

THE FORESTS DIALOGUE

Background Paper Overview

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Field Dialogue on Investing in Locally Controlled Forestry
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What is Locally Controlled Forestry?

“The local right for forest owner families and communities to make decisions on commercial forest management and land use, with secure tenure rights, freedom of association and access to markets and technology”.

(G3 definition)

Themes:

- Proximity
- Rights & Responsibilities
- Small & Medium-sized enterprises
- Long term asset formation and sustainability

Locally Controlled Forestry in Indonesia

Category	Extent (million hectares)
Conservation / Protected	38.2
Production Forest	40.9
Conversion Forest	11.0
No Forest Cover	39.2
Total Estate	129.4
<i>Forest outside estate</i>	8.3

Source: Ministry of Forestry, 2008

Locally Controlled Forestry in Indonesia

- Who is really managing the forest?
 - 32,000 villages inside forest estate (Kawasan Hutan Negara)
 - 71% are dependent on forest resources
 - Millions of hectares of forest in Papua under customary management (adat)
- What is forest?
- Official estimates of LCF in the state forest:
 - 2005 FAO data – 230,000 ha
 - 2009 RRI tenure update ~ 400,000 ha reserved or managed
 - 2012 – maybe 600,000 allocated, but how much active?

Java is a special case

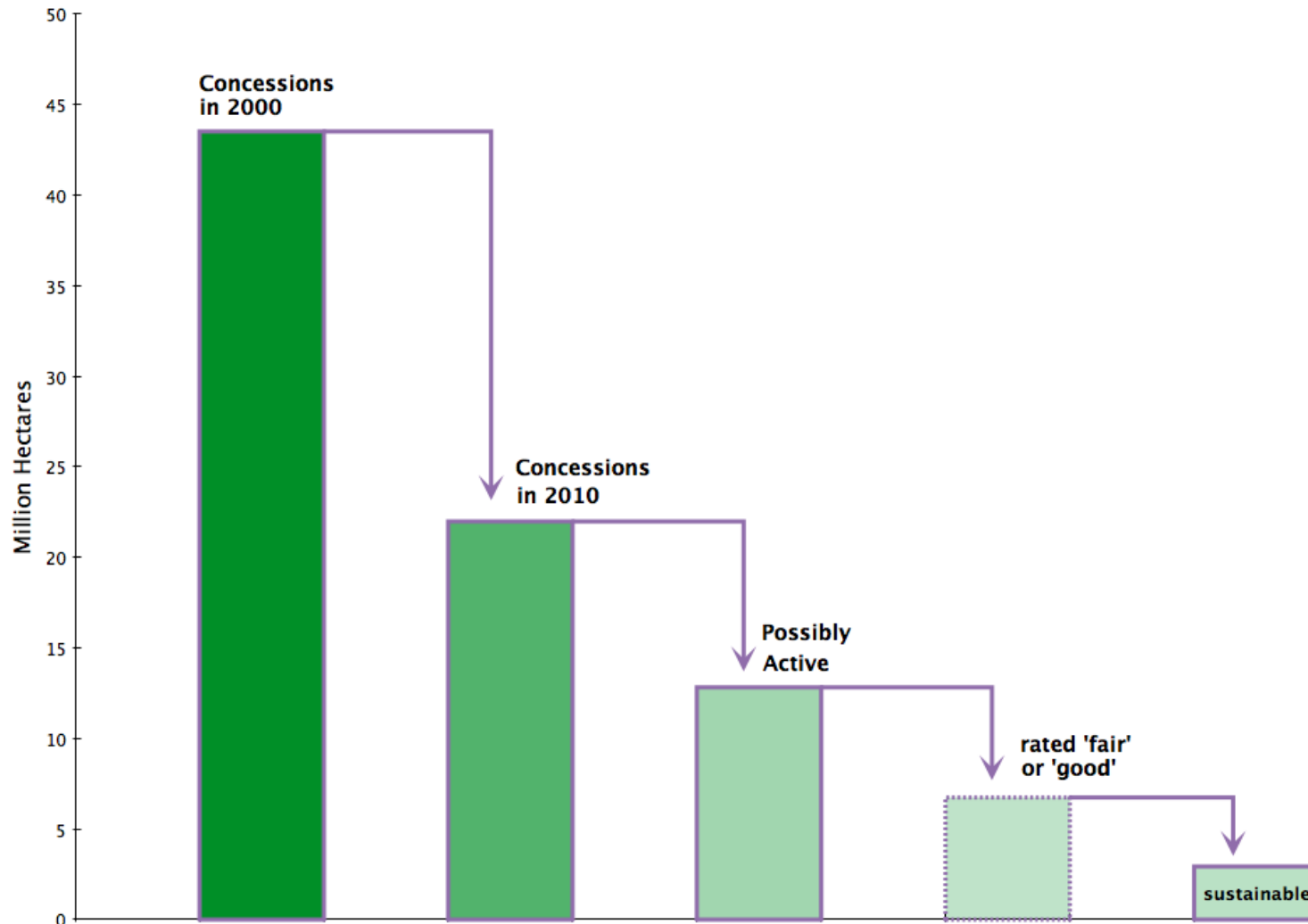
- Management of state forest delegated to Perum Perhutani
 - 2.4 million ha
 - 0.8 m – 1.1m teak plantation (estimates vary)
- Perhutani controls all trees and plants grown in the estate, including crops (e.g. Tumpang Sari)
- History of confrontation with local people, and violence
- Annual increment in plantation estimated at 0.6 m³ per annum*, should be at least 10 m³.

