of forest areas classified under this category. Nevertheless, the empowerment of local governments and reformasi have exhibited a significant influence on the change of attitudes toward the integrity of these areas and their interest in addressing the problems associated with their protection.

Even on the issue of managing conservation areas, with regional autonomy the discussion ultimately needs to be placed in the context of opportunities associated with revenue and income generation. Fieldwork and other sources indicate that some regional governments and local communities alike are not too enthusiastic of the fact that large tracts of protected and conservation areas have been assigned in their area. Districts perceive conservation areas as a lost opportunity in terms of revenue generation and there are indications that some are tempted to convert them for other uses. Many regional governments view protected areas as idle lands as they do not contribute adequately to the development of these regions (Wardojo 2001).

Districts are reluctant to shoulder the financial costs associated with their maintenance if they don’t provide satisfactory livelihood opportunities for the local people and do not generate adequate revenue for the regional government (Billa 2001). Districts also feel they do not have adequate resources or funds to finance the management of national parks and to monitor activities within the parks (Casson, 2001b).

Districts view protected and conservation areas as a burden (Casson 2001b), particularly when there are problems on the ground associated with local communities’ dissatisfaction (Billa 2001). In many cases regions attribute the current land use conflicts to the centralistic policy and administration of the previous (New Order) government. The central government made the policies and decisions, including the assignment and management of protected areas, but local governments would have to confront the everyday problem such as conflicts over land rights (Billa, 2001; Soetarto et.al. 2001).

However, regions have indicated a desire for greater authority over these areas (Sembiring 2001; Soetarto et.al. 2001). This desire is reflected by districts’ interest in certain aspects of their management, particularly those that would generate revenues, such as the development of their tourism potential (Barr et.al. 2001; Billa 2001; Soetarto et.al.2001).

The major challenges involving the management of protected and conservation areas include illegal logging, reclassification for other uses, and conversion to small-scale agriculture.

5.1. Illegal logging
With the advent of the economic crisis and political reforms or reformasi, illegal activities have appeared to escalate and to be much less discreet even in protected and conservation areas (Casson 2001b; Potter and Badcock 2001; Resosudarmo 1999; Resosudarmo 1998). Therefore, first it needs to be understood that the increase and the exposure of these activities are not associated exclusively with decentralization. However, the fact that these activities continues to escalate and penetrate into even the last remaining good forests – protected and conservation areas -- at the time of the decentralization, demonstrates the significance of this issue as one of the serious challenges that must be faced with the transfer of power to regional governments.

This surge primarily has been possible in part because since reformasi enforcement in these protected and conservation areas has been relaxed due to the changing circumstances (Casson 2001b; Resosudarmo 1999; Resosudarmo 1998). Before reformasi control of these forests was carried out by forest police, polisi hutan or jagawana, and although was not entirely effective, was still much more effective than now, in part because it had the military’s support.

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10 About a quarter out of the forty national parks in Indonesia cover an area from 400,000 to 2.5 million hectares (Statistik PHKA extracted from Merril et.al. 2001).
They are now reluctant to control and exert repressive measures for fear of being accused of authoritarian and of becoming the target of community’s violence (Soehartono, 2001). Illegal activities in protected and conservation areas are often upheld through open and violent opposition to whoever stand in the way. Increasingly, national park personnel have had to abandon their offices or have threatened to resign due to attacks by those involved in illegal logging (Casson 2001b; Kompas 2001).

The capacity of the central government to manage and secure protected and conservation forests is far from adequate. The limited number of personnel covering vast areas of forests is a limitation from efficient monitoring and enforcement (Wardojo 2001). For example, in Betung Kerihun National Park of West Kalimantan, one park personnel must tend to 27,580 hectares or 275 square km (Merrill et al. 2001). The difficult terrain and the lack of supporting infrastructure exacerbate this fact, where park personnel have to carry out much of their tasks on foot.

Reformasi has also seen the proliferation of illegal sawmills around protected and conservation areas, such as the case in Bukit Tiga Puluh and Gunung Palung National Parks (Potter and Badcock 2001). The proximity and accessibility of these mills from where the timber is harvested, providing a cost effective market, creates a further incentive for local communities to be involved in logging activities (Potter and Badcock 2001).

