

UNCOVERING REGIONAL WEALTH

**An Analysis of Budget Policies for
Land and Forest Governance in
Three Provinces and Six Districts in Indonesia**



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This report was produced with support from the UK Climate Change Unit (UKCCU). The opinions, findings, interpretations and summary expressed in this report are those of the civil society groups involved and do not reflect those of the Asia Foundation and UKCCU.

Glossary

APBD	: Regional Revenue and Expenditure Budget
APBD-M	: Regional Revenue and Expenditure Budget-Original
APBD-P	: Regional Revenue and Expenditure Budget-Amended
APBD-R	: Regional Revenue and Expenditure Budget-Realized
BPK	: State Audit Agency
BPS	: Central Statistics Agency
DAK	: Special Allocation Fund
DBH	: Profit-Sharing Fund
DAU	: General Allocation Fund
Daper	: Balanced Fund
DJPK	: Directorate General of Fiscal Balance
HD	: Village Forest
HKm	: Community Forest
HTR	: Community Forest Plantation
Ha	: Hectare
IUP	: Mining Business Permit
IUPHHK-HA	: Forest Timber Product Utilization Permit – Natural Forest
IUPHHK-HTI	: Forest Timber Product Utilization Permit – Industrial Plantation Forest
IUPHHK-RE	: Forest Timber Product Utilization Permit
JATAM	: Mining Advocacy Network
KP	: Mining Authorization
LKPD	: Regional Government Financial Statement
LPDS	: Other Revenue (in local budget)
LULUCF	: Land Use, Land-Use Change and Forestry
migas	: Oil and Gas
MP3EI	: Master Plan for the Acceleration and Expansion of Indonesia's Economic Development
PAD	: Regionally Generated Revenue
PDRB	: Gross Regional Domestic Product
PKP2B	: Coal Mining Business Work Agreement
RKPD	: Regional Government Work Plan (annual)
RPJMD	: Regional Medium-Term Development Plan
RTRW	: Regional Spatial Plan
RTRWP	: Provincial Spatial Plan
TKHL	: Land and Forest Governance
SDA	: Natural Resources
SiKPA	: Budget Deficit
SiLPA	: Budget Surplus

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Preface

Salute to Transparency,

The SETAPAK program, which is funded by the United Kingdom Climate Change Unit (UKCCU), aims to improve land and forest governance in Indonesia to support the reduction of Indonesia's greenhouse gas emissions. This study is part of that effort, as a monitoring instrument developed by civil society to assess and evaluate the process of land and forest governance from a budget perspective.

A budget can be used as an indicator to measure a regional government's commitment and efforts to improve land and forest governance. Most regional revenue is derived from the Natural Resources Profit-Sharing Fund (DBH – SDA), however, policy redistribution through regional spending is mostly allocated for those programs beyond the coverage of environmental sustainability issues.

Regional revenue policies that rely on natural resources as their greatest source of revenue will result in an increase in land and forest-based industrial activities. In addition, in the era of decentralization, there is the phenomenon of so-called “rich regions”, with a connotation of those regions successfully managing, utilizing and exploiting their petroleum, coal and forest reserves, thus providing them with a great amount of Profit-Sharing Funds each year.

In the last four years (2009-2012), the government sectors of forestry, spatial zoning and the environment at the provincial and district levels each received an allocation of only 1 percent on average of the total regional expenditure. This allocation is far smaller than the expenditure on social assistance and grants, with these figures reaching more than 10 percent.

Improving budget policy will play a very strategic role in improving the quality of land and forest governance in Indonesia. A responsive revenue policy will contribute to the prevention of excessive exploitation of natural resources. An efficient, effective and appropriately targeted expenditure policy will support attempts to prevent deforestation, promote forest land rehabilitation, and prevent exploitation and optimization of plantation production, thereby avoiding any possible new land openings within forest areas.

In drafting this report, we want to express our gratitude and highest appreciation to UKCCU for its support of the SETAPAK program, including this particular study. We would also like to thank the national and local level researchers for their hard work in obtaining and analyzing the data. We hope that this study can be useful in improving land and forest governance in Indonesia.

Jakarta, December 2013

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Acknowledgments

This report is the result of cooperation between Seknas FITRA and The Asia Foundation. The Seknas FITRA team is coordinated by Hadi Prayitno and its members include Ahmad Taufik and Rizka Fitriyani. The Asia Foundation team is coordinated by Blair Palmer with members including R. Alam Surya Putra and Ade Cahyat.

This report was prepared based on the results of field research conducted by local researchers from about 10 civil society organizations, comprising:

- South Sumatra : Nunik Handayani, Eli Mailiana, Sumarni (FITRA South Sumatra), Basyir, Anton (Wahana Bumi Hijau), Ade Ramayeni, Yogi (Pilar Nusantara);
- West Kalimantan : Liem Keng Sia, Didik Supriyatno, Ngusmanto (Fakta), Yongky Yob Yosafat, Fredy Dulhadi (Jari Borneo Barat), Endang Kusmiyati, Dea Ishadi (Titian);
- East Kalimantan : Ramlianur, Buyung Marajo, Burhanuddin (Pokja 30).

The analysis and report drafting processes were performed jointly by Hadi Prayitno, Ahmad Taufik and Rizka Fitriyani (Seknas FITRA), and R. Alam Surya Putra (The Asia Foundation). Finally, it was edited by R. Alam Surya Putra.

We would also like to thank Blair Palmer, Erman Rahman, Frans Siahaan, Prayekti Murharjanti, Ridwan and Chitra Hariyadi who gave their reviews, feedback and criticism on this report. Dorta Pardede and Kiki Tobing also contributed much to the printing and publishing of this report.

This activity was conducted with the support of the United Kingdom Climate Change Unit (UKCCU). However, the opinions, findings, interpretations and conclusions in this report are the views of civil groups and not the views of The Asia Foundation or UKCCU.

Executive Summary

Indonesia is facing serious problems related to unsustainable land and forest governance, resulting in large scale deforestation and forest degradation. Budgets and budget policies are important elements of land and forest governance, critical to ensuring the implementation of development plans and addressing deforestation and degradation problems. In order to have a significant influence over forest and land governance, budget policies should have the following in place: (a) revenue policy that is directed toward developing incentives in an effort to reduce deforestation and degradation; (b) expenditure policy that is oriented toward ensuring proper allocation of funding for programs and activities which are the main priorities in reducing deforestation and forest degradation; and (c) finance policy that is aimed toward investing government funds in green growth and sustainable development. The Indonesian Forum for Budget Transparency (Seknas FITRA) conducted a study analyzing budget and planning policies on land and forest governance at the provincial and district level in Indonesia. Using this instrument, analysis was carried out in three provinces and six districts to assess the extent to which local governments manage public money in a way that contributes to the goals of reducing deforestation and forest degradation.

The study found that existing authority over land and forest governance poses challenges to the sustainability of the natural environment. Local government policy planning tends to be exploitative without providing optimal recovery planning, demonstrating that governments take little responsibility for improving land and forest governance. Natural resources are the greatest source of local government revenue, yet local government expenditure on land and forest governance is minimal. The heavy reliance of the regions on natural resources does not correspond to improvements in poverty. Annual budget targets for local government expenditure are often lower than actual spending, which is causing a loss to local government funds. The high amount of fiscal space and unused budget surplus (SILPA) in the regions is in fact an opportunity to increase allocation of spending on land and forest governance. Mining reclamation funds are not controlled or managed transparently, and many companies do not comply with the regulations for these funds.

This study provides recommendations for central government, including: develop and improve incentive schemes for regions to improve land and forest governance by improving policies on reforestation fund management and giving authority to regions; develop other incentive schemes to reduce massive environmental destruction; and maximise the role of oversight on local government budget and planning policies. Recommendations relevant for district government include to: increase the spending allocation for land and forest governance; improve public finance by making it more transparent and accountable; and strengthen the monitoring of local governments to reduce the rate of deforestation and forest degradation. The results of this study can be used as an instrument for civil society to improve budget and planning policy in the regions to support improvements in land and forest governance. Civil society groups that work on issues of budget policy should support a stronger civil society movement on land and forest governance, and advocate for civil society to be involved in the process of preparing and monitoring budgets.

Part I

Building an Analytical Framework for Regional Budget Policies on Land and Forest Governance in Indonesia

1.1 INTRODUCTION

Decentralization has created new challenges for the management of natural resources and the environment in the regions. Decentralization depends on the varied capacities of regional leaders with all kinds of interests in managing natural resources and human activity. The World Bank holds the view that the varied capacities and institutional visions of the regions are some of the main challenges faced in the decentralization era, as well as the appropriate use of incentives, and a minimum of standards, enforcement and assistance from the central government.

Corruption is another important challenge faced by Indonesia under decentralization. The numerous corruption cases involving officials at the regional level indicate that the center of corrupt practices has moved along with the greater authority given to regional governments. The Center for International Forestry Research (CIFOR) suggests that the problem of corruption in the natural resources sector (particularly in the misuse of reforestation funds) has become more decentralized during the post-Suharto period since provincial and district-level governments in Indonesia have received an increased level of authority to manage their forestry revenue. The natural resources sector is considered a part of this era's failure to manage and allocate said resources in an optimal manner for the public good. In this context, land and forests serve as a source of both formal and informal revenue for the government as well as for other parties whose interests lie beyond the government's. In addition to the misuse of reforestation funds, corruption related to natural

resources occurs through the release of land, the issuance of business permits to the private sector, and the conversion of forests.

Deforestation and degradation problems that the Indonesian government must confront. This is not just because the Indonesian government has made a commitment to the international community to reduce its rate of emissions, but also because deforestation in many cases reduces public income. Many studies even suggest that the challenges the Indonesian government faces have become increasingly difficult, since most deforestation is related to corrupt political and economic systems that consider natural resources, and land and forests in particular, as a source of revenue to be exploited for both political and personal gain.

As a part of the political and economic systems, land and forest governance must be continuously monitored by several parties. Similar research should be conducted constantly in order to generate recommendations and feed massive public debate to promote improvement to governance as soon as possible. In addition to looking at what policy packages, programs and activities the government makes available, another approach to examining the government's commitment is to use a budget instrument, that is, to examine to what extent government revenue and expenditure are utilized to reduce the rate of deforestation. This approach deals with the question of whether the budget policy the government develops actually decreases or increases the rate of deforestation in Indonesia. In other words, analysis of budget management is an instrument that can provide feedback on land and forest gov-

¹ World Bank, Country Environmental Assessment, Investing in a More Sustainable Indonesia, 2009.

² CIFOR, Financial Governance and Reforestation Funding in the Suharto period and the post-Suharto period 1998 – 2009, 2011.

³ Setengah Hati Berantas Kejahatan Kehutanan (Half-hearted Forest Crime Elimination), Indonesia Corruption Watch, 2012

⁴ CIFOR, 2011 and World Bank, 2009, *ibid*.

ernance in Indonesia. This study is an attempt to answer that question.

This study aimed to analyze budgeting policies at the regional level regarding land and forest governance in Indonesia. Three (3) provinces and six (6) regencies were reviewed in this study, considering to what extent planning and budgeting policies at the regional level provide useful contributions toward improving land and forest governance. In particular, the study aimed to analyze two issues: firstly, it reviewed the potential and realized regional revenue from land and forest governance, and secondly, it examined the orientation of regional expenditure policies in accelerating improvements to land and forest governance. Unlike the budget study conducted at the national level, which reviewed the consistency of existing planning policies and their relevance to budget policies, this study only reviewed how the budget policies were managed in order to support the objective of mitigating deforestation and forest degradation, which contributes directly to emission mitigation.

As part of a monitoring instrument, this study was developed by civil society groups to review and evaluate the land and forest governance process in Indonesia within the framework of budget policy. This study was developed by a civil society network experienced in reviewing the policies of budget management in various government sectors. Seknas FITRA coordinated this study with the support of ten (10) civil group networks in the regions. Within the last five years, Seknas FITRA has intensively reviewed APBD budgets in 72 districts/municipalities and seven provinces, though the sectors or functions under review until now have mostly been education, healthcare and infrastructure.

This study is expected to be able to provide feedback to the government and other parties. It is hoped that this study will be of use to local governments in formulating better budget policies for society and, particularly, in optimally mitigating deforestation and forest degradation as well as emission mitiga-

tion. For provincial and central governments, the research is expected to be employed as a monitoring device of district-level government performance, in addition to serving as a reference for developing budget policies and technical assistance that can be provided to regional governments. This report is also expected to promote improvements to budget management policies, by both the central and regional governments. Additionally, for provincial and central governments in particular, this research is expected to provide useful feedback for strengthening government roles in evaluating, supervising and providing technical assistance to district-level governments. For other parties, the study is expected to serve as feedback for a broader dialogue on policy and to generate better public debate in order to improve policy.

1.2 RESEARCH FRAMEWORK

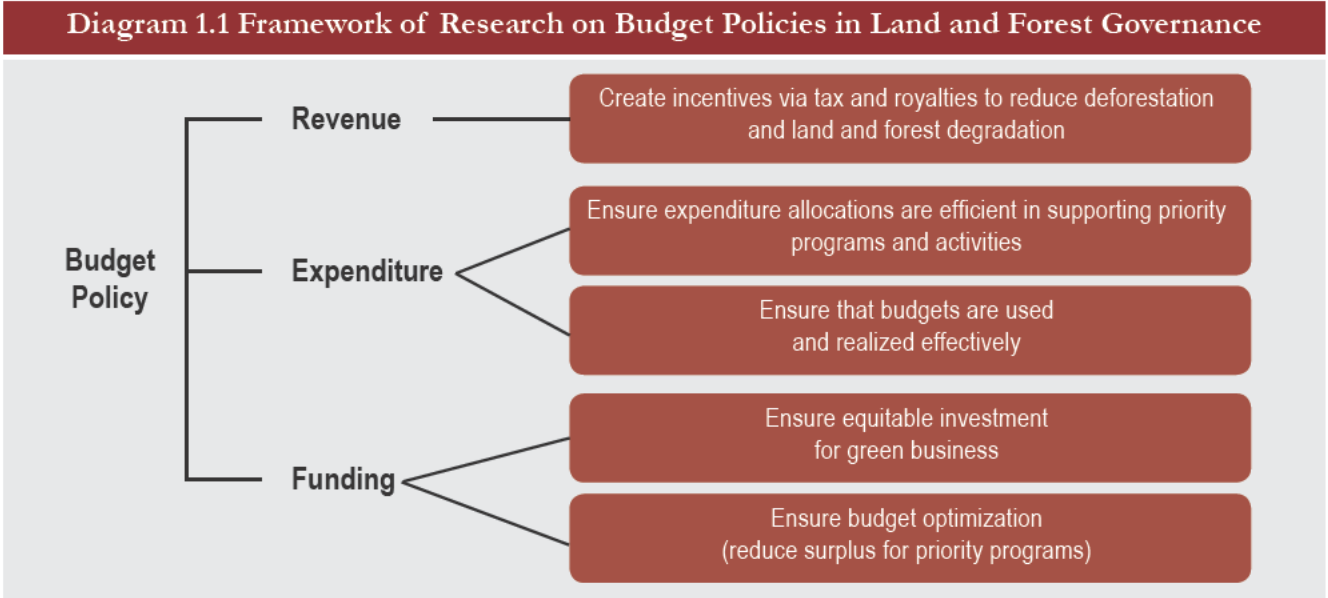
The research framework used in this study is similar to that for analyzing national budget policy on land and forest governance. In previous studies it has already been mentioned that budgets can be used as analytic instruments to examine a government's performance in land and forest governance. The budget as an instrument can also be used to assess the government's level of commitment or concern for managing its natural resources in a wise and fair manner. However, what makes this study different is that it gives less consideration to planning policy as a comparative instrument in budget policy analysis. The national budget study only evaluates one government entity, that is, the central government, hence making it possible to evaluate the suitability of planning policies and budget policies. Meanwhile, the study of regional budgets looks at the tendencies of regional governments, as represented by three (3) provinces and six (6) regencies in research areas, in managing their general budget policy for land and forest governance. Therefore, it is not possible to correlate the findings with policy planning analysis.

⁵ See *Measuring Commitment: An Analysis of the National Budget and Planning Policies on Land and Forest Governance in Indonesia*, 2013, Seknas FITRA – The Asia Foundation, Jakarta.

Several issues below serve as the basic assumptions used as a frame of thought and analysis in the study of budget policy at both the national and regional levels:

- The budget (either the APBN or APBD) is an important instrument for the government to implement its programs. The adequacy of the government budget in financing its programs is mostly affected by the way the budget is managed.
- The government’s budget is a reflection of political decisions between the executive and legislative branches that indicates what the government does each year. This political decision has widespread impacts, not only on the quality of life for citizens, but also on the way the government allocates existing resources to fulfill its programming requirements. Therefore, this political decision reflects the extent of the government’s concern for its people and the environment.
- Budget policies are closely related to land and forest governance. In addition to serving as an instrument of regional revenue, land and forest governance is also an instrument of regional spending and financing.
- As a revenue instrument, land and forest governance is seen as an incentive policy through taxes and royalties the government withdraws for activities related to the land and forest sector. However, incentive policies through taxes and royalties might lead to an increase in deforestation and forest degradation and/or, conversely, a decrease in deforestation and forest degradation. The political decision to determine the sources of state revenue reflects the extent to which the government is committed to increasing or decreasing deforestation and forest degradation.
- In terms of regional spending, this deals with the extent to which government money will be spent on those programs and activities supporting development goals. In particular, it ensures that there is an adequate budget available to finance programs and activities supporting the mitigation of deforestation and forest degradation. Additionally, it ensures that an allotted amount of money is spent in an optimal manner to achieve the objective of mitigating deforestation and forest degradation.
- Financing is oriented toward the extent to which government money is invested in green-growth development or in non-green-growth development. Ensuring that the money that is available supports green-growth development through optimization of the budget is critical to the fulfillment of the state funding scheme.

Below is a diagram of the effect of budget policies on land and forest governance employed as the



1.3 RESEARCH METHODOLOGY

a. Scope of Analysis

This study focused on general analysis budget management and specific analysis of budgets for the land and forest sector. The general analysis includes the profile and tendencies of budget revenue, expenditure and financing. The sectoral analysis, in essence, focuses on spending on programs that are expected to contribute to efforts toward reducing the rates of deforestation and forest degradation. This sectoral analysis focuses on forestry, agriculture, spatial zoning and the environment (LH), as well as energy and mineral resources (ESDM).

Six districts in three provinces were reviewed. These six districts and three provinces are the areas

studied under the SETAPAK program of which Seknas FITRA is a partner. In the SETAPAK program, the provinces and districts were selected based on the condition of their forests and the availability of peatland and forest coverage, their regional socio-political conditions, and the availability of other supporting capacities such as civil society and infrastructure accessibility. The locations of the study include the province of South Sumatra with its Musi Banyuasin and Musi Rawas districts under review, East Kalimantan province with its Berau and Bulungan districts under review and West Kalimantan province with its Sintang and Kubu Raya districts under review. Table 1.1 below shows the nine regions participating in the SETAPAK program, which also serve as the research areas for this study.

Table 1.1 General Statistical Data Profile of Research Areas

No.	Research Area	Population	Gross Regional Domestic Product (PDRB, Rp Billion)	Human Development Index	Poverty Rate (%)
1	Musi Banyuasin district	562,584	11,788	71.81	20.06
2	Musi Rawas district	524,919	5,646	67.89	19.38
3	Sintang district	363,978	3,916	68.31	9.76
4	Kubu Raya district	498,333	8,801	67.56	7.14
5	Berau district	179,444	7,895	73.84	6.60
6	Bulungan district	113,045	2,303	75.11	14.57
7	South Sumatra province	7,446,401	112,449	72.95	15.47
8	West Kalimantan province	4,393,239	60,502	69.15	9.02
9	East Kalimantan province	3,550,586	187,875	75.56	7.66

Source: Central Statistics Agency/BPS (Population Census Results 2010 and PDRB Statistics 2009), National Team for the Acceleration of Tackling Poverty/TNP2K (IPM 2010, Poverty Levels 2010).

Notes: PDRB does not include oil and gas, based on the prices in effect as of 2010 (very preliminary figures).

- ⁶ SETAPAK (Selamatkan Hutan dan Lahan melalui Perbaikan Tata Kelola, or Save Land and Forests through Improved Governance) is one of The Asia Foundation's programs supported by UK Climate Change Unit (UKCCU). This program aims to support the Indonesian government's efforts, and that of regional governments in particular, to improve sustainable management in land and forest governance. This program commenced at the end of 2011 and it is planned to wrap up in mid-2015.
- ⁷ In the process of selecting the SETAPAK program areas and when the research began, these districts were still part of the East Kalimantan province. In its current development, however, Bulungan district is included in the new province resulting its separation from East Kalimantan, namely, North Kalimantan province. To facilitate the analysis, this report still includes Bulungan district in East Kalimantan as an area of analysis.