Source: Guizol (CIRAD)

Current situation in land use sector

Sector	Drivers
Deforestation	<ul style="list-style-type: none">- Increasing pressure to convert forest- Failure of reforestation programs- Timber industry short of raw material- Low productivity in oil palm sector
Forest Degradation	<ul style="list-style-type: none">- Natural forest concessions are unsustainable- Non-active concessions become open access areas- Illogical forest zoning and spatial planning
Peat land (<i>Fire & decomposition</i>)	<ul style="list-style-type: none">- Cheap land clearance method for plantations and agriculture- Expansion of palm oil industry into marginal areas- Plantations cannot replace the carbon released
Agriculture	<ul style="list-style-type: none">- Low agricultural productivity- Unclear tenure, limited access to finance, low investment

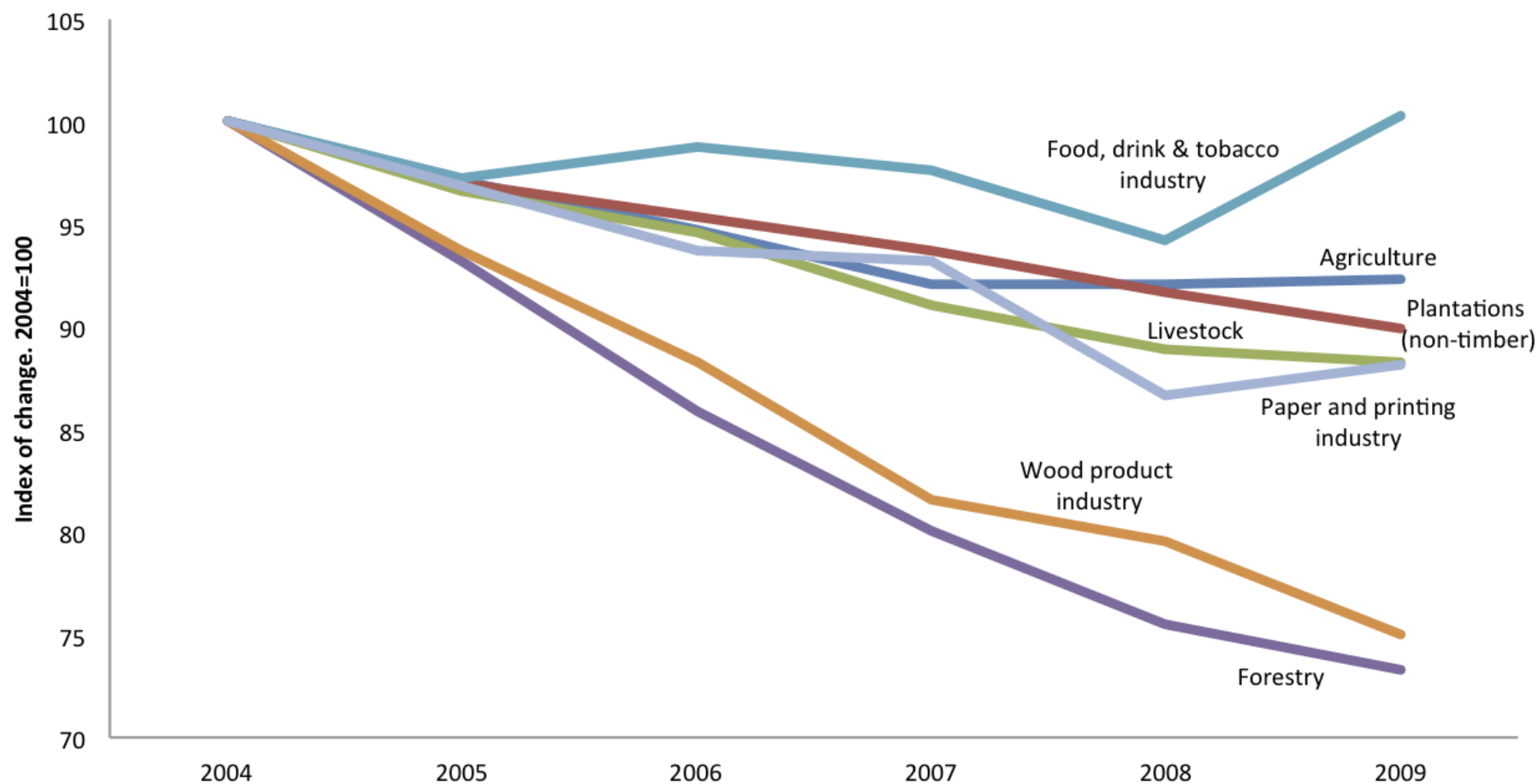
Production forest is being abandoned



Challenges facing the forestry sector

- High deforestation rate (0.7 – 1.5m ha pa)
- Pressure to convert to oil palm, pulp or crops (~28m ha by 2030)
- High GHG emissions (85% of total)
- Low agricultural yields = inefficient use of land
- Under-investment in plantations
- Corruption and poor asset management
- Supply shortage
- Long term decline of a once-mighty sector