The response of regional governments to illegal logging so far has not been effective. Mutual symbiosis between oknum (government officials, military, or police who will support or extend extra-legal privileges in exchange for certain rewards) and those implicated in illegal logging activities contribute to the failures of efforts to capture illegal logging operations. For instance, in the district of Indragiri Hulu, an attempt to investigate the collection of illegal logs by a community cooperative resulted in the granting of the necessary documentation the day before the investigation. This district has also granted illegal sawmills with the legal documents to legitimize the mills, which apparently seem to be more of a measure to reduce loss of district revenue, rather than to curb forest exploitation (Potter and Badcock 2001). Similarly, in Gunung Palung National Park, attempts to capture illegal loggers while in action often fail because loggers found out about them before the operations were actually implemented. In addition, those arrested as a result of the operations usually are released within a few days and all charges are dropped (Kompas 2001).

Some regional governments appear to be indifferent towards illegal logging activities, and associate them with what they perceive as the byproduct of previous unjust treatment by the central government towards regions (Soetarto et.al.2001). It was suggested that the practice actually constitutes a form of local resistance for forestry policies that are unfriendly to the people’s economy and the area. Furthermore, although illegal logging may not directly contribute to regionally generated revenues or PAD, regions benefit from these activities indirectly through the growth of other sectors and by providing employment opportunity for the local people. Hence, local governments tend to overlook these activities due to their overall economic benefit accruing to regions.

Again, district revenue generation plays an important role in the many aspects of the Indonesian decentralization process. It leads to another major challenge in the maintenance of protected and conservation areas: the motivation to reclassify them for other uses to capture more economic benefits.

5.2 Reclassification for Other Uses
Some regional governments have demonstrated their intention to reclassify protected and conservation forests to make way for the development of these areas to other uses. For example,

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11 The three main classifications of Indonesian forests are production forests (forests assigned for timber exploitation), protected areas (set aside for ecological protection and biodiversity conservation), and conversion forests (forests that can be converted to other uses or development).
sixty percent of Kapuas Hulu district has been classified as protected and conservation areas. The protection of the forests in these areas is critical due to their vital location, i.e., upstream of the Kapuas river. The condition of these forests therefore determines the condition of the Kapuas river, the largest and longest river in West Kalimantan, which with its tributaries stretches and extends across a large part of the province. Both local government officials and local people perceived this classification as unfortunate. While the district is unable to develop the area to obtain locally generated revenues, other districts were gaining greater benefits from their forests for the environmental services that they provide (Soetarto et. al, 2001).

Similarly, local people living in the area of Betung Kerihun National Park, located in the same district, complain that they could not apply for HPHH permits. They compare themselves with other communities in the neighboring district located outside the conservation area, and who can enjoy the benefits of HPHH allocations (Alqadrie et al, 2001b). With these arguments, the district has indicated a desire to reduce the amount of their protected and conservation area and to exploit it and convert it to other uses. (Kompas 2001; Soetarto et.al. 2001).

The district of Barito Utara, Central Kalimantan, faces a similar situation with respect protected areas that must be conserved. Instead of contemplating to convert them, they have indicated a need to request a large subsidy from the central government (Kompas 2001). While this kind of request needs to be seriously considered or a funding alternative found, if the protection and conservation functions of these forests are to be sustained, the central government is also facing a dilemma because it is still in a dire financial situation.

There have been attempts and requests to grant formal logging permits in protected and conservation areas, in effect reclassifying these areas into other uses. For example, the district of Kapuas Hulu has been alleged to issue HPHH permits not only in conversion forests but also in protected and conservation areas (Kompas 2001). The governor of South Kalimantan, with the support of the head of the provincial legislative assembly, has recommended that part of the Meratus protected forests (hutan lindung pegunungan Meratus) be designated as limited production forests in order to facilitate the granting of a logging permit to a large concession holder or HPH (Kompas 2001; Kompas ).

Degradation of protected and conservation forests pose further disincentives to maintain them as protected and conservation areas and create a case for justification or excuse to convert these forests into other uses. For example, the extent of degradation in Bukit Betabuh protected forest in Riau province is such that the head of the forestry office proposed to reclassify the area into a community forest or hutan kemasyarakatan (Potter and Badcock 2001).