The Regional Revenue and Expenditure Budget (APBD) data under analysis includes budgets from 2009-2012. The 2009-2011 APBD data use the original budget (APBD-M), amended budget (APBD-P) and realized budget (APBD-R), while for 2012, they use a budget plan (APBD-M or 'original'). In addition to the budget data, the analysis also uses the latest supplemental statistical data, from both regional governments and various institutions of the central government.

b. Data Collection Technique

APBD data and sectoral statistical data was collected at the regional and national levels. APBD data was collected by the team of researchers and re-

search assistants in their respective areas, using both formal and informal access. Additionally, APBD data was obtained by national researchers (Seknas FITRA) from the Finance Ministry through the Directorate General of Fiscal Balance (DJPK). Both the researchers and their assistants received prior training on the reading of budget data, data collection techniques and analysis for the purposes of this study.

The data were processed in stages, including data input, cleaning, compilation, analysis and interpretation. The regional data input was performed by regional researchers and the national data input by the Seknas FITRA team. All data was compiled by area and year, and verified by cross-checking against other sources, before being analyzed and interpreted.

Table 1.2 Data Used and Source of Data

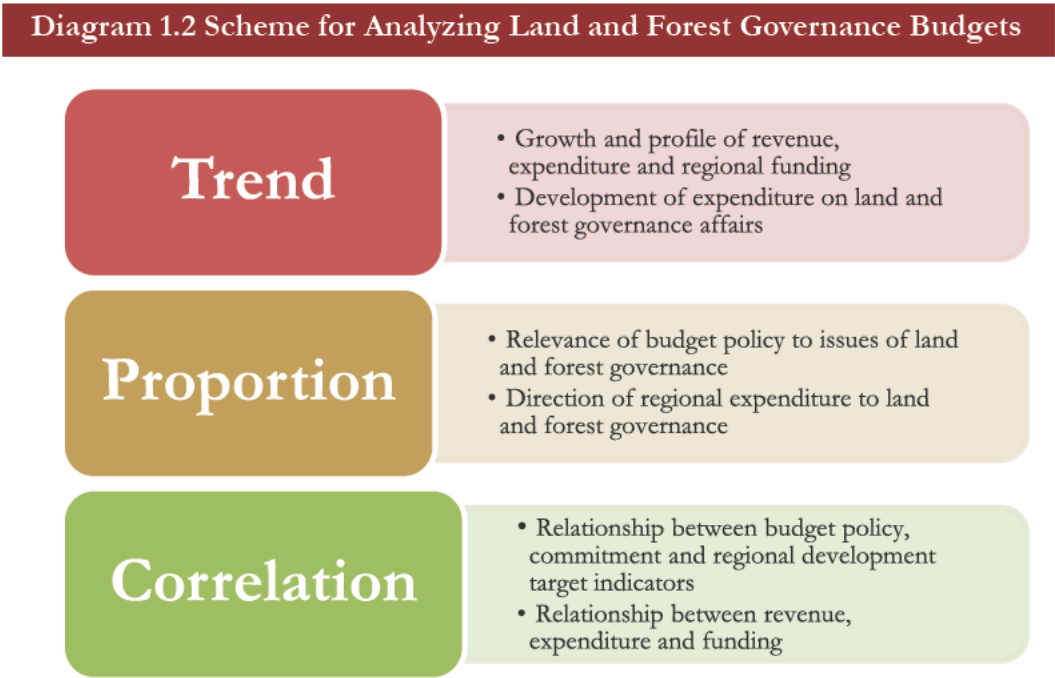
No	Description	Type	Source
1	Summary of APBDs 2009-2011	Draft/Original (M), Amended (P), and Realized(R) ¹	PERDA and PERBUB APBD
2	Summary of 2012 APBD	Plan (M)	PERDA and PERBUB APBD
3	Summary of APBDs 2009-2011 by Function	Draft/Original (M), Amended (P), and Realized(R)	PERDA and PERBUB APBD
4	Summary of 2012 APBD by Function	Plan (M)	PERDA and PERBUB APBD
5	Function – Program and Activities 2009-2011	Realized (R)	PERDA and PERBUB APBD
6	Affairs – Program and Activities in 2012	Plan (M)	PERDA and PERBUB APBD
7	2009-2011 BPK Audit	-	BPK
8	Result of 2010 Population Census (SP)	-	BPS
9	Plantation Statistics	-	BPS and relevant SKPDs
10	Forestry Statistics	-	BPS and relevant SKPDs
11	Mining Statistics	-	BPS and relevant SKPDs
12	Other Statistics	-	BPS

⁸ M = APBD Plan, P = Amended APBD and R = Realized APBD.

The data were processed in stages, including data input, cleaning, compilation, analysis and interpretation. The regional data input was performed by regional researchers and the national data input by the Seknas FITRA team. All data was compiled by area and year, and verified by cross-checking against other sources, before being analyzed and interpreted.

c. Data Analysis

Budget policies were analyzed by examining trends, proportions and correlations. This type of analysis has been employed by Seknas FITRA in its study of previous budgets. Below is the scheme of data analysis employed in the current research.



⁹ Regional Budget Analysis: Study of 2008-2011 APBD in 20 districts/municipalities in four provinces, Seknas FITRA, 2012: 4

Part II

Examining Regional Planning Policies on Land and Forest Governance in Indonesia

2.1 REGIONAL AUTHORITY OVER LAND AND FOREST GOVERNANCE

Decentralization has brought changes to the way natural resources are managed in Indonesia. Currently, regional governments assign different values to regional revenue depending on the types and quantities of natural resources found in the area. The amount of regional revenue is obtained from a Profit-Sharing Fund (DBH) as jointly managed by the central government. This state of affairs has given rise to a dichotomy in regional wealth in the decentralization era. So-called “rich” regions tend to be associated with the natural resources they have in their possession, while regions with minimum natural resources and less fertile lands are frequently referred to as “poor” regions. Therefore, during the decentralization era natural resources have been an important factor in the sustainability of a region’s governance.

Decentralization has also led to important changes in the authority over managing natural resources. Regional governments have a good deal of authority in utilizing their natural resources, including to ensure that there have been efforts made to recover damaged natural resources. Although the authority over forestry function currently lies with the central government, regional governments are still involved in monitoring. The redistribution of authority over natural resource management presents regional governments with new challenges. In other words, the survival of natural resources relies on local leadership, along with its capabilities and capacities. Whether natural resources are being managed well or not is reflected in the regional vision and mission.

Planning policies in the research areas tended to be exploitative of natural resources, while promising the concept of sustainable development. The planning documents of the three provinces clearly describe natural resources as something that must be utilized optimally for development purposes, using the jargon of social welfare. The development plans of West Kalimantan province explicitly promote the increase of regional revenue from the land and forest sectors. The provinces of East Kalimantan and South Sumatra are the same. Their development plans are oriented toward the utilization of natural resources to their maximum potential. The development of one million hectares of oil palm land in East Kalimantan, and development of South Sumatra into a supplier of energy through the utilization of land show how local leaders tend to manage their natural resources.

These regional planning policies pose a serious threat to deforestation and land and forest degradation. Even the World Bank (2009) has mentioned that natural resources in Indonesia are rapidly dwindling without being offset by a proportionate amount of investments in production or human resources, which has led to large-scale economic loss; as a result the cost of environmental damage will tend to rise in the future. Currently, the cost of environmental damage is equal to the the average annual growth rate of environmental damage.

¹⁰ World Bank, 2009, Investing in a More Sustainable Indonesia, Jakarta.

Table 2.1 Regional Planning Policies on Natural Resource Utilization as a Basis for Regional Economic Growth

Policy Orientation	South Sumatra	East Kalimantan	West Kalimantan
Vision	‘Prosperous and Advanced South Sumatra as a Skilled and Cultured Society’	‘East Kalimantan as a Prominent Center of Agroindustry and Energy Toward a Just and Prosperous Society’	‘A West Kalimantan Population That Is Godly, Healthy, Skillful, Safe, Cultured and Prosperous’
Mission related to natural resources utilization	Skillfully, wisely and prudently utilizing mining and energy resources (fossil and renewable) for the betterment of society at large	Presenting an economic structure that is competitive and pro-democracy under the concept of sustainable development	Implementing equity and equality in sustainable development to reduce the disparities between regions with a continued regard for ecological aspects in the use of natural resources
Goals	<p>Become a regional supplier of sustainable energy resources through the use of coal, petroleum, natural gas, geothermal energy, methane gas and renewable energy.</p> <p>Become a region that is wise in the management and utilization of energy, water, forests and other natural resources for the public good</p>	<p>Improve public welfare by increasing the reliability of the economy based on agribusiness and ecotourism while creating a sustainable environment by enforcing the regulations governing land and natural resource use and coordinating spatial planning</p>	<p>Encourage an increase in revenue, especially from the agricultural, plantation and mining sectors</p> <p>Provide infrastructure that supports the production and processing of agricultural, forestry, fishery and products of natural resources</p>
Programs	<ul style="list-style-type: none"> • Food Storage Barn Program • Program to Increase agricultural productivity and production • Energy Storage Program • Program promoting investment in the mining sector 	<ul style="list-style-type: none"> • Program to develop one million hectares of land for oil palm plantations • Program to increase agricultural/plantation production for the achievement of rice self-sufficiency through the expansion of land for paddy fields • Program for the utilization of potential forest resources 	<ul style="list-style-type: none"> • Program to increase the production, productivity, and quality of food crops to achieve self-sufficiency through the establishment of ‘rice estates’ • Program to establish forest lands through the inventory of potential forest resources

Source: RPJMD and RKPD (2013) of each region

Aside from provincial governments, district-level governments also appear to be in a race to utilize their natural resources. District-level governments in possession of natural resources have clearly made these sectors the basis of their economic growth. An example is Musi Rawas district, which has established its local vision for the 2011-2015

period as “Presenting the Agropolitan Earth and Mining Zone For Musi Rawas Darussalam”. One of its missions is to develop its mining and environment sectors. Other districts have established similar visions and missions, such as the districts of Musi Banyuasin, Bulungan and Berau.

Authority over land and forest governance is still chaotic because it is not balanced by effective monitoring. The authority over mining and plantation affairs has been transferred to regional governments. In general, this transfer of authority from the central government to regional governments has been responded to by an increase in the issuance of business permits for mining and plantations, particularly oil palm plantations. Meanwhile, the authority of the central government to monitor regional authority is inadequate. Although the exact number of mining inspectors and civil servant investigators (PPNS) both at the national and regional levels is not known, it can be assumed to be inadequate for the task of monitoring land and forests. The central government has not established any scheme to optimally monitor forest damage resulting from mining and plantation activities. The limited number of supervisory resources for mining activities has been a serious consideration of the provincial government of East Kalimantan as indicated by its action of issuing regional regulations (Perda) on reclamation and post-mining operations.

Meanwhile, in forestry affairs, it is still the central government that controls forest resource management. The role played by regional governments is to execute the central government's policies by maximizing monitoring of forest utilization, for which

permits have been issued by the central government, as well as to help the central government in planning activities to demarcate forest land boundaries, including by settling disputes over these boundaries. The limited role of simply resolving problems arising from the central government's policies has led to less than optimal performance by regional governments in monitoring and dispute settlement duties, as in the cases of mining and plantation affairs.

The problem of limited numbers of mining inspectors and the increase in cases of environmental damage in East Kalimantan prompted the Regional Representatives Council (DPRD) to initiate the issuance of a regional regulation (Perda) on Conducting Reclamation and Post-Mining Operations. In this regulation, there is a mandate for provincial governments to form a Monitoring Commission for Reclamation and Post-Mining Operations. Currently, these commissions have not yet been established as mandated in the four months after the regional regulation was issued, or by March/April 2014.

Box 2.1 The Formation of a Monitoring Commission for Reclamation and Post-Mining Operations in East Kalimantan

2.2 NATURAL RESOURCE-BASED REGIONAL ECONOMIC STRUCTURE

In general, governments in Indonesia are highly dependent on natural resources. The regional planning policies above reflect the dependence of regional governments on natural resources. A study by the World Bank has indicated that natural capital makes up one quarter of Indonesia's total wealth, and that 45 percent of Indonesia's wealth is derived from assets in the ground such as coal and other mining products.

Coal, petroleum and palm oil are the main basis of economic development in these research areas. As for the provincial governments of South Sumatra and East Kalimantan, their most important resources for development are coal and petroleum. Meanwhile, palm oil is a means of economic support for the provinces of West Kalimantan and South Sumatra.

¹¹ JATAM data (2013) suggests that the ratio of mining inspectors to the number of companies and areas under monitoring is very low. Samarinda municipality, for example, has only four mining inspectors with a ratio of monitoring around 1 : 26 companies and 1 : 12,500 Ha. This means that one mining inspector is responsible for monitoring about 26 companies operating over 12,500 Ha. Furthermore, monitoring can only be carried out once a year due to a limited budget. Meanwhile, in East Kutai, the ratio reach to 1 : 19 companies over 330,000 Ha, with only two mining inspectors. (KOMPPAK, 2013: Menyediakan Taring bagi Macan yang Ompong: Tanggapan Kelompok Sipil atas Rancangan Peraturan Daerah tentang Reklamasi dan Paska Tambang, Kertas Posisi, Balikpapan).

¹² A Perda was established in a DPRD plenary session of East Kalimantan Province at the beginning of November 2013. The Perda number is currently under preparation by their legal department.

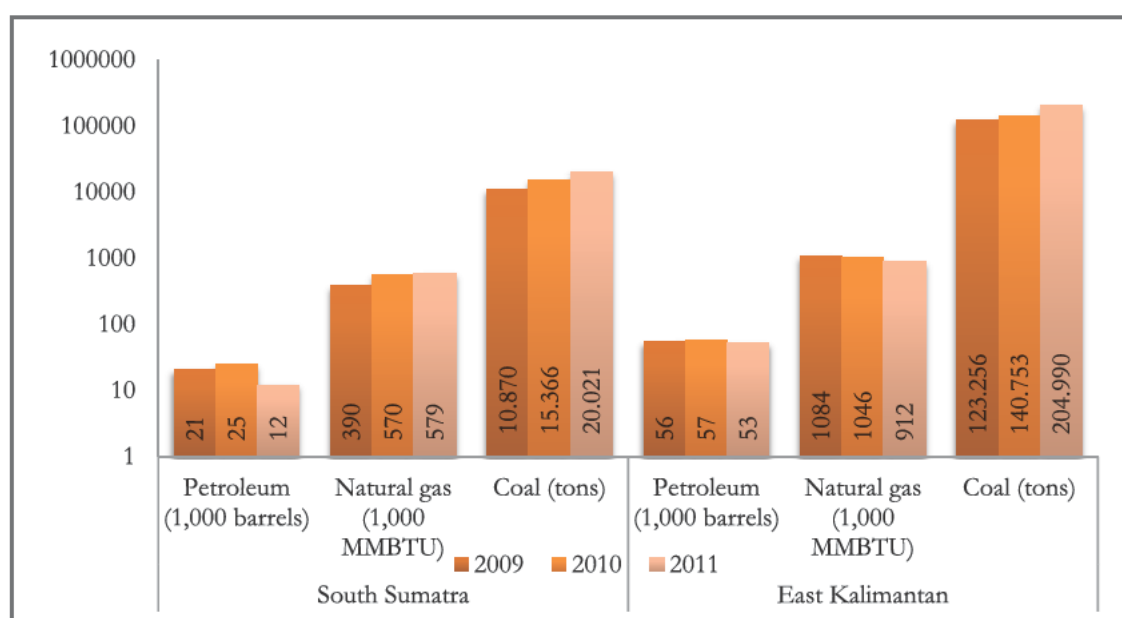
¹³ World Bank, 2009: Investing in a more Sustainable Indonesia, Jakarta

Coal production tends to be on the rise, compared to oil and natural gas. In the provinces of South Sumatra and East Kalimantan, coal production is growing steadily. The growth of oil and natural gas has been less impressive, even seeing a decrease over several years. Coal production in both provinces increased to 68 percent from 2009-2012. Petroleum, on the other hand, grew by 15 percent and natural gas grew by 1 percent during the same period. This decrease for oil and natural gas was due to limited

per year, and there was an average export growth rate of 15.1 percent per year. The provinces of East Kalimantan and South Sumatra are the main actors in coal mining production.

These three research provinces represent almost half of the forest land under use permits for mining activities on a national level, which covered more than 400,000 hectares as of 2012. Nationally, 857,977.56 hectares (Ha) of forest land are still under use permits. East Kalimantan contributes the great-

Graphic 2.1 Production Growth of Petroleum, Natural Gas and Coal in South Sumatra and East Kalimantan Provinces, 2009-2012



Source: RPJMD and RKPD (2013) of each region

development of new oil and natural gas fields. As a result, the focus of mining activities is massively shifting to coal mining. Coal is an abundant commodity in Indonesia. There is as much as 104.8 billion tons of coal resource reserves in Indonesia. From 1996 to 2010, Indonesia's coal production witnessed an average growth rate of 14.8 percent

est amount of this forest land under use permits, amounting to around 370,000 hectares, followed by South Sumatra province with 20,000 hectares and West Kalimantan province with 15,000 hectares. East Kalimantan province has more forest land under use permits for mining exploitation. As of 2011, the government had issued use permits for mining

¹⁴ Coordinating Ministry of Economic Affairs of the Republic of Indonesia, 2011: MP3EI document, Jakarta.

¹⁵ The amount of forestland under use permits for mining activities can be calculated by adding up the total area of forest use permits for mining exploitation and the total area of principal approval of use permits. The inclusion of principal approval in the calculation is based on the fact that in many cases, this principal approval is used by companies for mining exploitation: www.bpk.go.id/en/wp-content/uploads/2013/06/1.-hal-2-25.pdf

¹⁶ Total of 33 provinces.

exploitation activities in more than 162,362.05 Ha of forestland, and in 2012, the government allowed another 18,605.13 Ha of land to be used for coal mining activities. Hence, up until 2012, 180,967.18 Ha of forestland had been transferred for use into

mining areas. Worse still, as of 2012 up to 186,382.31 Ha of forestland had received principal approval for use permits. This expansion of forestland under use permits is expected to result in deforestation.

Table 2.3 Development of Forest Area Use Permits for Mining Production/Exploitation Operation Activities

Year	Area (Ha)		
	South Sumatra	East Kalimantan	West Kalimantan
Development of Forest Area Use Permits			
2011	5,989.37	162,362.05	2,608.85
2012 ¹	792.49	18,605.13	1,735.57
Total as of 2012	6,781.86	180,967.18	4,344.42
Progress of Principal Approval of Forest Area Use Permits			
2011	9,063.72	155,636.61	6,356.76
2012 ²	4,726.63	30,745.70	6,521.08
Total as of 2012	13,790.35	186,382.31	12,877.84

Source: Presentation of “Tambang dan Keselamatan Rakyat” (“Mining and Public Safety”), JATAM, 2013

One quarter of the total land area in East Kalimantan is taken up by coal mines. Based on the data quoted by JATAM, as of December 2012 the number of coal mining business permits in East Kalimantan had reached 1,488, covering an area of 5,410,664 Ha. Meanwhile, the land area of this province is 19,844,117 Ha. These figures indicate an increase compared to those as of December 2009,

with a total of 1,180 permits covering 3,084,134 Ha of land. In 2007, there were a total of 633 mining authorization permits issued covering 1,725,554 Ha. This amount does not include the coal mining permits issued by the central government in the form of PKP2Bs, totaling 33 permits covering 1.3 million Ha of land. Below is a table of the development of Mining Business Permits in East Kalimantan.