Change in relative importance of certain economic sectors 2004 - 2009

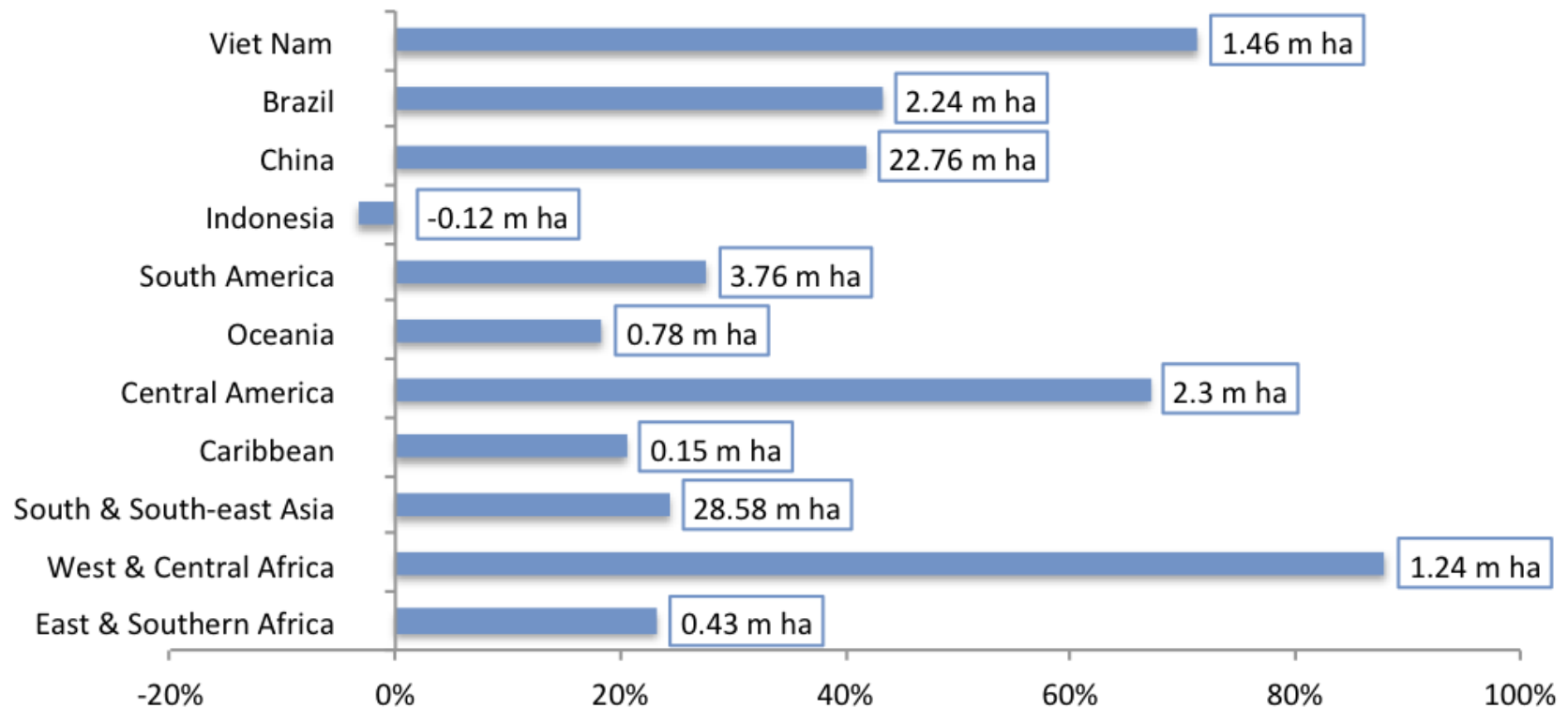


Change in the share of each sector as percentage of total economy, expressed as index
GDP at constant 2000 prices

Source: based on data from BPS (2011)

Everyone else is planting trees

**Change in Planted Forests
2000-2010**



Average % change in planted forests over period
Total change (in million hectares) in boxes

Source: FAO (2010)

Why is it so hard to plant trees?

- Clear-cutting of natural forest continues
- Dominance of large companies & SOEs distort market
- Contradictory regulations and fiscal policy
- Public funds not released (e.g. Dana Reboisasi)
- High transaction costs

So where is the wood coming from?

- Perum Perhutani dominates the teak trade, but mismanagement means there will be shortages in the future
- Private smallholder forests (Hutan Rakyat) produces substantial volumes – up to 8 million m³*.
- Large volumes still coming from clearing natural forest, but this cannot go on for ever.
- With declining production from concessions and no growth in extent of industrial plantations, smallholder forestry and community plantations will become increasingly important

