



# Decentralisation Brief

## The policy dilemma for balancing reforestation funds

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### A balancing mechanism for reforestation funds

According to Law No. 25/1999, 40% of the total Reforestation Funds (Dana Reboisasi (DR)) collected from forestry concessionaires was allocated to the contributing regions (Daerah Penghasil), whilst the remaining 60% allocated to the central government was used for reforestation in the non-contributing regions. In the year 2002, the central government distributed 40% of DR in the form of Special Allocation Funds (Dana Alokasi Khusus (DAK)) among the regions through the provincial government. The provincial government then distributed the funds to all districts in the province without taking into account whether or not a district was actually a contributing or non-contributing region. In South Sulawesi, 40% of DR is now distributed through a scoring system based on the following assessment factors of each region:

- (1) Projection of DR revenue (score value 30)
- (2) The extent of forest and critical lands (score value 25)
- (3) The critical level of watersheds and inter-connection between upstream and downstream (score value 30)
- (4) Institutional capacity (score value 15)

Through this financial mechanism, the total value of DAK-DR received by contributing districts will likely be lower than that received by non-contributing districts.

### What is a contributing region?

Within the DAK-DR balancing mechanism there is a double standard applied to define a contributing region. In article 8 paragraph 4 Law No. 25/1999, a 'contributing region' is not actually defined as a province or a district. When 40% of DR is distributed the 'region' is interpreted as being a province. However, when 60% of DR is distributed, a 'district' is the preferred interpretation of a 'contributing region'. This is seen as an unfair mechanism as non-contributing districts receive a larger part of DR than contributing ones. As an example, Bulukumba, a non-contributing district in South Sulawesi with a total forest area of less than 8,453 ha, received a total amount of Rp. 1,593,377,000 of DAK-DR in 2002. On the other hand, Luwu Utara, a contributing district, which has a total forest area of 1,058,349 ha, received only Rp. 171,541,000.

If we go back in history 'Dana Reboisasi' was originally Dana Jaminan Reboisasi or DJR (Reforestation Guarantee Deposit Fund). DJR was established in 1980 in order to encourage intensive management of production forest. The commercial forestry concessionaires were required to pay DJR to the central government (Ministry of Forestry) as a guarantee of their reforestation obligations. Basically, after fulfilling their obligations, the concessionaires could claim reimbursement of their expenses from the fund. However, most of the concessionaires presumed that paying the required levy freed them from reforestation obligations. Similarly, present day contributing districts, which have logged their forests, also have reforestation obligations. How is it fair that a contributing district receives only 1/10 of the total amount of DR received by non-contributing districts, which do not have the same obligations?

A workshop held by Universitas Hasanuddin in collaboration with CIFOR on 'Decentralization of Policy in the Forestry Sector' in Makassar identified different responses from stakeholders concerning the DR balancing mechanism. The contributing districts complained about this unfair mechanism. On the other hand, the non-contributing districts believe that they also still have rights to a share of the 40% of DAK-DR as compensation. They argued that logging activities in the past had depleted their forest areas; they

currently don't have productive forest areas and are therefore unable to contribute DR to the central government. Some also said that the contributing districts might not need DR as they are mainly forest rich and have less open-areas that need to be reforested. In reality, huge un-forested areas remain open in the field. This would indicate that a forest is considered important for logging activities only and that competition for DR among regional governments is not for reforestation activities but for the funds alone.

Forest management does not only mean replanting of logged forests or critical lands, but this also includes activities to maintain the sustainability of forest products and functions in the long run. These include: forest development, forest protection, distribution of forest products, monitoring activities, etc. All activities require sufficient funding to provide adequate facilities and infrastructure.

### Transparent reforestation funds finance balancing

In the 2002, budget 40% of DR allocated to South Sulawesi amounted to Rp. 1,001,380,000. Based on the latter, it was estimated that the central government received a total DR of Rp. 2,503,450,000 from all districts in this province. If we assume that South Sulawesi forests produce timber categorised as non-Dipterocarp species (rimba campuran), with a DR Tariff of US\$12 or Rp. 99,000/m<sup>3</sup> (US\$1 = Rp. 8,250), this would suggest that a total volume of forest timber produced in 2002 was approximately 25,287.37 m<sup>3</sup>. Looking at the total area of forests in South Sulawesi, is this a reliable figure of timber production for the province? The research findings indicated that timber production of South Sulawesi province was much higher than this figure.

