

Forestry Fund: Case of Indonesia

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Introduction-Short history:

- ❶ In 1970 commercial logging in natural forest was begun.
- ❷ In 1980, the government require concession holders to deposit money to the government as collateral, called DJR (private money held by the government). The money will be returned if the concession holder has carried out reforestation in its working area.
- ❸ In 1989, DJR changed to DR (reforestation fund). Ownership status on those funds also changed, from the private to the government (off-budget).
- ❹ Since 1999, DR has been state revenue (on-budget) earmarked for reforestation.



- 1 DR is collected from royalties charged on timber harvested from natural forests.

Table 1: Tariff of Reforestation Fund (USD per cubic meter)

Species	Kal.-Maluku	Sum.-Sul.	Papua-NT
Meranti	16.00	14.00	13.00
Mixed	13.00	12.00	10.50
Ebony	20.00	20.00	20.00
Natural teak	16.00	16.00	16.00
Fancy wood	18.00	18.00	18.00
Sandal wood	18.00	18.00	18.00

Source: Government Regulation No. 92/1999



2 Amount collected:

Table 2: Receipt of reforestation fund ($\times 1000$ IDR)

Year	Reforestation Fund	Land Rent
2007	1 359 335 810.19	
2008	1 643 159 304.60	
2009	1 455 054 128.98	169 797 334.86
2010	1 721 221 417.26	162 231 506.40
2011	1 720 288 868.77	432 550 625.16
2012	1 516 134 718.31	403 865 794.15

Source: Directorate General of BUK



3 Trend of timber production from natural forest:

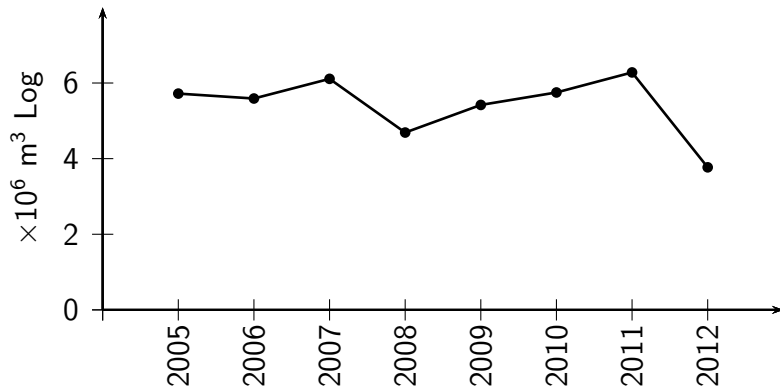


Figure 1: Log Production from Natural Forests



- ④ Other possible sources:
 - ① Reallocation of fuel subsidy

Table 3: Pro (+) and contra (-) forces of CO₂ emission (trillions IDR)

Description		Year					
		2007	2008	2009	2010	2011	2012
Fuel sub.	+	83.8	139.1	45.0	82.4	129.7	123.6
Env. prot.	-	5.0	5.3	10.7	6.6	10.1	10.6
MoF	-	1.8	3.2	2.1	3.3	5.9	6.1
MoE	-	0.4	0.4	0.4	0.4	1.0	0.9

Source: Ministry of Finance

- ② Export tax of log - assuming there is no export ban of log.
Price difference between international and domestic market is 220 USD per cubic meter.



Management:

- 1 What could be achieved by DR was not much. Although public investment of DR was quite large, the overall productivity of the land developed for HTI has failed to achieve the targets set.
- 2 A central feature of the DR during the Suharto period was that these funds were not flowing into the state treasury to be included in the annual budget of the government, but incorporated as a state off-budget funds managed directly by the MoF.
- 3 Indonesian experience shows that transparency and accountability are critical components of good financial governance. To a certain extent, DR abuses during the New Order were facilitated by non-standard accounting systems and weak supervision by the MoF over DR account.



Identifying real problems:

- ① Forest rehabilitation needs money, but money available for the rehabilitation is very little. Progress of forest rehabilitation is very slow. Is it valid to conclude that we need to provide enough fund for forest rehabilitation?
- ② Let us look at other facts: (1) forest business is regulated excessively - choked in the upstream and clogged in the downstream, (2) procedure of paper work is very complicated leading to high cost economy, (3) conflict of land tenure is so rampant, especially outside Java, creating disincentive for long-term investment.
- ③ So long as forest is not attractive for investment because it is not profitable, then it is hard to expect money will flow to forestry sector. Even if we are able to collect money to support forest rehabilitation, the money will eventually run out. In order for forestry fund to be sustainable, then forestry business must be profitable.