5.3 Smallholder Conversion to Agriculture

The case of Bukit Betabuh above illustrates another major threat to the existence of protected and conservation areas, which is encroachment by smallholders for agricultural purposes. In Bukit Betabuh people ‘reclaim’ the forest to open land and plant rubber and cassava. In the past three years, about 5,000 hectares of the park have been cleared for coffee plantation and cinnamon in the Kerinci Seblat National Park in Sumatera (Kompas 2001). In Central Sulawesi, cocoa and corn have replaced trees in parts of Lore Lindu National Park. More than one thousand head of households refuse to leave the area (Kompas 22 Aug 2001). Similarly, farmers clear forests of Bukit Barisan Selatan National Park in the province of Lampung to set up coffee gardens (Suyanto, 1999).

The clearing of forest areas by smallholders may not seem to be as significant as the other issues, as they are individually small. However, the aggregate impact of many farmers clearing small plots is very damaging to the natural forest (Scotland et.al. 2000). Furthermore, planting tree crops has been used as a way to obtain a more secure title to lands, thereby creating a further incentive to clear forests.
5.4 The role of regional governments

Although there are legitimate reasons for concerns, there are examples of cases signaling a positive direction towards the management of protected and conservation areas, through encouraging attitudes of decision makers of some regions. The provincial legislative council of West Sumatera, for example, has asked the provincial administration not to grant a permit for coal mining in the Kerinci Seblat National Park for environmental reasons (The Jakarta Post 2001). Some regions, such as the case of Jambi province in Sumatera, has shown a strong stand towards supporting the maintenance and even the expansion of Bukit Tiga Puluh National Park (Kompas June 2001).

Although by law the national government is responsible for the management of conservation areas, field reality shows that regional governments’ involvement affect the effectiveness of their success. With the intricate web of actors involved in illegal logging, which include local actors such as local government officials (Scotland et al. 2000), it will make little sense to attempt to address the problem when central government and local government officials do not support each other. This is illustrated by the cases of Betung Kerihun and Gunung Palung National Parks, both in West Kalimantan.

Betung Kerihun National Park, due to its location bordering Sarawak, the Malaysian state, is challenged with increased risks associated with illegal activities. A significant portion of the timber logged in Kapuas Hulu district is sent to Malaysia (Alqadrie 2001). The bupati of Kapuas Hulu suggested that the efforts to curb illegal logging activities should start from timber entrepreneurs and the timber industry who are both the buyers and the financiers of these activities, and would ultimately fail if they target the loggers (Kompas 2001). While this is true, the head of the park indicated that apparently the forestry offices responsible in the district as well as the district government have not given the needed support to maintain the park. The head of the park accused the local government of deliberately ignoring the situation because these activities generate revenue for the district government (Kompas 2001).

Similarly, in the case of Gunung Palung National Park, also in West Kalimantan, the working relationship and coordination between the local government and the park authority needs to be improved, if the park is to be protected effectively. On the one hand, the district government perceived that they have been excluded from what is going on with the administration and management of the park, while on the other hand, the park management demands more district government support in protecting the park.

5.5 Which Way Forward?

The limited tangible benefit that has been experienced to date both by regions and communities living in and around protected and conservation areas is one major obstacle that undermine their support for the continuing existence of these areas. Local governments perceived these areas as a burden in terms of the loss opportunity to collect and increase PAD. On the one hand, the national government limit the activities and livelihoods of people in national parks by controlling their rights to utilize land and other resources of the parks, yet on the other hand has failed to show them the benefits that would prevent them from carrying out economic activities similar to those living outside the boundaries of these parks (Soehartono 2001; Soetarto et al. 2001). Examples of projects to promote community based forest management have not been particularly successful either, as conflicts arose within communities because some members of the communities were excluded from the projects, such as the case of community based managemenrt project in the Gunung Palung National Park area (Soetarto et al. 90).

The above is true despite the fact that the laws and regulations (Law 5/90 and Law 41/99) and national park management concepts are all aimed not only to maintain balanced ecological processes, but at the same time to benefit local people and localities. For example, millions of dollars have been poured to finance projects in the Indonesian national parks through grants and loans. However, most of this money has been used for operational costs and staff salaries, while
only a very minimal amount went to localities and even less to local communities (Soehartono 2001).

While it is true that the most of the protected areas in Indonesia are cost center (Wardojo, 2001) the fact that financing responsibility rests with the national government does not encourage adequate support from regional governments. The indifference attitude shown by some regional governments toward the problems that these areas are facing, as well as the reluctance to support centrally accountable park officials to address this problem, illustrate the ineffectiveness of this policy.