¹⁷ It should be noted that each government publication contains different forest area figures

¹⁸ The 2012 data includes the extension/revision of the previous permits

¹⁹ The 2012 data includes the extension/revision of the previous permits

²⁰ Presentation of “Tambang dan Keselamatan Rakyat”, JATAM, 2012

²¹ Forestry Ministry, 2012: Forestry Profile in 33 provinces, Jakarta: <http://www.dephut.go.id/uploads/files/c61ee2b47b73147c42bf266ad0d556a5.pdf>

²² Malinau, Nunukan, Tanah Tidung, Tarakan and Bulungan have been included as regencies of North Kalimantan Province

Table 2.4 Development of Mining Business Permits in East Kalimantan

No	Area	Year					
		Number of KP/IUP			Area of mining zone (Ha)		
		2007	2009	2011	2007	2009	2011
1	Malinau ¹	9	7	39	45,210	11,114	544,594
2	Nunukan	17	22	30	176,298	70,112	119,875.47
3	Tana Tidung	-	2	4	-	5,000	11,288
4	Bulungan	18	33	80	59,516	136,153.31	373,827.65
5	Berau	31	68	34	102,100.8	224,060.03	100,230
6	Samarinda	40	76	37	20,323.10	-	19,720
7	Kukar	412	678	224	660,886.21	1,236.37	729,914.41
8	East Kutai	53	38	-	310,675.95	670,549	-
9	West Kutai	15	138	223	247,956.33	395,486	1,217,624
10	North Penajam Paser	16	36	78	60,447.65	86,307.88	91,044
11	Paser	22	73	39	42,139.74	248,978.16	699,009
Total		663	1180	789	1,725,554	3,084,134	3,907,127

Source: Presentation of “Tambang dan Keselamatan Rakyat” (“Mining and Public Safety”), JATAM, 2013

The area covered by oil palm in the regions continues to grow, particularly in Sumatra and Kalimantan. Indonesia has been the world's greatest producer of palm oil since 2007, when it took over the title from Malaysia, the current number two. Oil palm plantations have expanded to almost all of Indonesia's territories, especially on the two large islands of Sumatra and Kalimantan. In 2012, Sumatra hosted 62.5 percent of the oil palm plantation land in the

nation with 5,913,585 Ha, contributing 73.6 percent of the total national production (17,317,295 tons). Meanwhile, Kalimantan hosts the second-largest area of plantation land, representing 31 percent or 2,814,782 Ha, contributing 23.5 percent of total production (5,520,207 tons). The progress of oil palm plantation expansion in the three provinces during 2009-2011 is indicated in the following table.

Table 2.5 Oil Palm Areas by Province, 2008-2012 (in Ha)

No	Regions	Year				
		2008	2009	2010	2011	2012*
1	Sumatra	5,029,822	5,415,371	5,641,367	586,176	5,913,585
2	Java	26,425	27,163	28,057	25,687	26,112
3	Kalimantan	2,070,167	2,537,015	2,462,207	2,782,929	2,814,782
4	Sulawesi	178,632	211,380	196,302	257,955	260,588
5	Bali-Nusra	-	-	-	-	-
6	Maluku-Papua	58,801	57,398	57,462	59,077	59,554
7	Indonesia	7,363,847	8,248,328	8,385,394	8,992,824	9,074,621

Source: Directorate General of Plantations

²³ Plantations Director General, Plantations Ministry, 2012: Profile of palm oil in Indonesia

²⁴ <http://fwi.or.id/tag/intip-hutan/>

²⁵ East Kalimantan Province in 2012

²⁶ RKPDP East Kalimantan Government in 2013

²⁷ It should be noted that each government publication contains different forest area figures.

The increasing area of oil palm plantations has been triggered by the central government's obsession with being the world's greatest oil palm exporter. Regional government policies go hand-in-hand with the central government's plan, as seen in the move by the East Kalimantan provincial government to create a "Program to Develop One Million Hectares of Land for Oil Palm Plantations". In carrying out the program, the provincial government of East Kalimantan has been eager to facilitate the licensing process, hence, within a very short time about 186 oil palm plantation business permits were is-

sued covering 2.6 million Ha, or three times more than the area previously planned, which was 800,000 Ha. In many cases, once a permit has been issued, companies use oil palm plantation development as a pretext for logging via land clearing. After the permits have been obtained and all the timber has been taken, investment in the oil palm plantation sector may or may not actually be realized. In reality, the area of oil palm plantation areas on which palms were actually planted in 2012 was only 827,347 Ha, and in 2012 the area of oil palm plantations was only 961,802 Ha.

Table 2.6 Area of Oil Palm Plantations

Type of Plantation	Plantation Area (Ha)								
	South Sumatra			East Kalimantan			West Kalimantan		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Major Plantation	690,990	696,503	733,902	401,275	536,777	669,112	389,334	522,508	625,532
People's Plantation	92,189	127,313	132,860	129,279	122,756	158,235	221,858	228,440	255,235
Total	783,179	823,816	866,762	530,554	659,533	827,347	611,192	750,948	880,767

Source: Regions in Figures, 2012, by province

Meanwhile, in West Kalimantan, the provincial government had allocated 3.5 million Ha before 2025, from which 45 percent was allocated for oil palm plantations, amounting to 1.5 million Ha. In addi-

tion to oil palm, rubber plantations also serve as a main support for West Kalimantan, where around 1.2 million Ha of land has been set aside for rubber plantations through 2025.

Table 2.7 Plantation Development Plan for West Kalimantan

No	Type of Commodity	Allocated Area through 2025 (Ha)
1	Rubber	1,200,000
2	Palm	300,000
3	Oil Palm	1,500,000
4	Cocoa	50,000
5	Pepper	50,000
6	Other Commodities	400,000
Total		3,500,000

Source: Hendarto, 2012 in Anthropology Centre UI, and The Asia Foundation, 2013 unpublished

The expansion of mining and oil palm areas threaten increased horizontal conflicts. The government's commitment to promote economic growth through the mining and oil palm plantation sectors does not just threaten the existence of forests through the transfer of land and forest; it also puts pressure on the need to expand the land allocated for these two sectors. It is this need for land expansion that frequently results in land-based conflicts between local communities and companies. Additionally, some conflicts arise from land boundaries that have not been clearly demarcated by the government. Data from the Agrarian Renewal Consortium, for example, says that out of the designated area of forest, reaching 136.94 million Ha, or 69 percent of Indonesia's total territory, only around 12-13 percent of the area has been demarcated by the government. It is this condition that triggers the relatively high number of land conflicts.

Conflicts over plantation areas are more common than other kinds of conflicts, as even more than two conflicts can arise in a given month. As of 2011, there were 30 recorded land conflicts in South Sumatra province, and this increased to 43 conflicts in 2013. West Kalimantan province had the highest number of plantation land conflicts, with 55 cases reported in 2012. From such data, it is found that there have been an average of two to five cases a month. Meanwhile, in East Kalimantan, plantations and forestry are the most common sources of conflict. Domestic private companies have caused the most conflict with society in terms of existing conflicts. There is also a good number of foreign private companies in West Kalimantan compared to those in East Kalimantan province. The following table shows the very high frequency of plantation conflicts in the provinces of both East and West Kalimantan.

Table 2.8 Conflicts and Conflicting Companies in 2012

Area	Year 2012						
	Conflict				Conflicting Companies		
	Plantation Conflict	Forestry Conflict	Spatial Zoning Violation	Mining Conflict	National Private	Foreign Private	State Corporations
East Kalimantan	30	26	7	5	37	5	1
West Kalimantan	55	1	1		44	10	na

Source: <http://www.geodata-cso.org/index.php/page/index/6>

²⁸ Forest and Land Governance Studies in West Kalimantan, Anthropology Centre UI – The Asia Foundation, 2013

²⁹ Sekolah Tinggi Pertanahan Nasional, April 2013, *Bhumi Jurnal Ilmiah Tertanahan PPPM – STPN nomor 37 tahun 12*, April 2013, Yogyakarta

³⁰ <http://regional.kompas.com/read/2013/09/27/1000488/Konflik.Lahan.Terus.Muncul>

2.3 EXPLOITATIVE PLANNING POLICIES IN THE ABSENCE OF ADEQUATE RECOVERY PROGRAMS

The area of degraded land in the regions keeps increasing. Of the three provinces under review, the area of degraded land is greatest in the provinces of West Kalimantan and South Sumatra, covering more than 30 percent of the total area of each. In East Kalimantan, the area of degraded land covers only 14 percent of the total area. However, East Kalimantan has experienced the greatest growth in area of degraded land, constituting more than 300,000 Ha per year from 2007-2011. In South Sumatra province, the area of degraded land grew by 250,000 Ha per year during the same period.

The degraded land rehabilitation program has not yet become a priority program at the regional level. There is minimal information available related to the area of degraded land and regional governments' programs to deal with it, except in the case of East Kalimantan. In its 2013 Regional Government Work Plan (RKPD), East Kalimantan announced its plans to rehabilitate 10,000 Ha of degraded land and rehabilitation of 500 Ha of mangrove forest per year. Judging from the existing condition of degraded

land, the target for this degraded land rehabilitation is actually less than optimal, considering that in 2011 there was still 4.6 million Ha of degraded land. Using the yearly target of 10,000 Ha, the actual time needed by the East Kalimantan provincial government to normalize the condition of degraded land would be \pm 462 years.

Public access to forest management covers less than 5 percent of the total forest area. Public access in the utilization of forest resources and governance through community forest (HKm), village forest (HD) and community forest plantation (HTR) schemes has also been kept at a bare minimum compared to the area of Production Forest in its entirety. The percentage of HKm, HD and HTR area relative to the area of production forest used/utilized in West Kalimantan province is only 4.4 percent, while South Sumatra province allocates 2 percent. East Kalimantan's HKm, HD and HTR area percentage relative to the production forest area under usage/utilization is less than 1 percent, at only 0.04 percent. This minimum amount of forest area for HKm, HD and HTR indicates that the government still prioritizes corporate and industrial interests over those of the local community in granting access to the utilization and management of resources.

Table 2.9 Degraded Land Area Growth in Three Provinces, 2007-2011

Condition of Land	South Sumatra		East Kalimantan		West Kalimantan	
	2007	2011	2007	2011	2007	2011
Degraded land	2,085,364	3,668,355	1,840,181	2,844,134	NA	976,972
Very degraded land	739,485	217,707	16,124	325,357	NA	3,648,794

Source: Processed from many sources by Seknas FITRA

³¹ In these terms, degraded land is a sum of the degraded and very degraded land data.

³² Based on the degraded land data released by the government, the degraded land identification includes residential and community agricultural lands.

³³ RKPD East Kalimantan provincial government 2013

Table 2.10 Area of Production Forest Land Utilized

Area of Production Forest Land Utilized (issued SK)			
Type of Permit	South Sumatra	East Kalimantan	West Kalimantan
IUPHHK-HA	56,000 Ha	5,550,942 Ha	1,157,655 Ha
IUPHHK-HTI	1,396,312 Ha	1,730,768 Ha	1,747,116 Ha
IUPHHK-RE	52,170 Ha	100,530 Ha	-
HTR Area Reservation/Designation	42,605 Ha	2,090 Ha	40,690 Ha
HKM Area Reservation/Designation	-	1,400 Ha	78,465 Ha
HD Working Area Reservation/Designation	7,250 Ha	-	14,325 Ha
Area of Forest Land in the Application/Licensing Process			
Process of Application for IUPHHK-HTI	68,227 Ha	82,112 Ha	651,033 Ha
Process of Application for IUPHHK-HA	-	911,533 Ha	259,004 Ha
Process of Application for IUPHHK-RE	44,280 Ha	-	-
Process of Application for HTR Area Reservation	5,435 Ha	36,570 Ha	-
Process of Application for HKM Area Reservation	467 Ha	-	-
Process of Application for HD Area Reservation	16,070 Ha	-	30,000 Ha

Source: Data and Information on Forest Use, 2011, Regional directorate for the management and preparation of forest use areas, Directorate General of Planning, Forestry Ministry

MP3EI accelerates deforestation. In order to accelerate the process of development equity through Presidential Regulation (PePres) No. 32/2011, the central government enacted the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) 2011-2025 as a long-term economic development plan in Indonesia through the establishment of economic "corridors". MP3EI aims to accelerate and expand Indonesia's economic development through developing centers of economic growth. As a national policy, MP3EI has a big impact on regional governments. The establishment of corridors and development themes has ensured that regional governments focus their economic development on the basis of growth consistent with a predetermined theme. The problem is that this growth policy under the MP3EI scheme has legalized deforestation and land and forest degradation in the regions, as illustrated in the division of corridors below:

- The Sumatra Economic Corridor has a development theme of "National Production and Processing Center for Agricultural Produce and Energy Storage";

- The Java Economic Corridor has a development theme of "National Driver of Industry and Services";
- The Kalimantan Economic Corridor has a development theme of "National Production and Processing Center for Mining Products and Energy Storage";
- The Sulawesi Economic Corridor has a development theme of "National Production and Processing Center for Agricultural, Plantation, Fishery, Oil and Gas, and Mining Products";
- The Bali-Nusa Tenggara Economic Corridor has a development theme of "National Gateway to Tourism and Food Crop Support";
- The Papua-Maluku Islands Economic Corridor has a development theme of "National Center for the Development of Food Crops, Fisheries, Energy and Mining".

As a planning policy, MP3EI does not just serve as a policy scheme for the distribution of regional economic growth, it is also a blueprint for investors for exploitation of natural resources on a

more massive scale. Despite the consideration of environment-based sustainable development under the MP3EI scheme, the government has failed to optimally fulfill this in practice. As found by Seknas FITRA, the pro-poor, pro-job, pro-growth and pro-environment policies as pillars of development are considered less capable of balancing sustainable development.

The Long-Road Corridor (Corridor Permit) poses a threat of deforestation and degradation. In addition to policies supporting the transfer of land and forest function for mining and agricultural/plantation activities, forest land is also threatened by the issuance of corridor permits. In Forestry Minister's Regulation No. P. 30/Menhut-Ii/2010 on the Amendment of Forestry Minister's Regulation No. P.9/Menhut-Ii/2010 on Permits for Corridor Construction and Utilization, Article 1, it is stated that:

"The corridor is a transportation pathway in the form of roadways, canals, dollies/railways or other pathways constructed and/or used mainly for transporting timber or non-timber forest products, or timber and non-timber primary industry products from IUPHHK areas to natural forests, or from IUPHHK areas to plantation forests, or from IPK or forest product primary industry areas to timber storage centers/log ponds at the edge of rivers or the sea, or other places via forest areas outside IUPHHK/BK areas to natural forest or plantation forest areas, IPK or the primary industrial area of the associated forest products."

From this definition it is clear that the objective of the corridor construction is to facilitate the flow and distribution of mining and forestry products.

In Article 17 of Forestry Minister's Regulation No. P. 30/Menhut-Ii/2010 on the Amendment of Forestry Minister's Regulation No. P.9/Menhut-Ii/2010 on Permits for Corridor Construction and Utilization, it is stated that the provisions for constructing a corridor are as follows:

- a. It should be managed so that the transportation route is as short as possible;
- b. Non-forestry areas are preferred;
- c. No burning is allowed; and
- d. The maximum corridor width is forty (40) meters, consisting of main road/road surfaces, right and left road shoulders, felling from the edges of the right and left shoulders of the road and so on.

What actually happens in the field is that the issuance of a corridor permit often poses a threat to forests. The provinces of South Sumatra (with an area of 52,170 Ha) and Jambi (46,385 Ha) have introduced a land allocation known as Hutan Harapan, or 'Hope Forest'—an ecosystem restoration forest of 98,555 Ha, which was previously used as a production forest concession area, where the ecosystem restoration is taking place. The current Hutan Harapan has once again come under threat by plans to construct a corridor for transporting coal-mining products. The total area of this coal transport road will pass through a forest area for total length of 51.3 kilometers and width of ± 30 -50 meters. Thus, up to 154 Ha of forest land will be opened due to the construction of the road, with an affected area of $\pm 5,300$ Ha.

³⁴ Seknas FITRA and The Asia Foundation, 2013: Measuring Commitment: An Analysis of National Budget and Planning Policies and the Impact on Land and Forest Governance in Indonesia, Jakarta.

³⁵ www.antarabengkulu.com/berita/18940/hutan-harapan-terancam-tambang-batubara

Part III

Reviewing Regional Budgets: Measuring Regional Government Commitment and Partiality Toward Land and Forest Governance

3.1 OVERVIEW OF REGIONAL REVENUE

In a previous budget study conducted by Seknas FITRA, an analysis of regional revenue was needed to see where the revenue comes from and how great its fiscal capacity is in funding internal programs and personnel.

Regional revenue is obtained through locally generated revenue (PAD), balanced funds (daper) and a type called Miscellaneous Lawful Regional Revenue (LPDS). Law No. 33/2004 concerning fiscal balance for central and regional governments stipulates that there are three main sources of regional revenue:

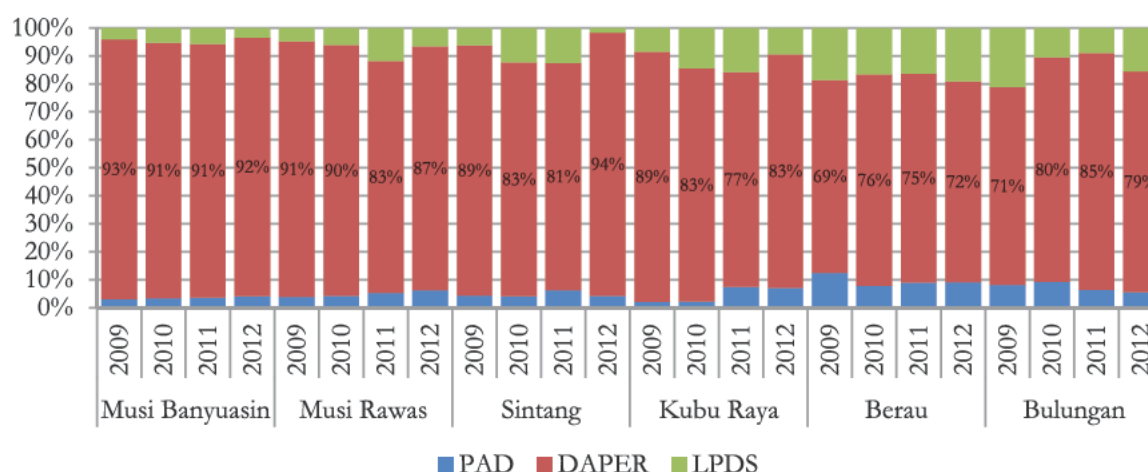
- Locally Generated Revenue (PAD), consisting of Regional Tax, Regional Fees and Charges, Results of Separated Regional Asset Management, and Lawful Miscellaneous PAD.
- Balanced Funds, consisting of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Profit-Sharing Funds (DBH).
- Other Revenue (LPDS), consisting of Grant Funds, Emergency Funds, Profit-Sharing Funds, Tax from Other Provincial and Local Governments, Adjustment and Special Autonomy Funds,

Financial Assistance from Other Provincial and Local Governments, and 'Other' Revenue.

District government revenue remains dependent on balanced funds, while its provincial counterpart is almost equally distributed between balanced funds and locally generated revenue (PAD). The average proportion of balanced funds making up regional revenue in the six district-level governments studied reached 83.5 percent in the period 2009-2012. This figure confirms FITRA's previous findings, which suggested that there had been no significant change in regional governments' dependence on balanced funds. Despite the increased contribution from Other Revenue (LPDS) in the last few years, balanced funds remain the greatest contributor to regional revenue. Regional governments fail to optimally manage locally generated revenue (PAD) as the base source of regional revenue.