Based on the findings, the district government of Mamuju imposes a tariff of Rp. 10,000/m<sup>3</sup>, referred to as a Third-Party Contribution (Sumbangan Pihak Ketiga or SPK), for timber logged and transported in the district. In 2002, the district received a total SPK of Rp. 1,033,483,100. From our calculations the total volume of timber produced in Mamuju district was at least 103,348.31 m<sup>3</sup>. Assuming that the timber had the lowest quality, the value of DR contributed by Mamuju district reached the amount of US\$ 1,240,179.72 (103,348.31 m<sup>3</sup> x US\$ 12/m<sup>3</sup>) or Rp. 10,231,482,690 (US\$ 1 = Rp. 8,250). If this amount were added to the DR collected from Luwu Utara and other districts in South Sulawesi, the total DR contributed by this province would be much higher. This does not match with the share of DR received in the same year by all districts in this province.

The discrepancy between a district's timber production data and the share of DR received by the district itself, might also be due to the following reasons:

- a. Forestry-related institutions in the district pay more attention to the management of tax-collection policies issued by the district government, than similar policies issued by the central government, because the collected funds from the former will directly benefit the local economy. This is the reason why forest concessionaires in the region fail to pay DR.
- b. There was no standard and clear provision or rule concerning the mechanism of DR payment. Usually DR was paid once logs had been sold. Buyers often paid DR directly to the central government without considering the timber's district of origin. Therefore, the central government found it difficult to fairly distribute the shared funds accordingly to the regions.

In addition, most districts do not have comprehensive and well-documented data on the DR-collection value in their regions. Without comprehensive and accurate data, a district government surely cannot assess whether or not they receive a fair share of DR. Therefore it is strongly recommended that each district improve its performance, management of DR and documentation system.

### The laws and regulations for the utilisation of reforestation funds

Inconsistencies within the laws and regulations, pertaining to the utilisation of reforestation funds has resulted in a most unfair system. In the content and explanation of article 8 paragraph 4a of Law No. 25/1999, it is implicitly stated that contributing regions are allowed to use DAK-DR only for reforestation and re-greening activities. The district government are only permitted to use DR to finance technical activities related to land rehabilitation and reforestation. They received DR in the form of a project, not money/cash. In contrast, in another paragraph (i.e. paragraph 16b of the same law), DR allocated to the central government, does not, however, contain the word only. In article 16 paragraph 2 of the Government Regulation No. 35/2002, it is recommended that DR utilisation be 'prioritised' for reforestation and land rehabilitation activities. The word 'prioritised' may be interpreted here as a flexibility of the utilisation of DR by the central government. The central government is also able to use the funds for covering operational costs of the Technical Executive Unit (UPT) of the Ministry of Forestry, such as research and publications, operational cost of D4 Forestry (a four-year diploma degree in Forestry) and even the procurement of official vehicles (Head of Forestry and Estate Services in Luwu Utara, pers.comm.)

Besides receiving an unfair share of DAK-DR, the contributing districts were still required to retain 10% (co-funding) of DAK-DR (Dana Pendamping) and provide proof to the central government, to be able to receive their share of DAK-DR. In the article 8 paragraph 5 of Law No.



Logs from hutan rakyat in Sepakat village, Luwu Utara.  
(Photo by Dede William)

25/1999, it is clearly stated that: With the exception of the reforestation, the region that receives the special fund as referred to in paragraph (2) is provided an additional fund from the Regional Budget which is appropriate with the potential of the region concerned. Although it is legally stated that provision of co-funding is not an obligation, in reality, based on a joint circular letter issued by the three departments (Finance, Forestry, and Home Affairs and Regional Autonomy) and National Development Planning Board (BAPPENAS) No: SE-59/A/2001; SE-720/Kpts-II/2001; 2035/D.IV/05/2001 and SE-522.4/947/V/BANGDA, the district government is obligated to do so. The attachment of this joint letter, the sub-title IX concerning miscellaneous, further states that: The District/Municipal Governments are obliged to provide funds for supporting activities which are not financed by DAK-DR. It is clear that this joint policy of three departments and BAPPENAS does not refer to the standard regulation system.

#### **What are the benefits of having a forest?**

Regional autonomy has encouraged each district to increase their Regionally Generated Revenues (PAD) in order to facilitate governance and development in their respective areas. Ideally, revenues coming from forest products should have been the potential source of PAD in the concerned districts where the forests are. In fact the central government and non-contributing districts benefited more from the forests (received a larger share of DR) than the contributing districts. This situation encourages almost all of the contributing districts to impose additional charges (other than Forest Rent Tax (PSDH) and DR) on forest concessionaires in the form of retribution fees and Third-Party Contributions (SPK). Research showed that in general, the companies (forest

concessionaires) objected to being charged numerous taxes, collected by the district government, which they considered to be a double obligation for them.