In the recent years, central government funding allocation for the purpose of forest protection and nature conservation has declined. Consequently the financing of national parks decreased to almost half at the time of the crisis. Decentralization will also affect the ability of the central government to continue to finance these areas, since a significant portion of what used to be central government revenue must now be shared with local governments. Because of this it is even more important that district governments, particularly ‘rich’ districts, to include forestry-related developments such as the maintenance of protected and conservation areas, into their budgets.

One way to resolve the problem facing protected and conservation areas is to explore the potential cooperation among upstream and downstream districts to share the costs of maintaining protected and conservation areas, i.e., districts that enjoy the ecological and environmental benefits provided by protected areas in other districts must also bear some of the costs of the maintenance of these areas. Districts with protected and conservation areas not only must look for ways to ‘sell their environmental products’ to users, such as applying groundwater levy to large companies that use a substantial amount of it, but equally important to return the proceeds into these protected areas.


It has been 2.5 years since the decentralization laws were formulated, and one year since its formal implementation. We have observed trends in the districts shaping its outcome. In the forestry sector, the emergence of district timber regime has implications on both forests and the livelihoods of local communities.

6.1 Initial implications of decentralization on forests

With their strong legal position, districts continue to give out small-scale concession permits. These small scale logging concessions in effect are placing significant new pressures on the districts’ forest resources. The following considers some of the potentially negative consequences of this new timber regime.

First, until recently, commercial timber extractions were formally carried out by large HPHs and in their logging practices had to follow certain environmental requirements such as selective felling, replanting, and rotational harvesting. While it is widely accepted that these HPH holders did not follow these requirements and left much of the forests degraded, their concession sites generally left large areas of secondary forest standing (Barr et.al. 2001). These secondary forests were still vital in maintaining forest cover and in sustaining the livelihoods of forest communities.

With the explosion of HPHH and IPPK permits, formal timber extraction in many districts increasingly involve forest conversion (Barr et.al. 2001). In addition, as suggested by permits issued in Malinau district, while these are supposedly 100 ha size small-scale permits, the actual permit can authorize extraction that extends to 5000 ha (Barr et.al). The aggregate area open for conversion therefore is quite significant.

Typically the duration of these permits is limited to one year. This means that timber extraction activities or forest conversion are scheduled to be completed within that one year time.
frame. For the district of Kutai Barat, assuming we use the 100 ha figure as the size of one HPHH area, the 622 permits translates to 62,200 ha of forest extraction in year 2000. In Malinau district, 56,000 ha are scheduled for conversion by early 2002 (Barr et.al. 2001).

Secondly, many of these permits were issued before an effective regulatory agency at the district level is in place or without effective monitoring capacity (Barr et.al. 2001, McCarthy 2001b, Casson 2001a). This could easily lead to the inappropriate assignment of permits. For instance, in the district of Kutai Barat, staff at the forestry office were overwhelmed with HPHH applications and spent most of their time checking them in the field before being approved by the bupati (Casson. 2001a).

Without the effective monitoring capacity, timber extraction can ‘overflow’ to areas outside those delineated in the extraction permits. For example, Alqadrie et.al (2001) reported that in Kapuas Hulu district in West Kalimantan, there is a tendency that formal HPHH holder began their operation on areas that are not included in their permits, with the intention to ‘save for later’ their designated areas. In Malinau and Kapuas Hulu districts, both bordering the Malaysian states, IPPK and HPHH permit holders have brought an influx of heavy equipment to the area, far beyond the number of equipments they would need to log the areas that have been allocated to them. They may indicate that these investors either expect to be granted much larger areas than those that have been allocated by the permit thus far, or to gain informal access to areas outside those delineated in their permits (Barr et.al. 2001)

Yet, over the previous years, with the onset of reformasi brought about by the economic and political crisis in 1997/98, the government’s ability to enforce the laws and regulation across Indonesia had declined and uncontrolled logging has increased. At this time, with the economic crisis many people had to find alternative ways of livelihood to survive. Depreciation of the rupiah increased the price of timber in rupiah terms, making it a lucrative commodity. The questioning on the legitimacy on the State’s regulatory regime made it difficult for the government to enforce State’s rules. Greater demand together with the relaxation of law enforcement stimulated the upsurge of illegal logging in many areas of Indonesia.