The district with the greatest dependence on balanced funds is Musi Banyuasin, where for four consecutive years the dependence rate was over 90 percent. Berau district, on the other hand, had the lowest average dependence from 2009-2012, at 73 percent. PAD contributed only 5.9 percent of the revenue in the six regions for 2009-2012. This

Graphic 3.1 - Revenue Composition by District, 2009-2012



Graphic. 3.2 - Revenue Composition by Province, 2009-2012

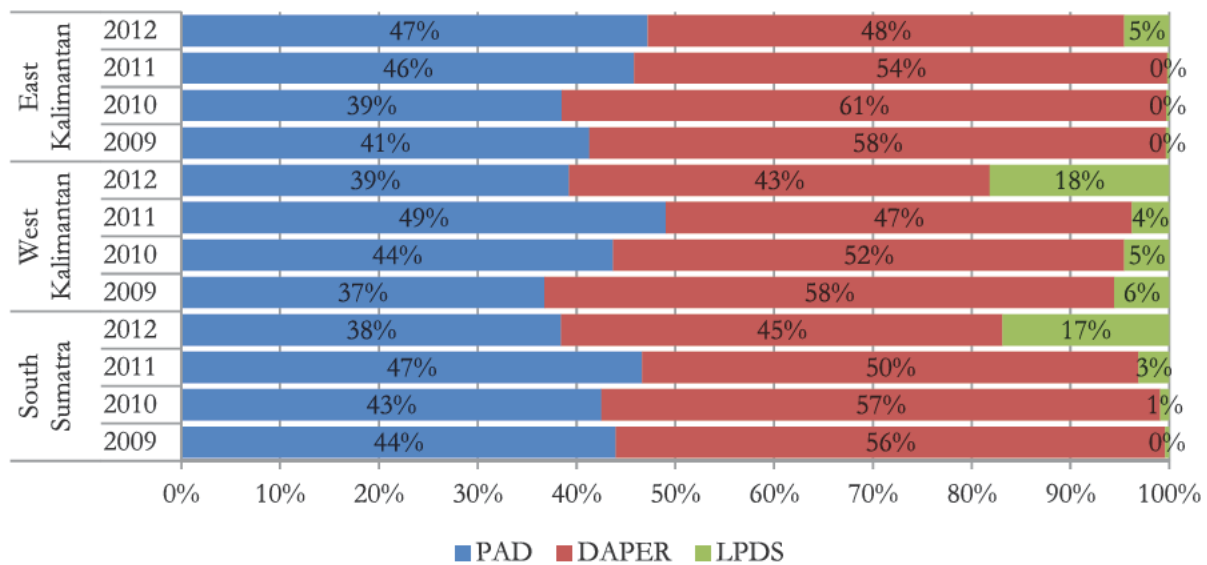
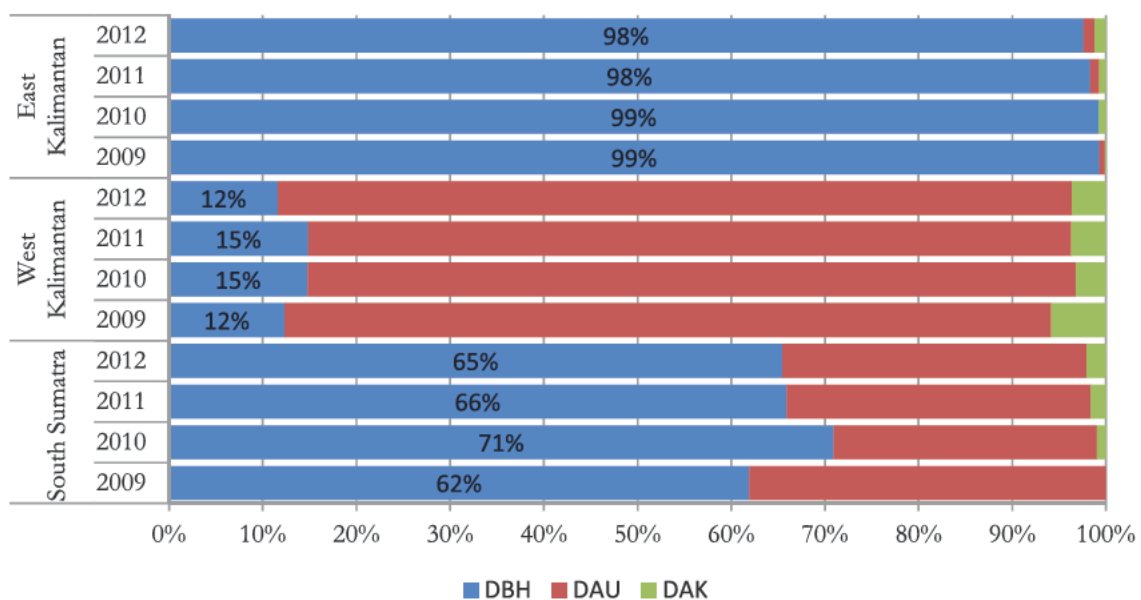


figure is still below the national average for PAD contribution during 2009-2012 of 6.6 percent. The highest PAD contribution was in Berau, with nearly 10 percent between 2009 and 2012. Musi Banyuasin district was only able to collect 4 percent during the same period, which is nearly stagnant.

At the provincial level, findings indicated an average balanced fund contribution in the three provinces between 2009-2012 of 52.3 percent. This figure

shows that the provincial financial independence level is improving, and the three provinces are even above the average of the 33 provinces in Indonesia. The average PAD of all provinces in Indonesia during 2009-2012 was 40 percent of regional revenue. Meanwhile, East Kalimantan and South Sumatra's average PAD during 2009-2012 was 43.2 and 42.9 percent respectively, while West Kalimantan's was 42.2 percent.

Graphic 3.3 Balanced Funds Composition by Province

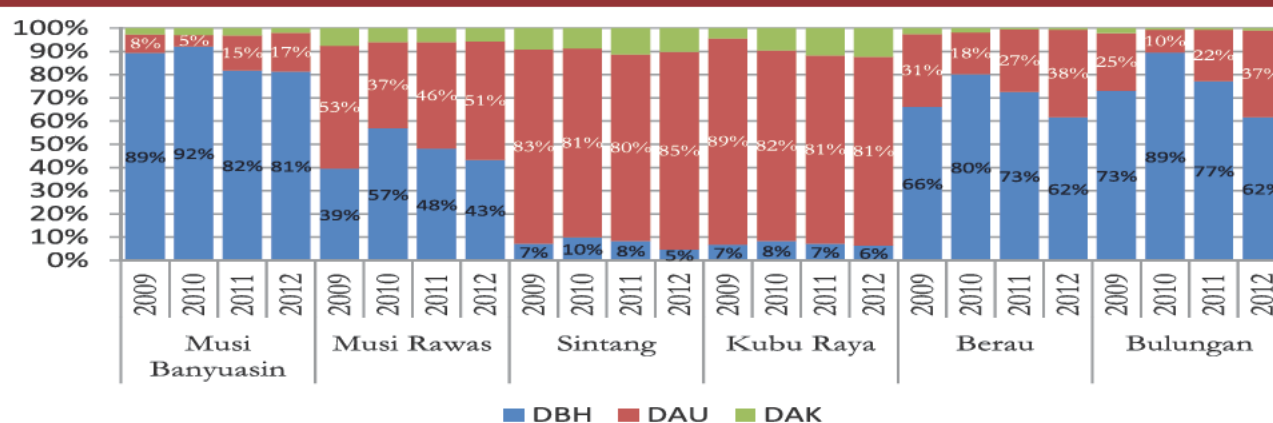


Balanced funds generally come from the natural resources sector. Balanced funds are mostly received by regional governments from DBH, except for in West Kalimantan province and its districts, which still rely on DAU. East Kalimantan and South Sumatra provinces and their districts obtain balanced funds mostly from DBH of Natural Resources/Non-Tax (SDA), mainly from oil and natural gas (migas) revenue-sharing. In East Kalimantan, almost 100 percent of the DBH came from this sector during 2009-2012. Meanwhile, South Sumatra's natural

West Kalimantan province and its districts remain dependent on General Allocation Funds (DAU) as a source of balanced funds. West Kalimantan province and two of its districts, Sintang and Kubu Raya, obtained more than 80 percent of DAU. DBH at the provincial level reached only 13 percent, while at the district level, the contribution of DBH was smaller than that of DAK.

East Kalimantan and South Sumatra provinces' DBHs were dominated by the oil and gas sector,

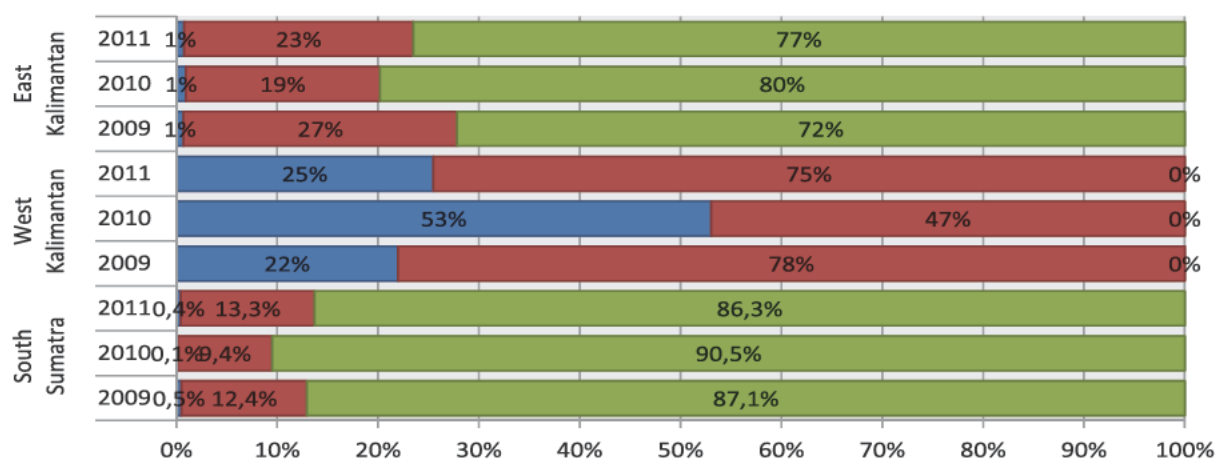
Graphic 3.4 - Balanced Funds Composition by District, 2009-2012



resources DBH contribution reached 66 percent during the same period. The districts in both provinces experienced the same. Musi Banyuasin, Bulungan and Berau obtained a fairly large DBH, at more than two-thirds of the balanced fund transfer. Musi Rawas' DBH and DAU were in balance.

while West Kalimantan province was dominated by mining. East Kalimantan's economy is highly dependent on natural resource extraction. More than two-thirds of SDA DBH is derived from oil and gas, followed by the general mining sector at 23 percent, including coal mining. The DBH per capita and

Graphic 3.5 Composition of DBH-SDA by Province, 2009-2011



ratio of DBH per capita to revenue for East Kalimantan is more than 100 percent of the national average. The forestry DBH revenue is only 1 percent of the total DBH of natural resources (SDA). Nominally, the forestry DBH revenue of East Kalimantan province is still seven times greater than that of West Kalimantan province, or, to be precise, amounting to Rp 29 billion on average during 2009-2011. In East Kalimantan, the sources of DBH-SDA revenue are dominated by the general mining and forestry sectors.

West Kalimantan's average DBH per capita from 2009-2012 was very low, below the national average, at Rp 32,812, or only 7 percent of the total regional

budget. Meanwhile, the national average DBH per capita in the same period was Rp 501,573. By sector, realization of DBH SDA for forestry was Rp 2.7 billion in 2009 and increased to Rp 6.9 billion by 2011. For the general mining sector, 2009 reached 78 percent or Rp 9.5 billion and fell to 47 percent or Rp 3.7 billion in 2010, before rising again to 75 percent or Rp 20.3 billion in 2011. In the case of West Kalimantan, high DAU revenue in the regional budget was balanced by low DBH revenue, as intended by the law on Balanced Funds introduced by the central government in the decentralization era.

Most of South Sumatra's DBH SDA revenue is derived from DBH in the oil and gas sector at 87.9 percent, while general mining contributes 11.7 percent and forestry only 0.4 percent. The oil and gas sector has made a significant contribution to the establishment of economic structures in this province. When correlated with the contribution of this primary sector to South Sumatra's PDRB in 2011, it would be about 22.31 percent and, at least for the last three years, this demonstrates a growing trend. However, if the calculation of PDRB excludes the oil and gas sector, then the greatest contributing business sector to PDRB is, surprisingly, the agriculture sector, while mining and excavation rank lower in their contribution to PDRB. After agriculture, the next in rank is trade and hospitality, followed by processing industries. Together, oil and gas, agriculture and hospitality make up the three greatest contributors to South Sumatra's PDRB.

Box 3.1 Balanced Funds for Reducing Fiscal Gap

Law No. 33/2004 on Balanced Funds between the Central and Regional Governments Explains that Balanced Funds are funds sourced from APBN income which is allocated to the regions to fund local needs, in the context of implementing decentralization. The objective is to reduce the fiscal gap between the central and regional governments, and among regional governments. Therefore, the increase of DBH is always accompanied by a reduction in DAU and vice versa.

(Fadliya and Ross H. McLeod 2010)

Graphic 3.6 Composition of Revenue from Natural Resources by Province, 2009-2012



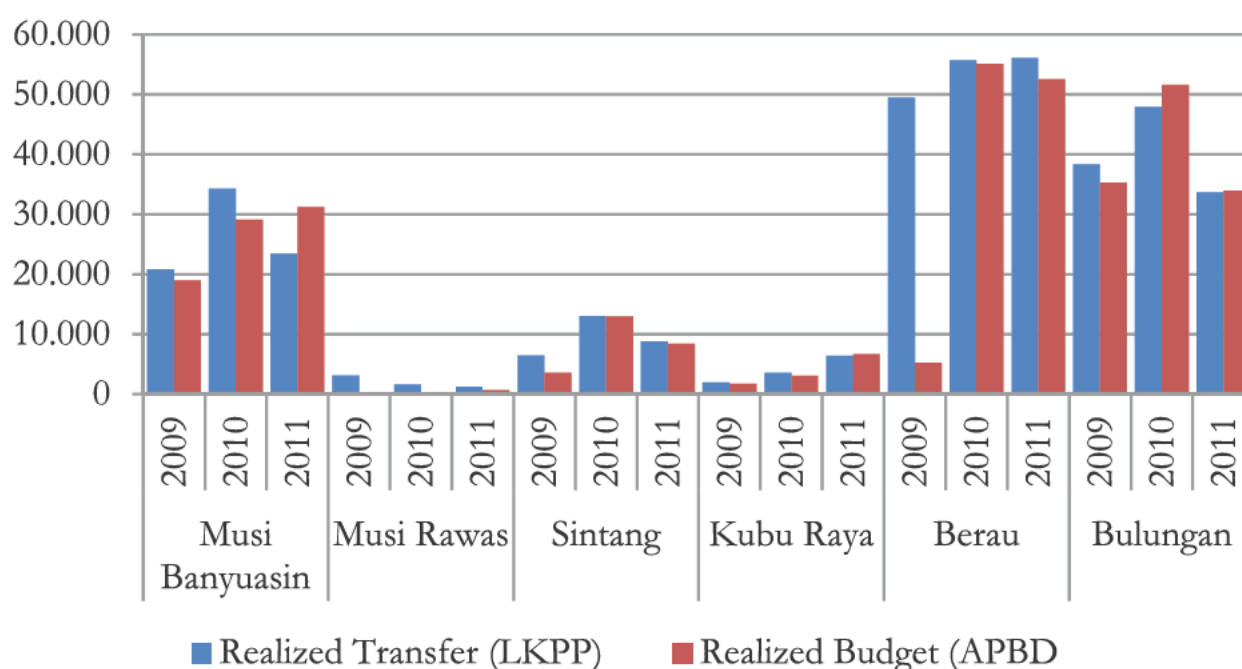
The greatest oil and gas revenue shares among the study areas were found in Musi Banyuasin and Musi Rawas districts, at almost 95 percent. They were followed by Berau and Bulungan districts, which received over 50 percent, and Kubu Raya district with only 33 percent. Despite its fairly high percentage, nominally, the oil and gas revenue share in Kubu Raya is insignificant compared to the provinces of East Kalimantan and South Sumatra.

Differences appear in the records between APBN and APBD in terms of DBH-SDA Forestry. DBH-SDA Forestry is a kind of Profit-Sharing Fund (DBH) in the balanced fund category, the source of which is APBN budget revenue, which is then distributed under a revenue-sharing scheme to regional governments by certain percentage points. In the APBN bookkeeping system, DBH forestry is classified as central transfer spending as a balanced fund group. In APBD bookkeeping, however, DBH forestry is recorded as regional revenue. Since this money leaves the pocket of the APBN and then enters the pocket of the APBD, the amount paid by APBN and received by APBD should be the same. However, this study found that there has been a

difference in the number recorded in APBN and APBD bookkeepings. This discrepancy occurs only in DBH Forestry and not in other DBH-SDAs. This difference occurred in the 2009-2011 budget realization. Graphic 3.7 below illustrates this finding.

Berau district showed an extreme difference in recording in 2009, with almost Rp 50 billion. Meanwhile, Musi Rawas district showed a difference of about Rp 2 billion a year. This difference in recording indicates how weak the public financial management and financial accountability systems are at both the central and regional levels of government. These findings seemed to occur not only during the 2009-2011 period. The State Audit Agency's (BPK) findings as contained in the 2008 review of audit fiscal transparency No. 25/05/LHP/XV/05/2009 dated May 20, 2009, identified the same during the 2008 budget year. In this report, it is stated that the exercise of the central government's roles and responsibilities in fiscal management has many weaknesses, such as the absence of a consolidation mechanism for Regional Government Financial Statements (LKPD) and low fiscal transparency at the regional government level. For this reason,

Graphic 3.7 Transferred Budget and Realized Budget for Forest Resources, 2009-2011



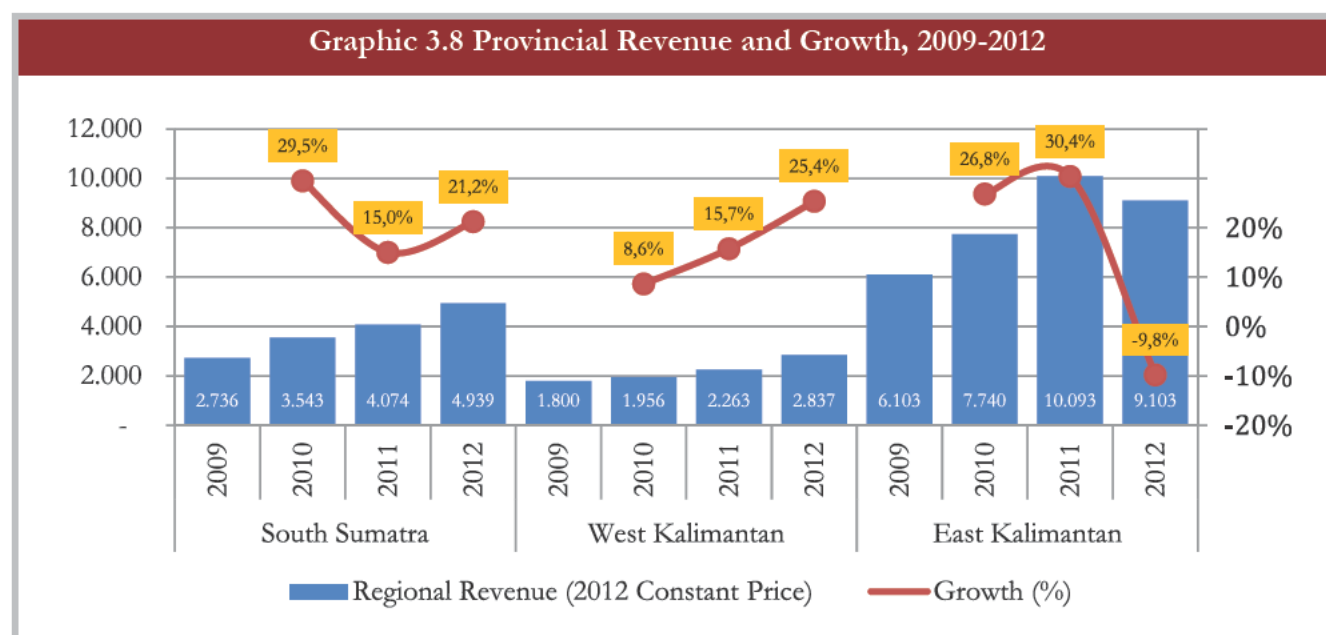
BPK recommended consolidation of the Regional Government Financial Statements (LKPD) and Regional Transfer Financial Statements (LKTD), with the aim of improving state financial management transparency and accountability. It seems that this recommendation made in 2009 has not yet received a response from the central government, causing this difference in recording to persist through 2011. Weak public financial management at both central and regional levels raises the likelihood of losing state revenue, for example as happens on a massive scale in the natural resources sector.

3.2 MARKDOWN SYMPTOMS AND REVENUE POLITICIZATION

Regional revenue growth in nominal terms is increasing, but in reality such increases occur only at the provincial level. Among the three provinces studied, West Kalimantan showed the strongest real regional revenue growth from 2009-2012. From 2010, this province saw constant growth through

2012, growing from 8.6 percent to 25.4 percent.

Meanwhile, regional revenue growth at the district level from 2009-2012 was in significant decline. Musi Banyuasin district went into serious decline, particularly from 2010-2011, when it decreased from 55 percent to 18 percent, followed by Kubu Raya and Musi Rawas districts with their declines in growth from between 2-5 percent. A drastic decline was only experienced by Musi Banyuasin district, due to the highly unpredictable balanced fund budget policy, particularly in Profit-Sharing Funds (DBH) of natural resources (SDA), which tends to produce inaccurate projections. In 2012, several regional revenue components were projected to be lower, such as Other Revenues (LPDS), and some types of Regional Tax. At the same time, three other districts during 2010-2011 witnessed an increase in their regional revenue growth of 5-44 percent, namely the districts of Sintang, Bulungan and Berau. Nevertheless, in 2012 revenue growth in all districts declined drastically, reaching negative growth, except in the case of Kubu Raya district.