As timber prices collapsed, the forest companies were reluctant to pay such taxes. However, by imposing such charges the district government saw this as a way of generating benefits from the forests, for local livelihood security and sustainability of the forest. In fact, the district government could also use a share of PSDH fund to develop infrastructure for the welfare of people living in their areas. Unfortunately, due to the district's obligation to provide co-funding (10% of DAK-DR), this small amount of PSDH funding becomes insignificant and is insufficient for any local government support program.

#### **Conclusions**

It is clear that contributing districts, which are mostly forest-rich regions, do not receive proportionate benefits from their forest resources. They do not have enough funding to build infrastructures for their community welfare and also for their forest sustainability. Meanwhile, the central government and non-contributing districts, which are not charged with the obligation to protect the forests, receive more benefits. There are a number of questions that remain to be answered by policymakers in the forestry sector: (1) How long the contributing-districts will be able to withstand the unfairness of DR shares? (2) Can the contributing-districts be blamed if they no longer manage their forests in a sustainable manner, and they race on to exploit forest products by granting numerous Timber Clearance Permits (IPK)? (3) Equally, can the local people be blamed for trying to benefit from the forest around their villages through illegal logging? (4) With insufficient funds, how can contributing-districts control illegal logging and forest conversion in their areas?

#### **Recommendations**

A revision of the DR balancing mechanism and the utilisation policy is needed. This is an urgent issue, as inappropriate policies are leading to forest destruction in the country. Contributing districts will convert their forest areas into non-forestry lands, as it is considered having greater economic advantages for the local development. Contributing districts may also issue more IPK, which is in reality used by the forest concessionaires not only for harvesting trees in Conversion Forests, but also in Protected Forests or even in conservation areas. Due to an unfair distribution of 'shared funds', the contributing district governments have to burden the forestry companies with numerous obligations (and fees), causing the latter to become more irresponsible in managing the forest. Illegal logging could get out of hand if the local communities decide to take direct benefits from their forests, while the district governments do not have the ability to

protect the forest. Some recommendations to be considered for the revision of DR policies are as follows:

1. The balancing mechanism for DR should be transparent. The central government also needs to be transparent in the process of utilising DR for certain purposes and should be made with the consent of contributing-districts. The contributing districts are therefore less likely to feel that DR is misused by the central government.
2. The proportion of DR allocation must be fair. The word 'fair' does not mean that non-contributing districts are not given a share, but that the contributing-districts should receive a larger share than non-contributing districts.
3. The utilisation of DAK-DR needs to be well managed, so that the funds can be allocated for infrastructure development for local community welfare. Thus, local communities will also receive a benefit from their forests.
4. The joint regulation letter introduced and circulated by the three departments and BAPPENAS, concerning the mechanism of DAK-DR finance, should be abolished because it contradicts the prevailing laws and regulations.
5. Usually, the total share of DR received in a current budget year is calculated at the end of that year. The share is used to finance activities in the same year and this often causes problems. It would be better if the DR shares were received in the current budget year, but the utilisation of the funds may be used for financing activities in the following year.

#### Law and regulations

1. Law No. 25/1999 concerning Fiscal Balancing between Central and Regional Government.
2. Government Regulation No. 35/2002 concerning Reforestation Fund.

3. A Joint Circular letter produced by The Finance Department No. SE-59/A/2001; Forestry Department No. SE-720/Kpts-II/2001; Department of Home Affairs and Regional Autonomy No. 2035/D.IV/05/2001 and BAPPENAS No. SE-522.4/947/V/BANGDA.

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1. Oka, N.P., Achmad, A. and Dassir, M., 2002. Kelembagaan, Sumberdaya dan Perencanaan Daerah dalam Menghadapi Desentralisasi di Bidang Kehutanan. Studi kasus di Kabupaten Luwu Utara, Sulawesi Selatan. Makalah disampaikan pada Seminar Sehari Desentralisasi di Sektor Kehutanan, Bogor, 14 Februari 2002.
2. Oka, N.P. and Achmad, A., 2003. Implementasi Desentralisasi Sektor Kehutanan dan Respon Masyarakat. Studi kasus di Kabupaten Luwu Utara dan Mamuju, Sulawesi Selatan. Laporan hasil Penelitian Kolaborasi CIFOR dengan Jurusan Kehutanan Universitas Hasanuddin.



Sepakat village, Luwu Utara, South Sulawesi.  
(Photo by Dede William)

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