**MinFor estimates 6m, other estimates are higher*

Types of LCF tenure in Indonesia

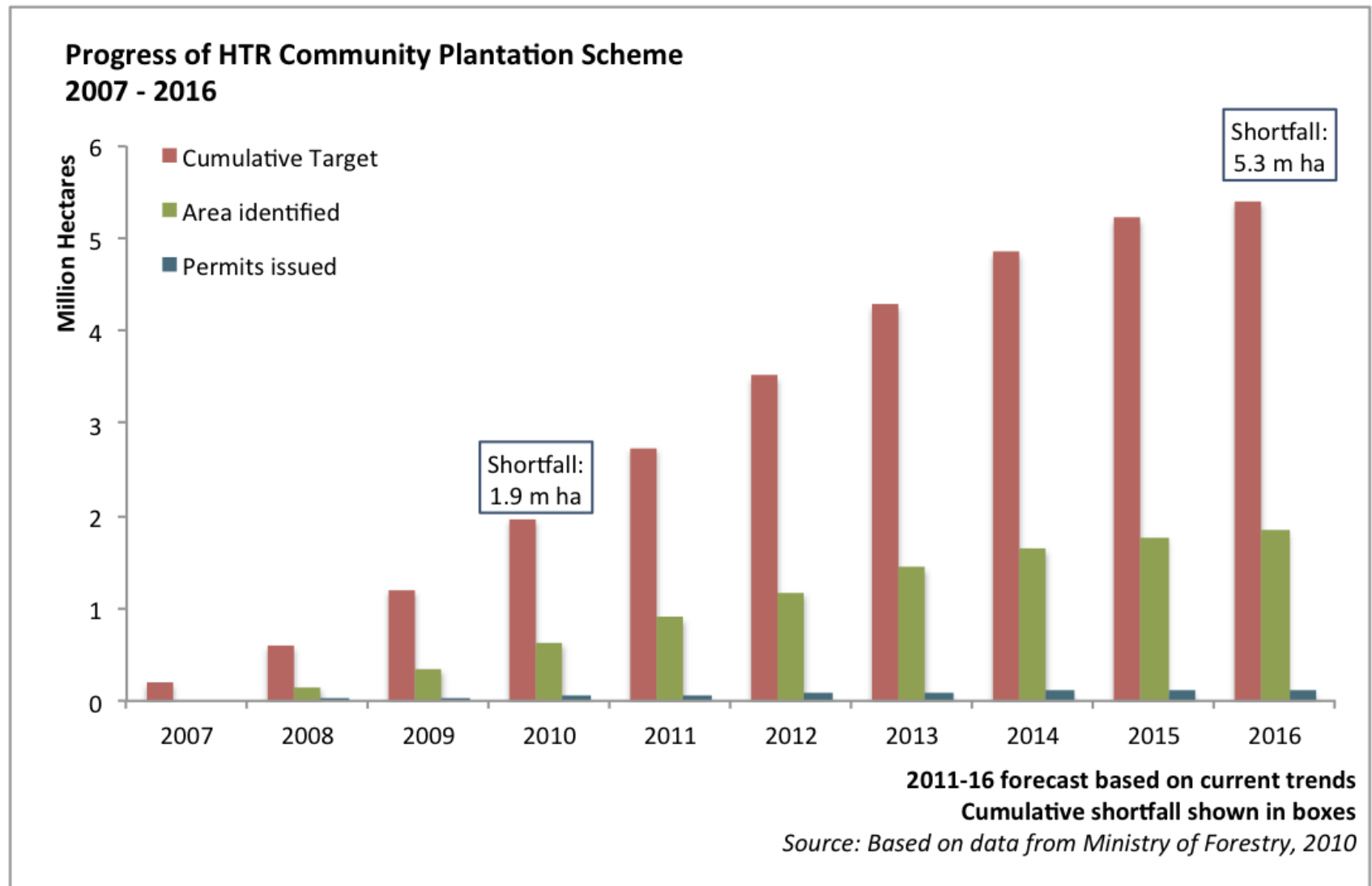
- Customary (Hutan Adat)
- Formal license within forest estate
- Private forest outside forest estate (Hutan Rakyat or Hutan Hak)
- **Note:** This is a contested subject. Dividing lines are blurred. Only 10% of State Forest has been legally gazetted. The rest (108m ha) has the legal potential to be *Hutan Rakyat*...

Options for LCF in state forest

Legal instrument	Explanation
Hutan Kemasyarakatan (HKm) (<i>“Community Forest”</i>)	Group rights for community (cooperative) to manage forest
Hutan Tanaman Rakyat (HTR) (<i>“Peoples’ Timber Plantation”</i>)	Cooperative or individual permit to plant timber
Hutan Desa (HD) (<i>“Village Forest”</i>)	Delegation of forest management to village
Kemitraan (<i>Company-community partnership</i>)	Agreement between concession holder and local community
Kesatuan Pengelolaan Hutan (<i>Forest Management Units</i>)	Devolved management of landscapes to professional managers, perhaps with local representation

But...is locally controlled forestry in Indonesia is just an experiment?

Shortage of seedlings?



Plenty of cash

- Funds available for reforestation (dana reboisasi): USD 2.5 billion
- Allocated to the HTR finance fund (BLU-P3H) since 2007: USD 234 million
- Disbursed so far: USD 4 million for approx 4,500 ha.
- Why?
 - Finance fund (BLU) is a govt. agency based in Jakarta
 - No banking or investment experience
 - No intermediaries, local banking partners or technical service providers

What can be done?

- Deal with the tenure issue (e.g. The Lombok Process)
- Build on best practice (e.g. Hutan Rakyat, Hutan Adat)
- Forest management units (KPH) may be a route to greater local control
- Simplify rules, reduce transaction costs
- Acknowledge the crucial role of smallholders and communities as the saviour of Indonesia's forest sector

How?

- Some local leaders may see the economic and social value of LCF and lobby central government for change
- Engage with private sector that may have some influence with policymakers
- Use existing tenure instruments (e.g. HTR) to encapsulate rights to use forest land, while longer term tenure reform efforts continue
- Devise financial structures that can release the cash Indonesia already has available for reforestation
- Forest communities need to get organized

Is the tide turning in Indonesia?

- *'At the utmost land and forest tenure reform is about increasing people's welfare and living standard, reducing poverty by providing jobs, and living in harmony with the environment'*
- (Kuntoro Mangkusubroto, Government Minister and head of UKP4, Indonesia, at the RRI Forest Tenure Conference, Lombok, July 2011)

Terima kasih.