³⁷ Konsolidasi laporan keuangan pemerintah daerah dengan laporan keuangan transfer ke daerah tahun anggaran 2008 & 2009, prepared by Direktorat Jenderal Perimbangan Keuangan, Kemenkeu RI.

³⁸ Mumbunan, S dan Wahyudi, R (2012), *Transparansi Penerimaan Industri Ekstraktif Sektor Kehutanan di Indonesia*, Article 33, Jakarta.

Markdown of budget plans as a strategy for reaching performance targets. This study found that all regional governments were less than optimistic in projecting their revenue. At the district level, regional revenue projections are lower than or equal to those of 2-3 years ago. Meanwhile, at the provincial level, projections are lower than in the preceding year. East Kalimantan projected it would experience a drastic decline, from 30 percent in 2011 to -9.8 percent in 2012. This is a surprising projection, given that in previous years it saw its revenue exceed the targets. One example is what happened in 2011, when the province obtained an achievement target

150 percent higher than its revenue projection. That is, from Rp 6.62 trillion in projected value it reached Rp 10.09 trillion in its realized value. South Sumatra also projected its regional revenue in 2011 to reach Rp 3.5 trillion, but achieved spending of Rp 4 trillion. West Kalimantan projected its regional revenue to be Rp 1.78 trillion in 2011, and spent Rp 2.26 trillion. What these regional governments do in projecting their revenues is called a markdown plan of regional revenue, in which the revenue projection or target is planned to be lower than the previous year in order to make the performance they report on seem successful because it exceeds the stated target.

Graphic 3.9 District Revenue and Growth, 2009-2012

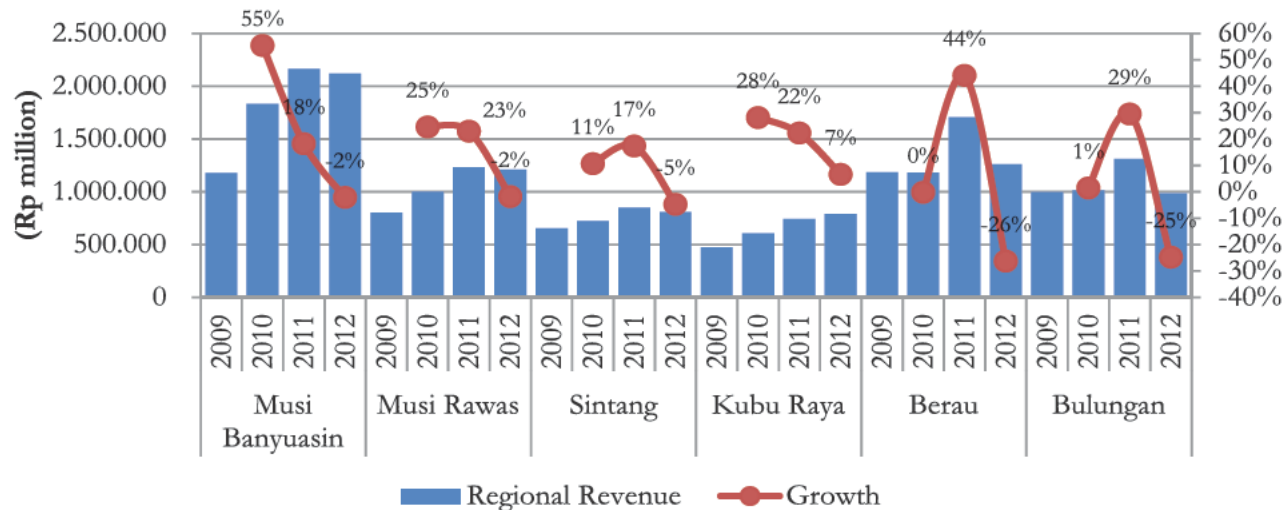
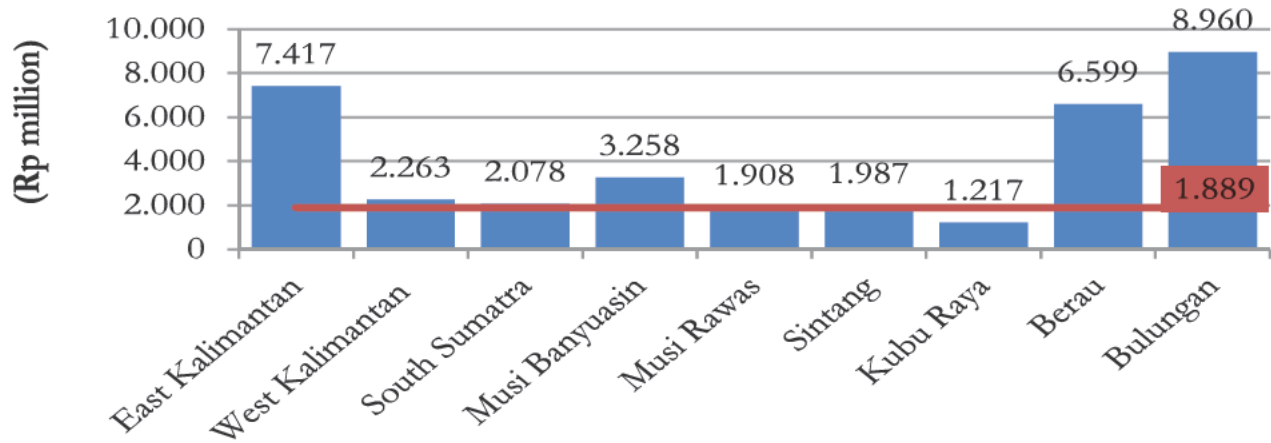


Table 3.1 Comparison of Original (M), Amended (P) and Realized (R) Provincial and District Revenue, 2009-2012, Based on Constant Price 2012 (Rp billion)

District/Province	2009			2010			2011			2012
	APBD-M	APBD-P	APBD-R	APBD-M	APBD-P	APBD-R	APBD-M	APBD-P	APBD-R	APBD-M
Musi Banyuasin	1,367	1,398	1,346	1,504	1,744	2,015	1,898	1,946	2,227	2,120
Musi Rawas	1,120	954	917	1,179	1,290	1,101	1,219	1,220	1,266	1,209
Sintang	710	718	746	672	756	795	753	829	872	808
Kubu Raya	523	538	540	598	699	667	726	792	762	790
Berau	1,145	1,226	1,354	1,055	1,128	1,302	1,089	1,275	1,754	1,258
Bulungan	839	938	1,139	660	705	1,113	927	933	1,348	986
South Sumatra	3,060	3,068	2,736	3,443	3,530	3,543	3,531	3,864	4,074	4,939
West Kalimantan	1,687	1,780	1,800	1,715	1,815	1,956	1,787	2,099	2,263	2,837
East Kalimantan	5,718	6,560	6,103	6,304	6,929	7,740	6,629	8,580	10,093	9,103

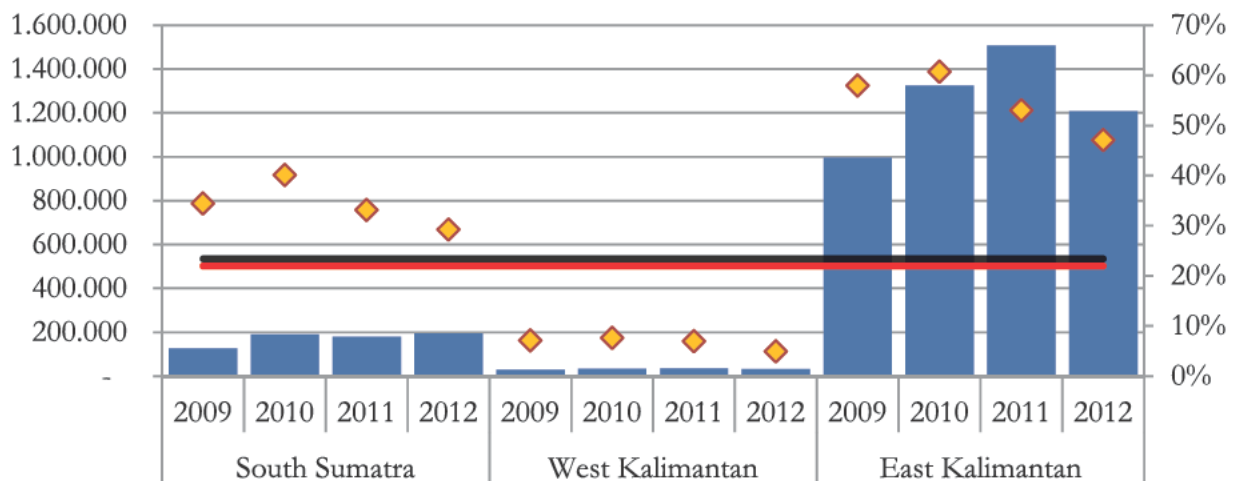
Graphic 3.10 Per Capita Revenue by Region, 2010



Locally Generated Revenue (PAD) as a component is projected to be lower. In 2011, East Kalimantan projected its Regional Tax to amount to Rp 2 trillion, while its actual spending turned out to be Rp 3.7 trillion. The same occurred in West Kalimantan, which targeted Rp 600 billion, but actual spending was Rp 902 billion. The practice of reporting a revenue projection that is lower than its actual spending is highly vulnerable to corrupt practices in the regions.

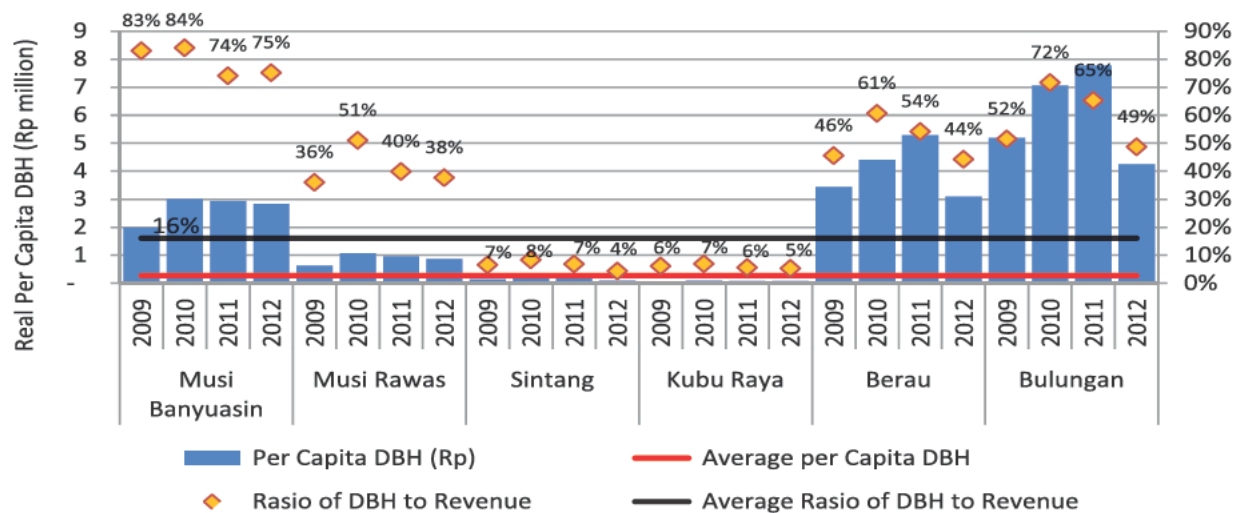
Per capita regional revenue was higher than per capita national revenue, except for in Kubu Raya. All provinces in this study showed per capita revenue above the national average. East Kalimantan province had a per capita revenue of Rp 7,416,879, with West Kalimantan at Rp 2,263,404, and South Sumatra at Rp 2,077,762 in 2010. The same was true for districts within these provinces, namely Musi Banyuasin, Musi Rawas, Berau and Bulungan districts. These numbers are quite high, considering that the national revenue per capita is only Rp 1,888,681.

Graphic 3.11 Per Capita DBH and Its Ratio to Regional Revenue, 2009 - 2012



⁴⁰ The calculation of per capita national revenue is done by accumulating the total revenue of regencies and provinces throughout Indonesia, and dividing it by the total population. The same applies for the calculation of provincial per capita revenue, calculated by adding up the total revenue of districts and municipalities in the province, and dividing the sum by the province's total population. The population data used in this study refers to the Population Census conducted by BPS in 2010.

Graphic 3.12 Trends in Funding for Per Capita Revenue and Its Ratio to Revenue, 2009-2011



Kubu Raya district, which is a new district resulting from its separation from West Kalimantan province, was the only district with revenue per capita below the national average, amounting to Rp 1,217,000.

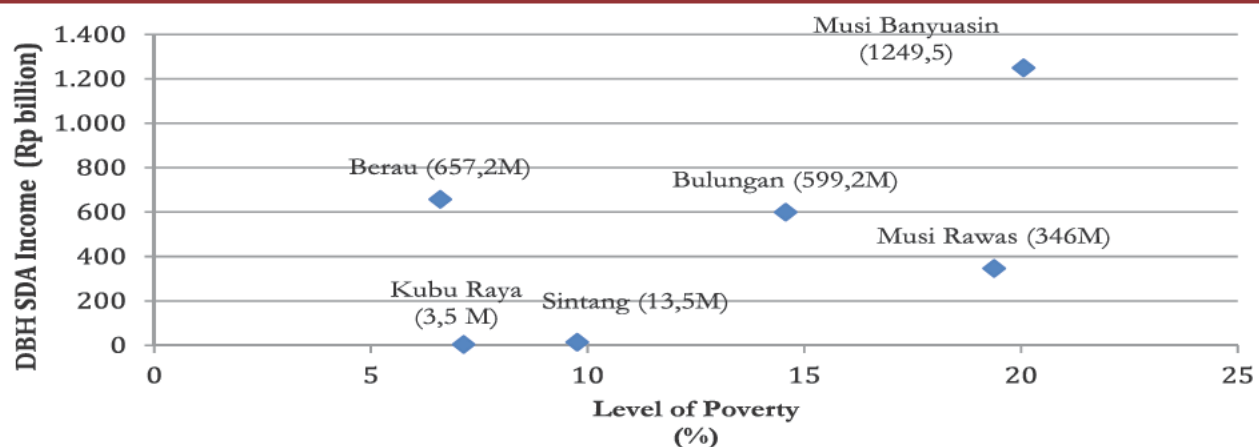
Those regions with abundant natural resources had a ratio of DBH-SDA to revenue that was higher than the national average. The ratio of DBH to revenue in resource-rich regions was three to five times higher than the average local revenue at the national level. Meanwhile, Sintang and Kubu Raya districts were classified as having lower than average local revenue at the national level.

In Berau district, the DBH per capita in 2009 was Rp 3.4 million and increased to Rp 5.2 million in 2011.

Meanwhile, Bulungan district's per capita DBH-SDA was Rp 7.7 million in 2011. Such a value is much higher than the national average for per capita DBH-SDA from 2009-2012, which amounted to only Rp 268.7 thousand. A high per capita DBH-SDA indicates the high yield or value of natural resources for regional revenue, which then encourages an increase in natural resource exploitation.

The problem is that a high per capita DBH is not followed by any decrease in the regional poverty rate. Natural resources owned by one region should increase the welfare of society in general, as mandated by the 1945 Constitution. However, this mandate seems inapplicable to those research regions with abundant natural resources. The correlation

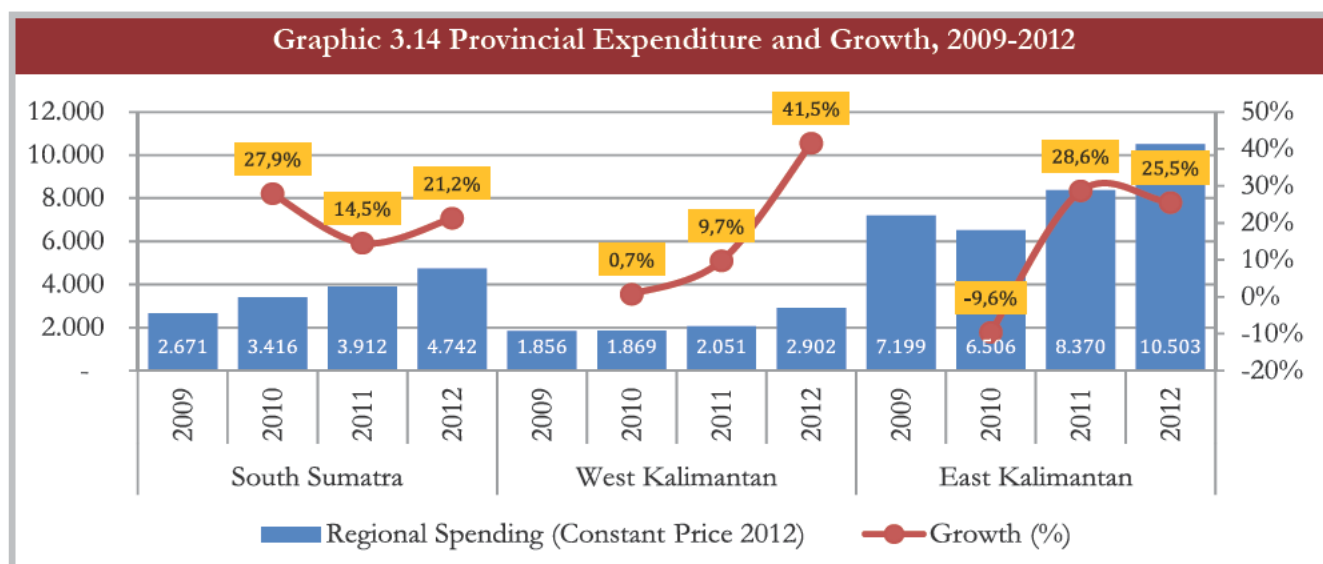
Graphic 3.13 DBH SDA Revenue and Poverty Levels, 2010



between Profit-Sharing Funds derived from natural resources (DBH-SDA) and the poverty rate is not necessarily directly proportional. Regions with high DBH-SDA outcomes are found to have populations with increasing levels of poverty. Musi Banyuasin district has the highest DBH-SDA, but also has the highest percentage of people classified as poor in its population. The same applies to Bulungan and Musi Rawas districts, in which the percentage of poor people in the population is much greater than that of Kubu Raya and Sintang districts, where the DBH-SDAs are smaller. In these three districts, more than 15 percent of the population lives in poverty, which is well above the national average of 7.6 percent. Musi Banyuasin district even has a poverty rate reaching 20 percent. Berau district surprisingly shows something positive, wherein with its high DBH-SDA, it has a smaller population living in poverty than the other five districts. The percentage of its population living in poverty is below the national average, at 6.6 percent. A condition such as this is referred to in some circles as a “resource curse.” The notion of a resource curse is really ironic—a region that is rich in natural resources, with high revenue per capita, but at the same time is a center of poverty.

3.3 OVERVIEW OF REGIONAL SPENDING

In general, regional spending keeps increasing, but such an increase is always lower than the predetermined target. An increase occurs not only in growth, but nominally as well. This condition contradicts the case of regional revenue, which in its planning stage is always projected to reach a smaller value than that obtained the previous year. Inversely, in the case of regional expenditure, plans project an increase from the previous year, while in realization, regional spending is actually always lower than what has been planned for. From a financial management performance perspective, this result may indicate that a regional government is spending its budget efficiently, thus its spending is lower than what was planned. Alternatively, this state of affairs can also be interpreted as less than optimal budget absorption by the regional government with respect to its planning. Therefore, these symptoms are actually what we call a markup of regional expenditure planning. These findings further confirm previous findings of studies conducted by Seknas FITRA. The tendency in regional spending is to plan for higher than the previous year, while the realization is lower than



⁴¹ Yuli Isnadi, Opini: “Kutukan Sumberdaya Alam” in riaupos.co. Downloaded from <http://www.riapos.co/2358-opini-kutukan-sumber-daya-alam-.html#.UpXRQuJEIUY>

⁴² This term is used by researchers of budget analysis, including Seknas FITRA

⁴³ Seknas FITRA and Asia Foundation, Local Budget Analysis 2011; Regional Budget Study from 2008-2011 in 20 districts / cities in four provinces Supported by USAID in KINERJA program.