Critics have argued that decentralization has exacerbated illegal logging. While these activities cannot be attributed entirely to decentralization, but to a great extent also to reformasi, some aspects of the new district timber regimes in effect are legalizing illegal logging. As discussed above, the granting of IPPK or HPHH permits without effective monitoring capacity on the part of the district governments encourage spill over of timber felling outside the formally assigned areas. Similarly, the tariff imposed on timber traded and transported within a district, regardless of whether or not they originate from legal sources, such as the cases of Kotawaringin Timur and Barito Selatan, also in effect legitimizes illegal logging (McCarthy 2001a; Casson2001b).

6.2 Initial implications of decentralization on the livelihood of local communities

Districts arguments to release small-scale logging permits, in addition to revenue generation, has been the intention to involve local communities in the timber sector in a meaningful way. However, the current local dynamics in the timber sector indicate that they have not gained optimal benefits.

While HPHH or IPPK licenses are given to members of local communities, there is almost always some kind of partnership arrangements with ‘capital providers’. (Alqadrie 2001, Barr 2001, Casson 2001a, McCarthy 2001b). These capital providers could be a foreign investor, local entrepreneur, or large-scale industry. They usually provide the finances, equipments, as well as technical expertise needed to obtain the permits and to carry the logging operation.

In Kapuas district in Central Kalimantan, it was noted that while the formal cost is relatively low, the informal costs associated with obtaining a permit is high, reaching 25 million rupiahs or about 2,500 USD. It was further estimated that the total cost of a permit and a logging operation for 100 ha of forests would require at least 100 million rupiah or 10,000 USD, a figure
that is virtually unthinkable by an average local person. Due to the high cost involved in obtaining a permit, most local people therefore just follow a request, or are paid a wage to participate, or to stay quiet, while most of the profits accrue to the ‘capital provider’ (McCarthy 2001b).

There are various forms of arrangements between the HPHH or IPPK holders, yet communities appeared to have gained only marginally. The following arrangement was documented in Malinau district (Barr et.al. 2001). First, at the beginning of the negotiation stage, IPPK companies typically would make promises to provide local communities with donations of basic food stuff, clothing, agricultural tools and other materials. Second, the companies agree to provide community members with a predetermined fee for each cubic meter of timber harvested. Third, the companies would hire local people as laborers in the timber operation and pay them daily wages. Fourth, the IPPK permit holders would agree that they finance the development of cash crop plantations on the area once they have been cleared. Increasingly however, these contracts have been largely unfulfilled.

In Kutai Barat district, the HPHH scheme had gained support from the population and had increased the popularity of the bupati. Among the reasons was that it was perceived that local communities would reap the benefits from their forest resources rather than large HPH concessionaires (Casson 2001a). It was revealed, however, that local people are being ‘used’ to gain access to forest resources. Local timber entrepreneurs and HPH concessionaires organized groups of local communities to gain access to forests, in exchange for an amount of money for every cubic meter of logs cut.

While local people now are ensured greater access to forest resources compared to the New Order period, and do enjoy some amount of tangible benefits, they remain relatively poor (McCarthy 2001a, McCarthy 2001b).

And many questions remain. When they do enjoy a substantial benefit, how long will they last, considering the harvesting bonanza carried out today? To what extent are local people dependent on this source of income? How will the gap created between those with more access to forests and those with limited access, be minimized?

7. Summary of Observations
In the Indonesian context, one of the most important objectives of decentralization has been to redistribute resources from the center to the regions. There are obstacles in the process. There are battles for authority between different (levels) of governments.

In the forestry sector, the overall tone of decentralization has revolved around the benefits that can be extracted from this resource. Districts are aware of their new position, and use it as leverage to ensure that they obtain what they perceive as rightfully theirs. Districts exercise their autonomy by creating district regulatory regimes that enable them to use these timber resources for their benefits.

Unfortunately, in general, the environmental aspects of accelerated forest extraction have not been adequately considered. The enthusiasm of districts to gain revenues from forests has not been supported by districts’ capacity to ensure that the associated environmental issues are addressed.

Local communities now have more access to forest resources. However, profits from forests accrue more to those who have power or capital.

In general, conservation is not a priority for district governments. Conservation areas are perceived as a lost opportunity to gain revenue. Districts with significant conservation areas demonstrated intentions to convert these areas into other uses that would gain more economic benefits.

In many cases it is difficult to distinguish and separate the affects of reformasi from decentralization, such as the trend of increasing illegal logging. The immediate implications in terms of forest condition are not as positive as we had hoped; likewise the implications acts on
local community’s livelihood. However, the process is still beginning and there is no turning back.

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