Table 3.2 Comparison of Original (M), Amended (P), and Realized (R); Provincial and Local Expenditure, 2009-2012, Based on Constant Price of 2012 (in billion Rp)

District/Province	2009			2010			2011			2012
	APBD-M	APBD-P	APBD-R	APBD-M	APBD-P	APBD-R	APBD-M	APBD-P	APBD-R	APBD-M
Musi Banyuasin	1,386.5	1,507.2	1,389.7	1,553.2	1,780.7	1,612.8	2,014.6	2,308.9	2,130.2	2,420.1
Musi Rawas	1,214.6	1,132.2	1,052.5	1,269.5	1,330.6	1,114.7	1,101.4	1,220.8	1,146.3	1,232.8
Sintang	746.1	803.3	740.3	775.5	852.2	774.4	828.7	932.4	816.8	932.1
Kubu Raya	523.4	545.6	502.6	623.4	742.4	671.2	777.4	828.6	780.2	837.3
Berau	1,797.7	2,274.0	1,391.4	1,599.6	2,118.0	1,463.6	1,524.0	2,015.5	1,446.9	1,690.5
Bulungan	1,711.5	1,870.9	1,169.2	1,374.2	1,547.6	1,124.2	1,346.1	1,686.2	1,064.9	1,570.5
South Sumatra	3,140	3,363	2,671	3,546	3,828	3,416	3,665	4,191	3,912	4,742
West Kalimantan	1,744	2,050	1,856	1,842	1,983	1,869	1,905	2,239	2,051	2,902
East Kalimantan	6,195	8,507	7,199	6,573	7,384	6,506	7,459	9,715	8,370	1,050

what was planned. Spending in Bulungan, Berau and Musi Banyuasin districts in 2012 increased drastically. Their 2012 regional revenue, however, tended to be projected lower than the previous year, as can be seen in the table below. In budget studies conducted by Seknas FITRA from 2009-present, such patterns have always been repeated by regional governments.

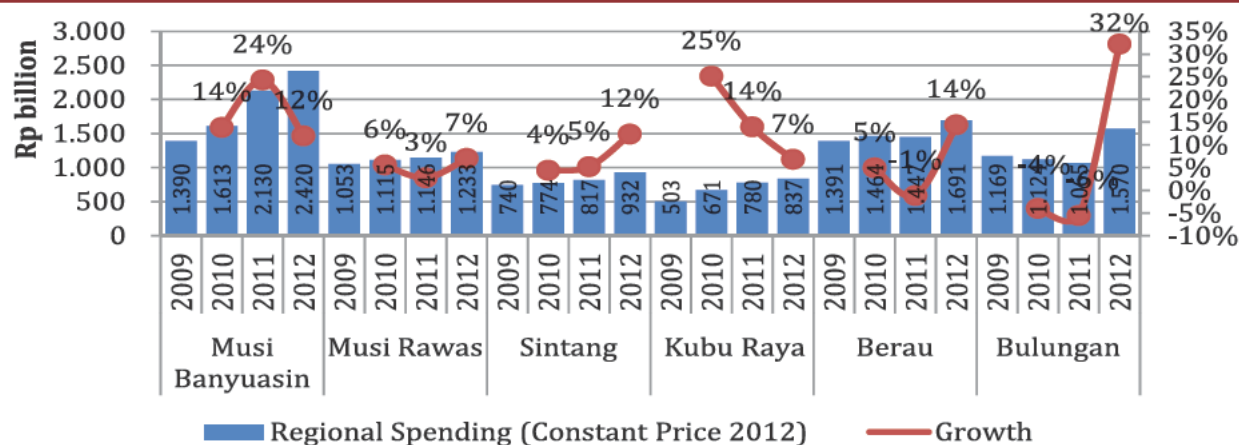
The table above explains that a markup of regional expenditure planning occurs in two patterns: Firstly, the expenditure value for APBD-Realization is always lower than the expenditure value for APBD-Amendment. Secondly, the expenditure value for APBD-Amendment is always higher than the regional expenditure target for APBD-Original. The two patterns are consistently repeated over the three consecutive years, as we can see in the table above.

The APBD amendment period is a crucial moment for the executive and legislative to carry out their budget politics.

Regional expenditure by provincial governments grew in the period 2009-2012, based on constant prices from 2012. Only the province of East Kalimantan in its 2010 expenditure experienced a decline of Rp692 billion, or a fall of 9.6 percent from the previous year. Meanwhile, at the district level, expenditure growth tended to fluctuate, and in the case of Kubu Raya even went into decline.

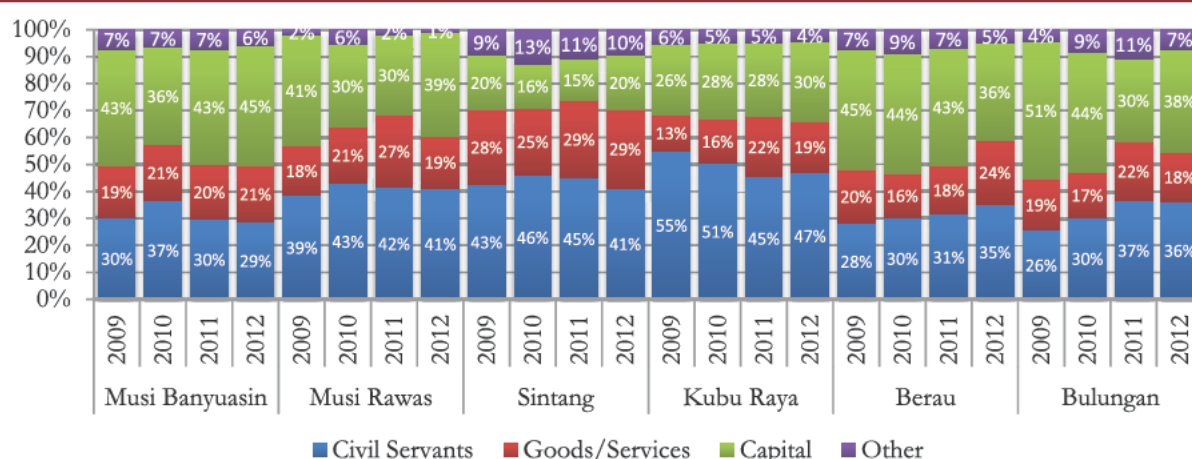
Increased spending on civil servants in the districts of Berau and Bulungan has reduced the portion of capital spending. The opposite occurred in Kubu Raya district, where civil servant spending increased.

Graphic 3.14 Provincial Expenditure and Growth, 2009-2012



⁴⁴ Since 2009 – recently, Seknas FITRA in the support of the Asia Foundation has conducted studies on regional budget in 72 regencies/municipalities and 7 provinces

Graphic 3.16 Composition of District Spending, 2009-2012



Earlier research by FITRA in 72 districts/municipalities across Indonesia found that civil servant spending absorbs the greatest portion of APBD spending, ranging from 51-53 percent, and capital spending from 22-23 percent. However, this study found that the average spending by civil servants during 2009-2012 constituted 38 percent of the total regional spending, meaning that it was lower than the previous findings. The districts of Berau, Bulungan and Musi Banyuasin showed average civil servant spending of 32 percent, Musi Rawas and Sintang at 42 percent, and Kubu Raya at 50 percent of the total regional spending. Despite their seemingly higher civil servant spending when compared to other districts, Musi Rawas, Sintang and Kubu Raya actually decreased levels of public spending from 2009-2012. As for Berau and Bulungan districts, while it might seem that their civil servant expenditure was lower, it actually increased over the same period.

In the meantime, capital expenditure markedly increased by an average of 34 percent in a period of four years. The districts of Musi Banyuasin and Berau allocated the greatest amount to capital expenditure, at an average of 42 percent. This allocation is higher than that spent on civil servants. In the dis-

tricts of Sintang (18 percent) and Kubu Raya (28 percent) the allocation was relatively small but still increasing.

The increasing allocation of capital expenditure is expected to drive regional economic growth and, particularly, improve public services and a supportive investment climate. This leads the central government, in this case the Minister of Home Affairs, to issue a regulation requesting regional governments to allocate their capital expenditure starting

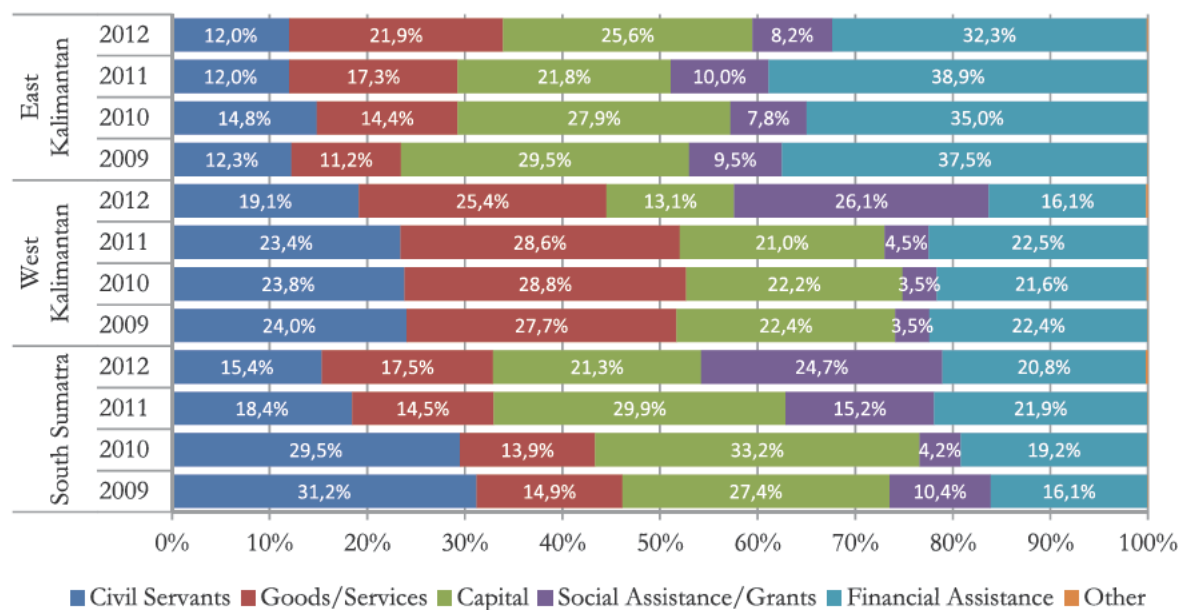
Box 3.2 Budget Politics during the APBD Amendment Period

The budget amendment period is an important moment for the executive and legislative branches to carry out political negotiations regarding proposals to increase or reduce budget allocations for each activity. In a previous study by Seknas FITRA, the budget amendment period was found to be a moment for “budget politics”, because this is the time for intense debate between the executive and legislative as both sides each have their own agenda. Secondly, this is the time when political decisions are not very transparent and are under weak public control.

⁴⁵ Ministerial Regulation of Home Affairs No 37 of 2012 concerning the General Guidelines of 2013 APBD Drafting.

⁴⁶ Based on the Ministerial Regulation of Home Affairs Number 32/2012, grant is defined as a monetary/goods aids from regional government to the central government, other regional governments, regional companies, society and civil organization whose allocation has been specifically set. Social assistance, on the other hand, may take the form of money/goods to individuals, families, groups and/or society. Both are of voluntary and non-binding nature and may not be performed continuously.

Graphic 3.17 Composition of Provincial Spending



from the 2013 budget year at 29 percent of the total regional spending. This aimed to support the acceleration of national priority programs.

Spending on civil servants at the provincial level is almost equal to capital expenditure, except in the province of West Kalimantan. At the provincial level, average civil servant expenditure from 2009-2012 reached almost 20 percent of total regional spending. The amount decreased in proportion but nominally, saw an increase. The average proportion of civil servant expenditure in East Kalimantan province is only 12.8 percent and is declining. Nominally, however, it has increased by Rp 490 billion, from Rp 773 billion in 2009 to Rp 1.26 trillion in 2012. As for the provinces of West Kalimantan and South Sumatra, their average spending on civil servants was at 23 percent and decreasing, yet nominally showed an increase. As is the case of regional expenditure, in terms of capital spending the study provinces showed an average above 20 percent, except for West Kalimantan, where 2012 capital expenditure projections were at just 13 percent. Capital expenditure in these three provinces indicated a tendency to increase. East Kalimantan showed a much higher

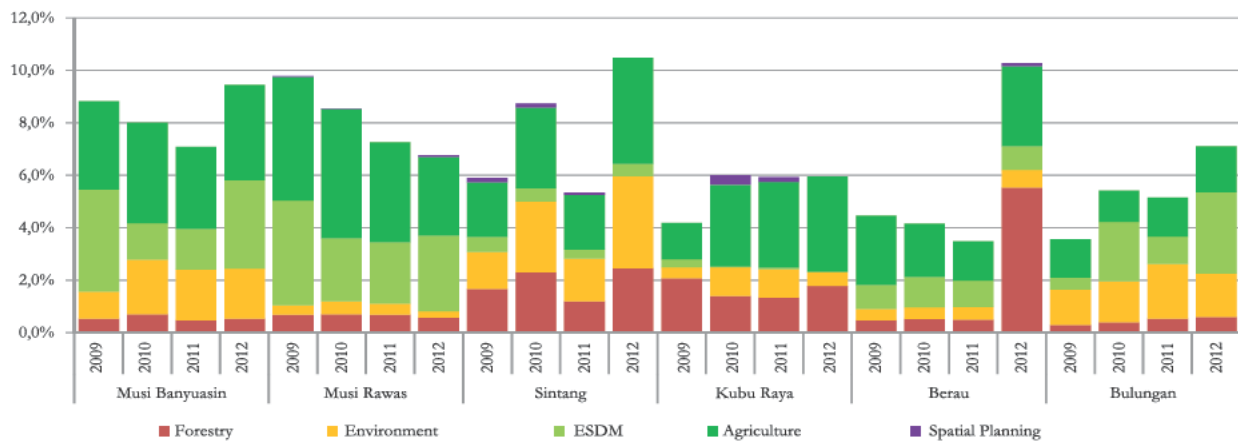
figure for capital expenditure than for civil servant spending.

Spending on social assistance and grants absorbs one quarter of regional spending. In the provinces of South Sumatra and West Kalimantan, social assistance and grant spending increased fairly significantly. During 2009-2012, this type of spending in West Kalimantan increased by 4 percent to 26.1 percent in 2012. A similar result was found in South Sumatra, where in 2010, realization of social assistance and grant reached 4.2 percent, increased to 15.2 percent in 2011, and increased even further to 24.7 percent in 2012. This increase exceeded capital expenditure and civil servant spending. Almost one quarter of the regional spending was allocated for social assistance and grants. FITRA's findings in its 2010 study on regional budgets suggested that allocations for social assistance and grants have been a *bancakan* (banquet) or political tool for regional general elections (*pilkada*) used in the interests of the incumbent leader. Additionally, the budget for social assistance and grants based on BPK audits still showed problems such as distribution to vertical institutions of the central government, incomplete

⁴⁷ Seknas FITRA and The Asia Foundation, Local Budget Study 2010; Annual budget study 2007 - 2010 in 42 district / city and 5 provinces. Supported by Department for International Development (DFID).

⁴⁸ Laporan Ikhtisar Hasil Pemeriksaan Semester (IHPS) BPK Tahun 2012 Semester I, 2012. continuously.

Graphic 3.18 Spending Trends in the Land and Forest Sector by District



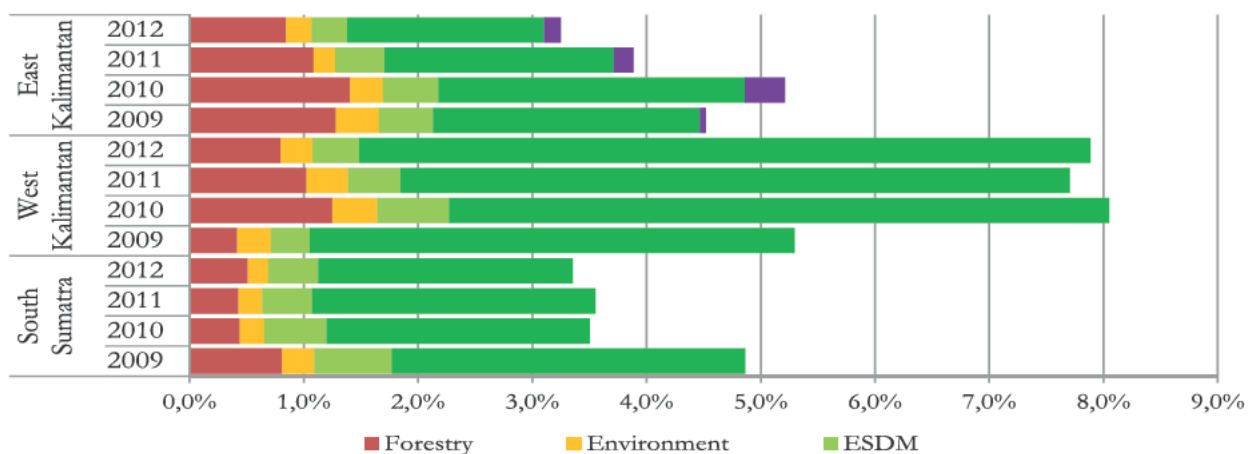
supporting evidence of budget utilization and even uncountable social assistance and grants. Furthermore, many fund distributions of social assistance do not reach their targets. More than 60 percent of social assistance and grant funds are given to those with no social risk.

3.4 LOW BUDGET COMMITMENT FOR LAND AND FOREST GOVERNANCE

Expenditure on land and forest governance is highly limited. On average, the six research areas allocated about 6.7 percent of their total expenditure on land

and forest governance. There are several reasons for this minimum budget expenditure on the land and forest sector. Firstly, the land and forest sector affairs in this study are not the ones many regional governments deem as priority activities. There are two affairs classified into the mandatory affairs group, namely spatial zoning and environmental affairs, and three others classified into optional affairs, including agriculture, forestry, and energy and mineral resources. Secondly, land and forest sector affairs are not mandated by either the Constitution or laws, unlike education affairs which have been

Graphic 3.19 Spending in the Land and Forest Sector by Province



⁴⁹ In this report, there are five affairs under review, namely environmental, spatial zoning, agricultural, forestry and energy resources mineral affairs spending.

⁵⁰ The optional affairs are those governmental affairs which are real and have potentials of improving social welfare according to the condition, specificity, and main potential of the relevant regions.

⁵¹ Mandatory affairs are those governmental affairs the provincial and local governments are required to do, in relation to basic services.

Box 3.3 Expenditure Composition

Regional expenditure based on type consists of civil servant spending, spending on goods and services, capital expenditure and other spending. Other spending consists of interest expenditure, subsidies, social assistance and grants, financial aid and unforeseen expenditure. Capital expenditure is to pay for program activities related to infrastructure such as buildings, bridges and roads.

mandated to be allocated no less than 20 percent of the budget, and healthcare at 10 percent excluding employee salaries. Thirdly, the minimum budget is not followed by a maximum regional expenditure absorption from what has been targeted.

At the provincial level, half of the expenditure on land and forest governance is allocated as social assistance and grants. The average spending allocation for land and forest governance at the provincial level is lower than that at the district level, that is, 5.1 percent of the total regional expenditure. This average is far lower than that on social assistance and grants, which is at 10.2 percent. On average, in 2009-2012 the proportion of land and forest governance spending in the province of South Sumatra

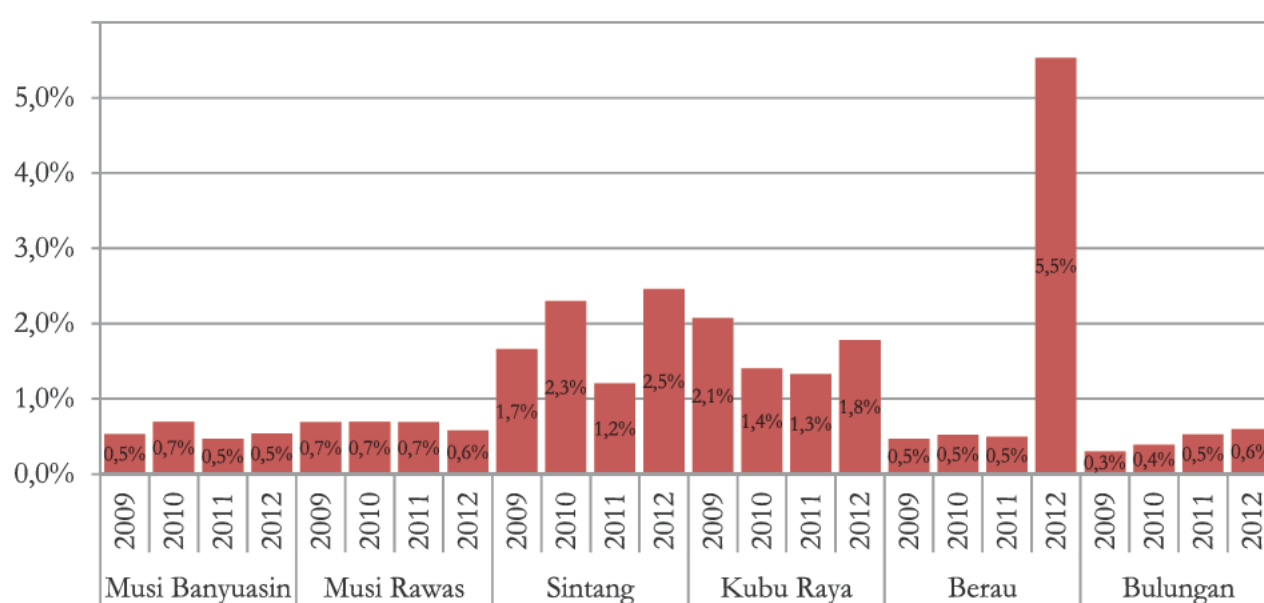
was just 3.8 percent. Meanwhile, the province of East Kalimantan allocated a higher amount, at 4.2 percent, and West Kalimantan province dedicated one of the highest allocations, at 7.2 percent. The high allocation in West Kalimantan compared to the other two provinces is because of the presence of priority programs to improve food crop production, productivity and quality in order to achieve self-sufficiency through the stabilization of rice centers (food estates).

Despite the absence of a benchmark, particularly one specifying the best proportion for the allocation of land and forest governance spending, the reality indicates that the expenditure allocation provided by the regional government is incomparable with the government's efforts to make the land and forest sector a source of regional revenue. In the RPJMD document of each province and district, it is clearly illustrated how the land and forest sector constitutes an important part of regional development goals. In another case, the expenditure allocation provided seems to be incapable of responding to the existing challenges of land and forest damage. The progress of critical land rehabilitation programs in many regions has been unsatisfactory.

a. Forestry Affairs Spending

Forestry affairs spending is allocated only 1 percent

Graphic 3.20 Forestry Spending Trends by District, 2009-2012



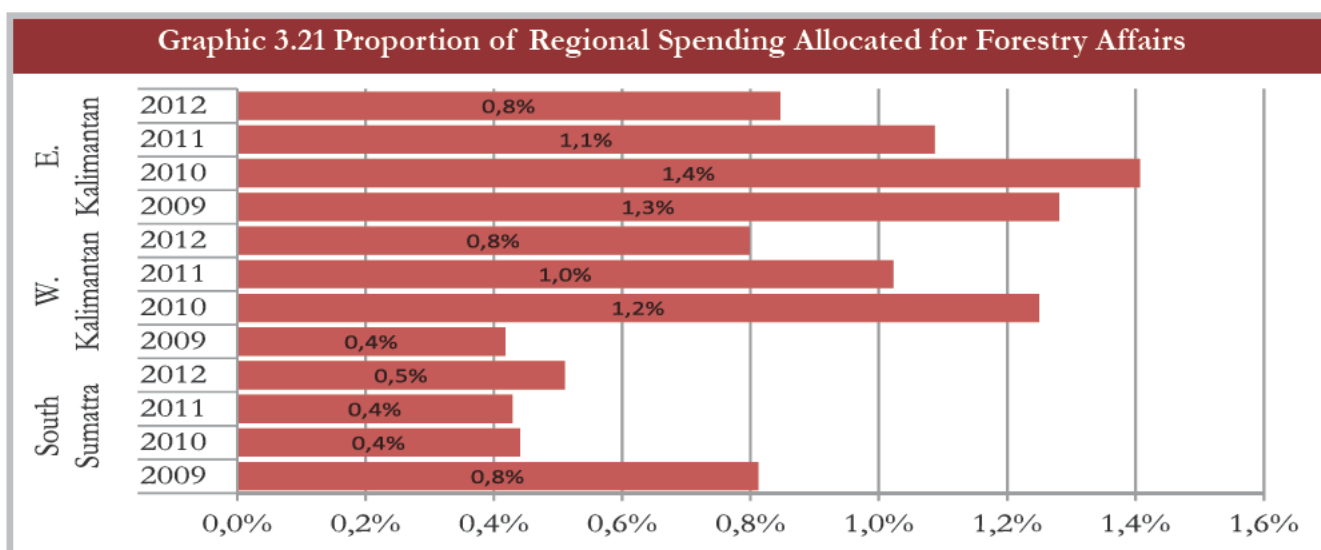
of the total regional expenditure, at a less than optimal level of budget absorption. In general, regional spending on forestry affairs in the 2009-2012 for the six research areas was allocated an average of only 1.2 percent of the total regional expenditure. A challenge that forestry affairs has to encounter, in addition to the minimum budget allocation, is the expenditure absorption being lower than the target. In the districts of Musi Banyuasin and Musi Rawas, the allocation provided is not more than 1 percent of the total regional expenditure. However, such an allocation cannot be absorbed maximally by either of the two regions, meaning that only 83.2 percent of the allocation can be absorbed. The lowest budget absorption level occurs in Berau district. Within the 2009-2011 period, the average forestry budget absorption is only 12.4 percent of the planned target.

This low absorption of the forestry budget in Berau district is due to, among other things, the unimplemented land and forest rehabilitation program of the DBH-DR scheme, the budget for which is quite high. In the 2013 RKPD from Berau district, the regional government mentions several obstacles it has encountered in implementing the land and forest rehabilitation program coming from the forestation fund. These are: Firstly, the unclear Regional Spatial Zoning (RTRW) issues, for which no updated Forestry Minister's Decree has been issued, mean-

ing that the reference is still the outdated SK.79/Menhut-II/2001. Secondly, difficulties in locating critical forest areas, which under Forestry Minister's Regulation No. 14/Menhut-V/2008 is required so that the proportion of forestry natural resources in the Profit-Sharing Fund utilization of Forestation Fund (40 percent) is governed as follows:

- A minimum of 60 percent of the total budget amount of the relevant year must be used for Land and Forest Rehabilitation (RHL) activities within forest areas;
- A maximum of 40 percent of the total budget amount in the relevant year must be used for RHL activities outside of forest areas;
- The price standards of 2004, which serve as a reference, is not consistent with the current price standard (2009).

The obstacles above have meant that reforestation funds intended for land and forest rehabilitation program have not been implemented and the unabsorbed and "precipitated" DBH-DR has made the Overall Budget Surplus (SiLPA) higher. The district government of Berau allocated an average expenditure for forestry affairs during 2009-2012 of 4 percent of its total budget (under APBD), yet realized only 1.8 percent. In 2010, it allocated Rp52.5 billion, but realized only Rp6.9 billion, or absorbed



⁵² Berau Government Annual Work Plan 2013, Chapter II - p. 60-61.

⁵³ See SiLPA analysis in regional financing section

⁵⁴ <http://health.liputan6.com/read/494714/menkes-orang-indonesia-konsumsi-10-batang-rokok-per-hari>

Table 3.3 Expenditure for Land and Forest Affairs per Hectare

Province	Forestry Affairs Expenditure (in millions of Rupiah)			Forest Area (Ha)	Forestry Affairs Expenditure per Hectare		
	2009	2010	2011		2009	2010	2011
South Sumatra	9,010	13,698	16,322	3,760,662	5,055	3,642	4,340
West Kalimantan	6,795	21,240	20,394	9,178,760	740	2,314	2,221
East Kalimantan	9,543	84,113	78,880	14,651,553	4,746	5,740	5,383

Source: Budget based on the budget, 2009-2011 (appendix II of perda APBD) and Daerah Dalam Angka (DDA) Provinsi 2012, by Seknas FITRA

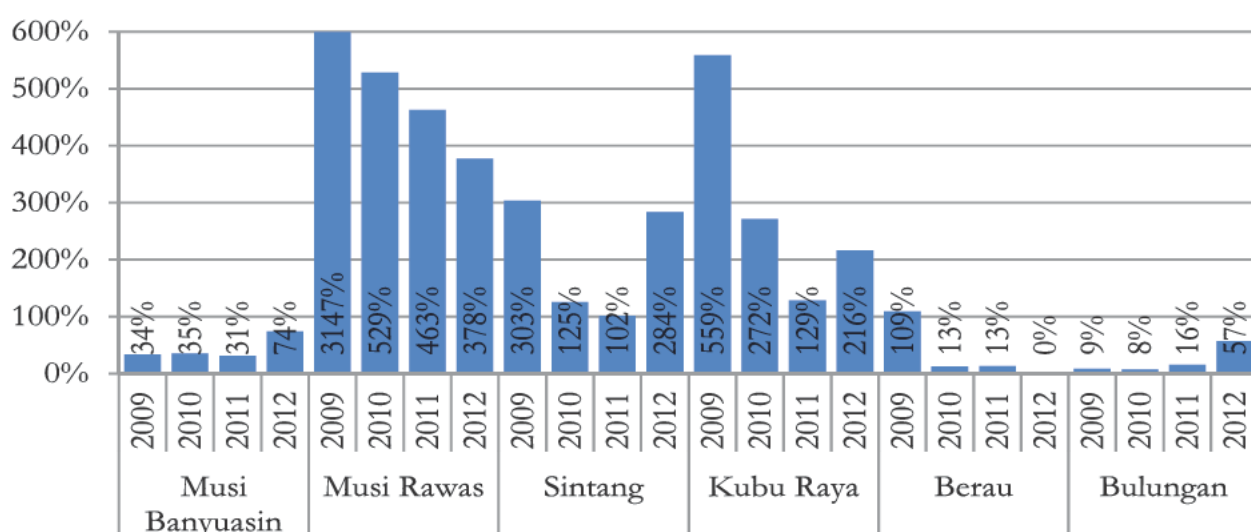
only 13.2 percent. In 2011, the APBD-Amendment added another allocation of forestry spending to reach Rp82.1 billion, but only Rp6.9 billion, or 12.9 percent of it was used and absorbed. In the draft of the 2012 APBD, the land and forest sector spending had increased 13 times compared to the realization of the previous year, making up 5.5 percent of the total regional expenditure. The budget allocation for forestry affairs increased significantly and abruptly, from just 0.5 to 5.5 percent.

Spending on forestry affairs at the provincial level has tended to decrease. For example, in East Kalimantan, the allocated forestry expenditure continued to decline from 2010 through 2012, from 1.4 to 0.8 percent. The same experience was found in West Kalimantan. The expenditure allocation declined from 1.2 percent in 2010 to 0.8 percent in 2012. In

South Sumatra, it decreased by 0.3 percent during the period 2009-2012, from 0.8 to 0.5 percent.

The unit cost expenditure for forestry affairs is around Rp 5,000 per hectare per year, equal to the average individual's daily cigarette consumption in Indonesia. The size of forest areas in East Kalimantan under Forestry Minister's Decree No. 79/Kpts-II/2001 is 14,651,553 Ha, or approximately 74 percent of the province's total area. If a comparison is made between the budget forestry allocation and the forest area, then East Kalimantan on average from 2009-2011 allocated only Rp 5,290/hectare/year. Meanwhile, the average forestry affairs expenditure of South Sumatra is even lower, at Rp 4,345/hectare/year, and West Kalimantan at only Rp 1,758/hectare/year. This condition is ironic when compared to the average cigarette consump-

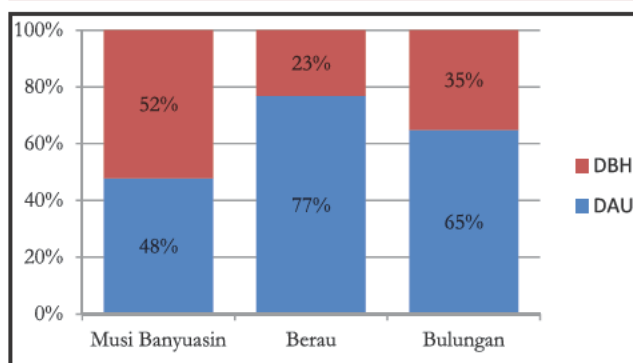
Graphic 3.22 Ratio of Spending on Forestry Affairs to Balanced Funds for Forestry, 2009-2012



tion costs per individual in Indonesia, which reaches Rp 5,000 per day, or around Rp 150,000 per month. Such a meagre allocation means that the monitoring of land and forest governance in Indonesia is highly unfeasible. With nearly no monitoring (from the budget allocation perspective), deforestation through either illegal or legal logging will remain unchecked.

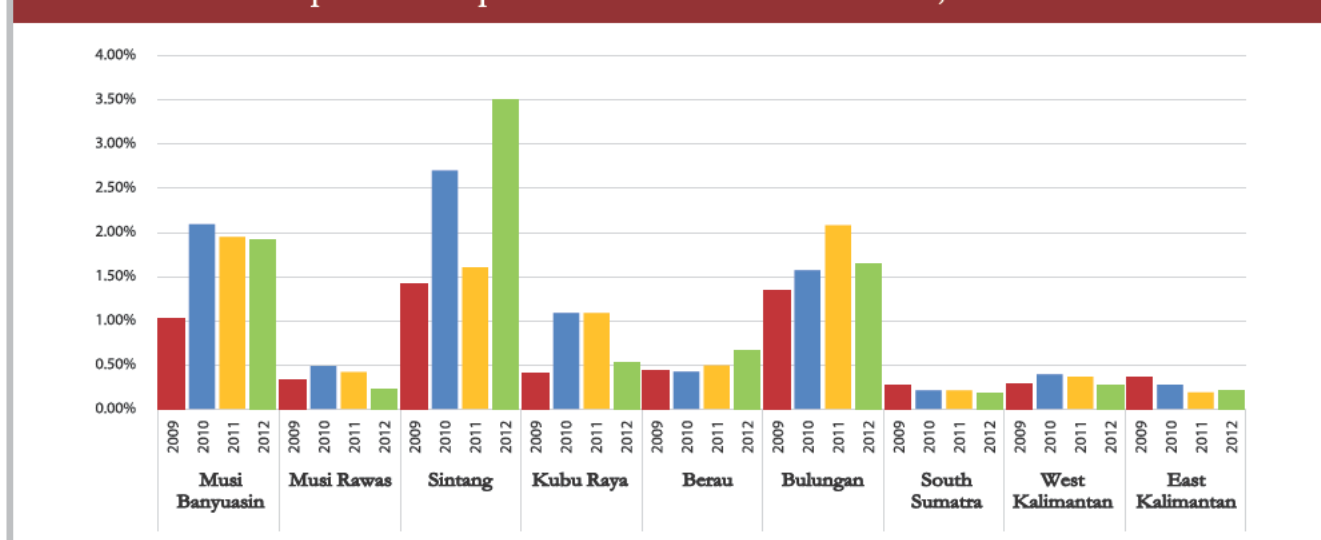
Only about one third of forestry sector revenue is allocated for forestry sector expenditure. The ratio of forestry affairs spending to the forestry balanced fund (Forest DBH SDA and Forestry DAK) in SDA-producing regions is not high enough, at only 36 percent. The districts of Musi Banyuasin, Berau and Bulungan as high forest DBH generating regions only allocate 44, 45 and 22 percent respectively. Meanwhile, Musi Rawas district has the highest ratio despite its continuous decline. The same goes for Kubu Raya and Sintang districts, even though their regional revenue in the forestry sector is insignificant. The forestry revenue from tree felling and new permit opening should be directly proportional to the government's efforts toward rehabilitating land and forests. This phenomenon indicates how low the regional government's commitment to forest governance in their regions is, especially when compared to other government commitments.

Graphic 3.23 Contribution of DBH SDA on Civil Servant Spending, 2011 Allocated for Forestry Affairs



Forty percent of DBH SDA revenue is used to pay for civil servants. On average in the three producing districts (Berau, Bulungan and Musi Banyuasin), the ratio of DBH-SDA revenue to civil servant spending during 2009-2012 was 40 percent. Musi Banyuasin district allocated half of its DBH-SDA revenue to civil servants. Bulungan district allocated 35 percent, and Berau 23 percent. The DAU received by the three regions was found to be incapable of fully financing civil servant expenditure. Therefore, this should be covered by the DBH. The remaining DBH-SDA is still substantial and can be used to cover the fiscal gap, or for requirements of regional development.

Graphic 3.24 Expenditure on Environment Affairs, 2009-2012

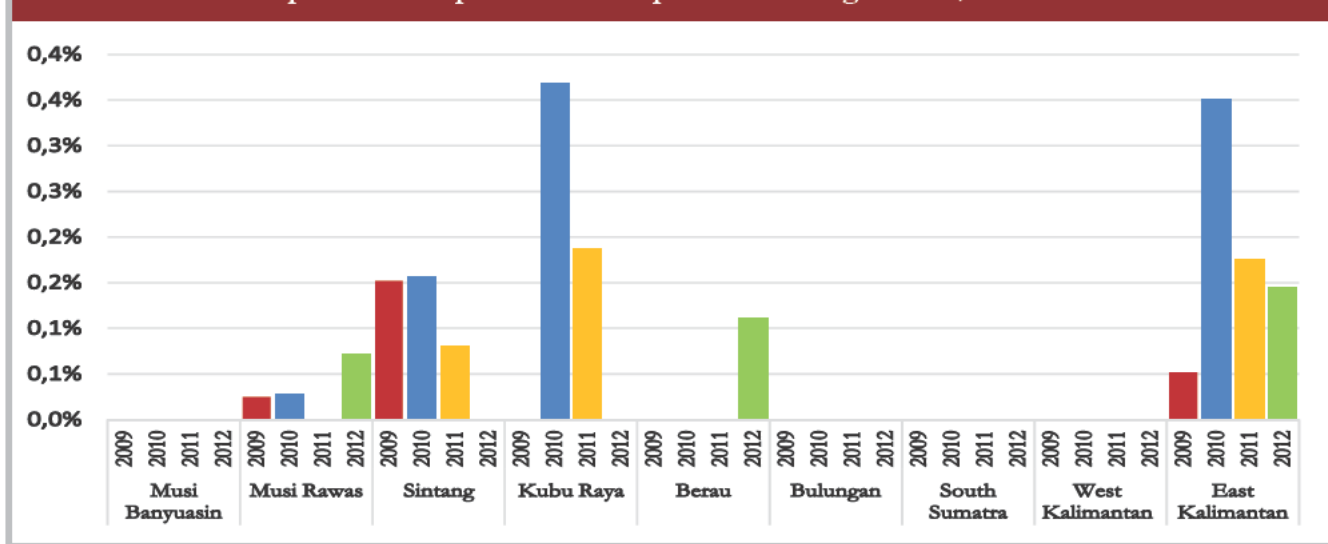


⁵⁵ The said DBH SDA has been deducted with DBH-DR.

⁵⁶ As set forth in APBD spending by affairs (in appendix II of APBD Perda of each region).

⁵⁷ ICEL, Seknas FITRA and The Asia Foundation, 2013: Forest and Land Governance Index, Jakarta

Graphic 3.25 Expenditure on Spatial Planning Affairs, 2009-2012



b.Environment and Spatial Zoning Affairs Expenditure

For mandatory affairs, the allocation for environment and spatial zoning is very small. Expenditure for each of these affairs is allocated at only 1 percent. This allocation is almost the same as that for forestry affairs. From the budgets of the three provinces reviewed in this study, the expenditure proportion for environment affairs within the period 2009-2012 reached a maximum of 0.4 percent and a minimum of 0.2 percent of the total regional spending. Out of the six districts, Sintang allocated the greatest amount for environment affairs, at 2.3 percent, and Musi Rawas and Berau allocated the least, at only 0.4 percent and 0.5 percent respectively. Other regions with allocations greater than 1 percent were Bulungan, at 1.66 percent, and Musi Banyuasin, at 1.74 percent.

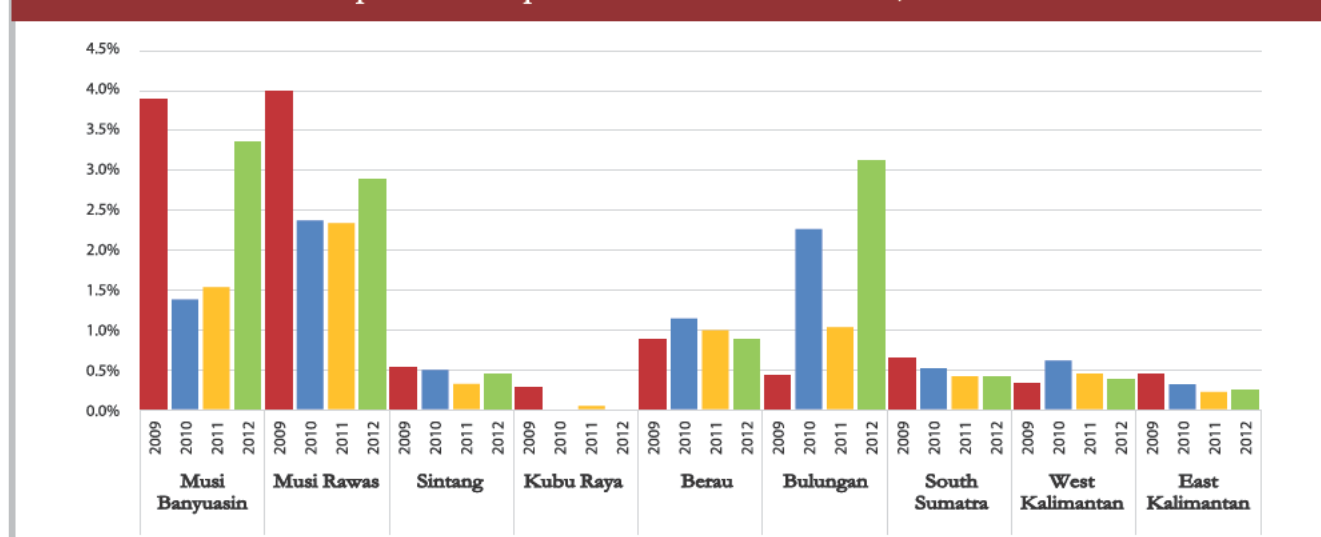
Aside from the limited allocations mentioned above, some regions did not make a budget allocation at all for spatial zoning affairs. The expenditure allocation for spatial zoning affairs exists only in the districts of Musi Rawas (2009, 2010, 2012), Sintang (2009, 2010, 2011), Kubu Raya (2010, 2011) and Berau (2012). The districts of Musi Banyuasin and Bulungan did not allocate any of the regional budget for spatial zoning affairs within four consecutive years. In the 2013 RKPD of Berau district it is mentioned that the regional government has performed activities related to spatial zoning, as they are conducted by

the housing and spatial zoning department in 2011, even though its budget is limited. The performed activities included: Training for apparatus in planning spatial zoning; Preparation of Spatial Zoning Detailed Plans for WP.II Tanjung Redeb; and Spatial Utilization Monitoring, again despite the limited budget. It seems that the other regions did the same, with equally low budget absorption. Meanwhile, at the provincial level only East Kalimantan made an allocation for spatial zoning within the four years. The average spending for spatial zoning affairs over the four years did not exceed 0.2 percent of the total regional spending.

Spatial zoning affairs are important in the land and forest governance context. In general, the allocation for the preparation of a Regional Spatial Zoning District (RTRWK) involves making amendments as well as conducting a Strategic Environmental Study (KLHS), which forms the basis of managing land and forest governance planning. In other findings, many regional governments were found to have neither prepared nor established any general or detailed plan of spatial zoning amended by Law No. 27/2007 concerning Spatial Zoning and Government Regulation No. 15/2010, at the latest two years since the preparation of a general and detailed plan of spatial zoning.

A large part of the small expenditure allocation is absorbed by civil servant spending. In addition to the small allocation, the budget for environmental

Graphic 3.26 Expenditure on ESDM Affairs, 2009-2012



affairs is mostly absorbed by civil servant spending, amounting to 44 percent based on the regional average during the 2009-2011 period. On the other hand, the goods expenditure is absorbed at 34 percent and the capital expenditure is absorbed at only 22 percent. Therefore, the actual allocation for program spending requirements is even smaller.

The budget allocation for monitoring is disappointing. Only a few regions made some allocation for monitoring activities, namely Musi Banyuasin and Sintang districts. The problem, then, is that the allocation is also very insignificant, at less than 1 percent of the total existing regional expenditure. The budget for dispute settlement no different, as it is budgeted in an adhoc manner, since the case is also deemed to be a temporary event.

Box 3.4 Companies Failing to Deposit Reclamation Guarantee Funds

In 2010 in East Kalimantan, as many as 45 companies in possession of coal-mining permits that were in operation in the district of Kutai Kartanegara, had not yet deposited post-mining reclamation guarantee funds. In fact, these companies have already dredged coal for many years in Kutai Kartanegara.

c. Spending on Energy and Mineral Resources (ESDM) Affairs

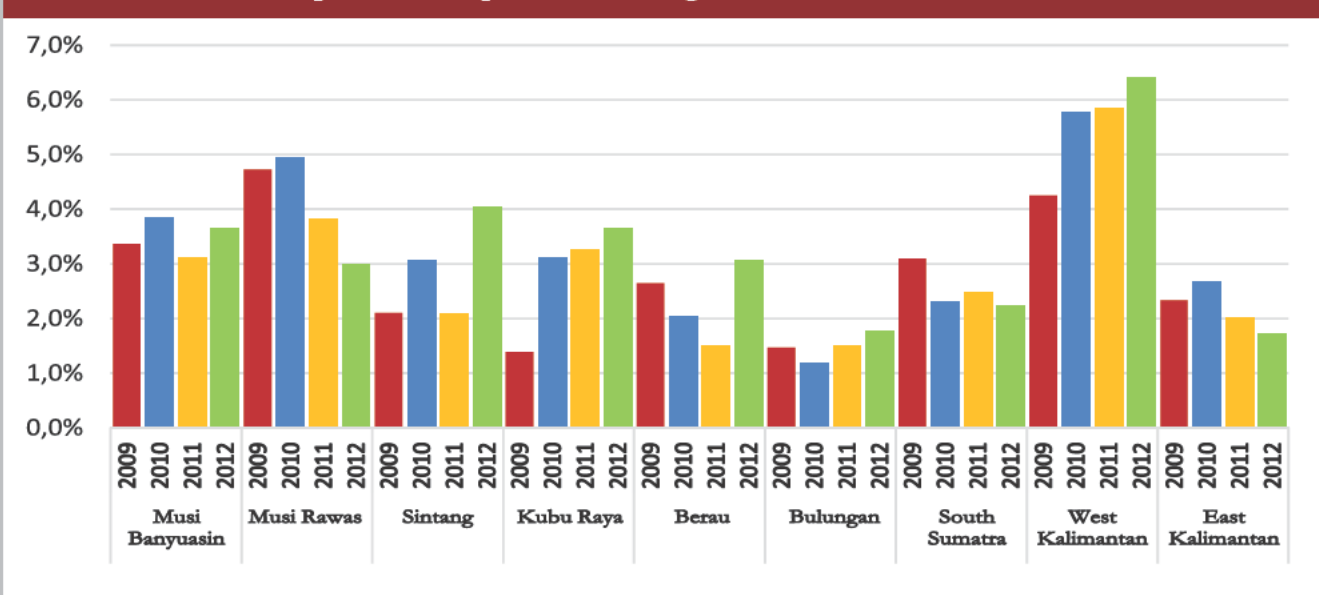
The ESDM affairs expenditure is less than 2 percent, and its allocation is mostly for apparatus spending. In general, the average ESDM affairs expenditure realization in 2009-2012 for the six research areas was allocated at only 1.2 percent of the total regional expenditure. On average, the districts of Musi Banyuasin, Musi Rawas and Bulungan allocated their spending for ESDM affairs between 2-3 percent during 2009-2011. Meanwhile, the districts of Berau, Sintang and Kubu Raya did not allocate more than 1 percent of their total regional expenditure to ESDM. Some of this minimal allocation was used to finance spending on apparatus for office administrative service programs, apparatus facilities and infrastructure improvement programs, apparatus discipline improvement programs, apparatus resource capacity-building programs, and programs for improving the performance and financial achievement of reporting systems. Almost every region had such a program, and their allocations continued to increase nominally for each year. The spending for ESDM affairs in the provinces was less than 0.5 percent of the regional expenditure during the period 2009-2012.

⁵⁸ ICEL, Research Report of Reclamation and Post Mining in Indonesia, 2011.

⁵⁹ RPJMD Kabupaten Kubu Raya 2009 - 2014

⁶⁰ Description and Budget Analysis TA. 2011, Director General of Fiscal Balance (DJPK) – Ministry of Finance RI, 2011

Graphic 3.27 Expenditure on Agriculture Affairs, 2009-2011



Mining reclamation funds are not controlled. The post-mining reclamation guarantee fund is a fund guaranteed by companies to the regional government to perform reclamation after exploration and exploitation of the land. Based on the applicable provisions, this fund is kept outside of the local government budget (off budget), through joint accounts held by mining companies and local governments. Because the funds are held outside of the local government budget, they are not controlled by anyone, especially the public, and are not transpar-

ently managed. Field research also found that many companies do not comply with the regulations for these funds. Documents from the Indonesian Center for Environmental Law (ICEL) show that more than 10 regions are involved in reclamation fund cases. Problems include failure to submit reclamation funds and documents, differences between company and government reports about the funds, and funds being overheld for many years. In addition, the Supreme Audit Agency (BPK) has found that local governments use the funds beyond their stated allocation.

Box 3.5 Food Estate Program in West Kalimantan

The province of West Kalimantan continues to increase its production of food, especially rice, in its push to establish itself as a national food provider. This started in 2011, among other things by pioneering the development of a modern agricultural industry based on agribusiness, known as the food estate program, in 13 districts. The development of food estates is done via two programs, including the opening of 150,000 Ha of new rice fields and optimizing 100,000 Ha of land.

The district of Kubu Raya is one of the “food providers” in West Kalimantan that has been developing the “food estate” program over the past few years. In 2013, the district targeted opening an area of no less than 3,500 Ha of rice fields. From 2009 to 2012, this district had already opened more than 2,200 Ha of new rice fields. Until today, the rice surplus in the district continues to increase, in 2012 reaching 45,500 tons. With productivity levels of 3.5 tons/Ha over several years (the highest in West Kalimantan), and the opening of 3,500 Ha of new rice fields in 2012, the district of Kubu Raya is a center of rice production for West Kalimantan and of increasing importance to the nation.

News source: <http://tanamanpangan.deptan.go.id>, <http://pusdatin.setjen.deptan.go.id/ditjntp/berita-cetak-ribuan-hektar-sawah-baru-kalbar-percepat-pengembangan-food-estate.html#ixzz2mnmac97C>

d. Agricultural Affairs Expenditure

Agricultural affairs expenditure reached almost 3 percent, but tended to decrease. The spending in this sector is the highest among other sectors related to land and forest governance. In general, the average agricultural affairs spending realization for 2009-2012 in the six research areas was 2.8 percent. On average, the lowest agricultural affairs spending, in South Sumatra province, was 3 percent. Musi Banyuasin district looked stagnant, while Musi Rawas district's last three allocations showed a tendency to decrease.

In Sintang district, agricultural affairs spending is fluctuating. It rose in 2010, declined in 2011, and was planned to rise again in 2012. Kubu Raya district was the only region where the trend was consistently increasing. In 2009, its realization was only 1.4 percent, which increased to 3.1 percent in 2010, increased again in 2011 to 3.3 percent, and was planned to increase further in 2012 to 3.6 percent. This increase in expenditure allocation was because the 'food estate' program was a priority program for young district head Mahendrawan.

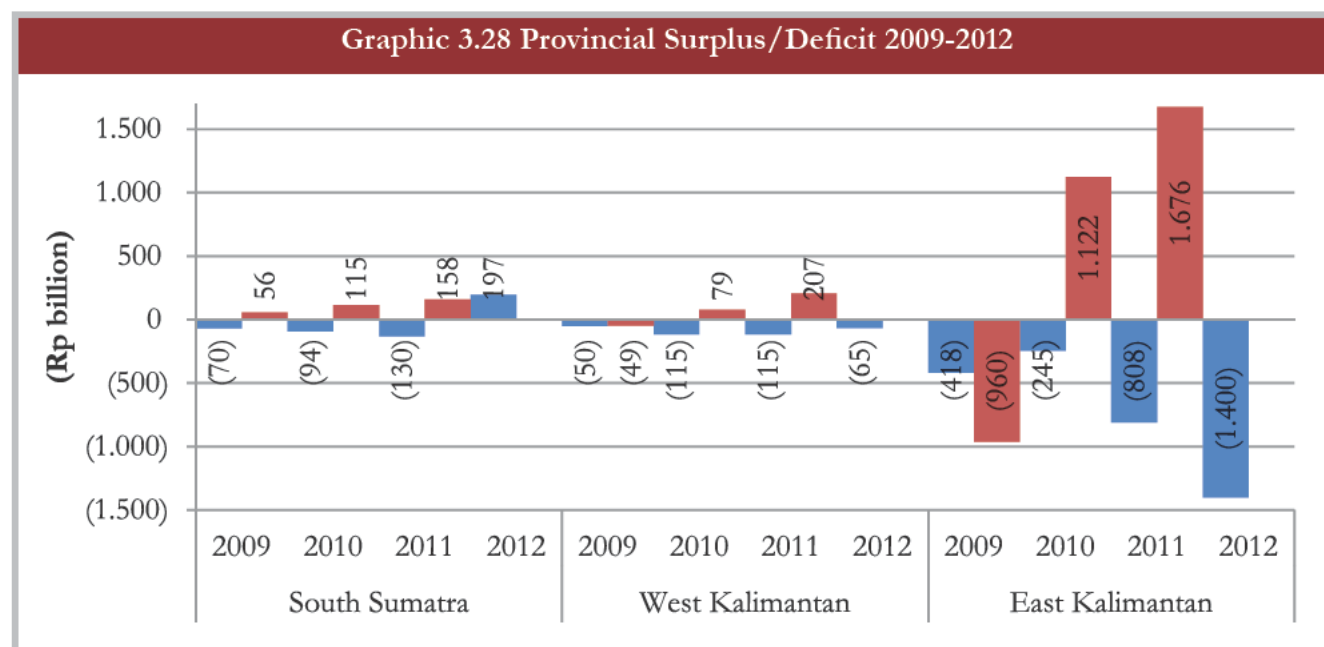
Meanwhile, in Berau district the trend is also decreasing. Starting at 2.6 percent in 2009, it fell to 1.5 percent in 2011, and only in 2012 was planned to increase to 3.1 percent. In Bulungan district, an increase, though insignificant, was planned to rise from 1.2 percent in 2010 to 1.8 percent in 2012.

The expenditure proportion for agricultural affairs in West Kalimantan province was the highest, and increased during 2009-2012 from Rp 69 billion, or 4.2 percent, to Rp 185 billion, or 6.4 percent of the total regional expenditure. A total of Rp 44.5 billion, or 45.9 percent of the total expenditure of agriculture office in 2012 in West Kalimantan province was allocated for programs to improve production, productivity and food crop quality for the goal of self-sufficiency. Such an increase was expected to occur due to the 'food estate' program promoted by the governor in the district's RPJMD as a priority program. On the other hand, the 'food estate' project is part of the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) and the Kalimantan Economic Corridor; in other words, West Kalimantan province is still committed to the plan and follows this up with budget allocation. In the meantime, agricultural affairs expenditure budgets in East Kalimantan and South Sumatra increased nominally, yet in terms of its proportion, declined. South Sumatra declined from 3.1 percent to 2.2 percent, and East Kalimantan from 2.3 percent to 1.7 percent.

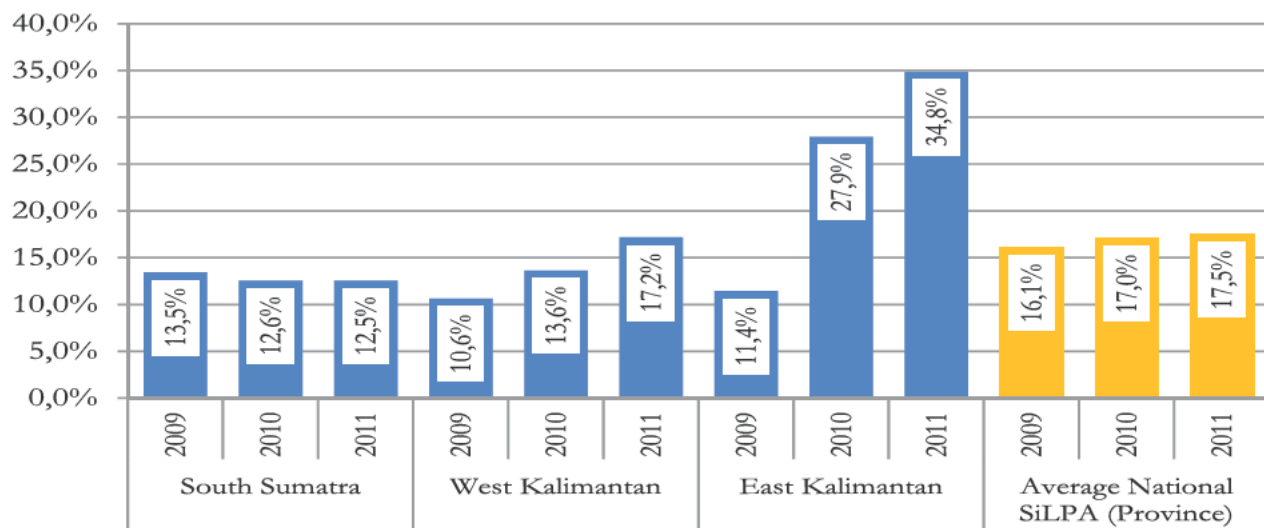
3.5 REGIONAL FINANCING AND FISCAL SPACE

Regional financing is a transaction aimed at covering the difference between regional revenue and regional expenditure. If the regional revenue is smaller

Graphic 3.28 Provincial Surplus/Deficit 2009-2012



Graphicic 3.29 Ratio of SiLPA to Provincial Expenditure, 2009-2011



than the regional expenditure then a deficit transaction occurs, and should be covered by the revenue. If the regional revenue is greater than the regional expenditure, then a surplus financial transaction occurs, and should be used for the regional financing expenditure. Therefore, regional financing consists of regional financing revenue and financing expenditure. Its significance is that analyzing the financing enables one to discover the financing pattern in regional finance and what sources the regional government can use when a budget deficit occurs.

The APBD is planned to be in deficit, but in reality, it is in surplus. The government policy to plan a budget deficit has been the cause of much controversy. Many economists hold the opinion that a government budget deficit may harm the economy. In general, a deficit occurs when the macro-economy enters a recessive phase. However, this study found that despite the absence of this declining macro-economy, regional governments tend to plan budget deficits due to inefficient spending and sub-optimal revenue practices in the budget establishment (APBD-Original). Such a pattern, as can be seen in the table above, shows that almost every year the regional government plans a budget deficit, while in fact its actual spending is always in surplus. In East Kalimantan, the deficit of 2011 was planned (APBD-M) to reach Rp 808 billion, yet the actual

budget spending (APBD-R) was found to show a surplus of Rp 1.67 trillion. West Kalimantan and South Sumatra were just the same, even though nominally the difference was not as great as in East Kalimantan. The three provinces rely on an overall budget surplus (SiLPA) from the previous year. Ironically, the deficit covered with the remainder of last year's budget, in its realization, leaves a significant amount of money in the current year's SiLPA. At a national level, the establishment of a budget deficit in Kalimantan in the stipulation of the 2011 APBD-Original (APBD-O) was the highest among the regions, reaching -12.2 percent of the regional revenue.

The significant remainder of the budget should be used for financing the rehabilitation of environmental damage. All regions in the study sites have huge SiLPAs, particularly East Kalimantan. The low regional revenue projection with its surprisingly higher realization, and the regional expenditure initially planned to be higher with most of its realization being unabsorbed, have led to a great budget surplus. This budget surplus, plus the financing revenue, particularly from the previous year's SiLPA, makes the current year's SiLPA higher, even after the deduction of financing expenditure, such as the establishment of a reserve fund and debt principal payment.

Table 3.4 Current-Year SiLPA and Its Ratio to Regional Spending, East Kalimantan 2011

Province/District	Regional Expenditure	Current Budget Year's SiLPA	Percentage
East Kalimantan Province	8,143,273	2,837,724	35%
Berau District	1,407,723	1,028,191	73%
Bulungan District *)	1,036,129	1,007,795	97%
Kutai Kartanegara District	3,923,616	2,441,490	62%
West Kutai District	1,565,618	129,723	8%
East Kutai District	2,188,074	370,077	17%
Malinau District*)	1,246,119	780,137	63%
Nunukan District *)	1,037,267	504,210	49%
Paser District	1,367,724	490,574	36%
Balikpapan Municipality	1,527,540	466,879	31%
Bontang Municipality	974,962	243,242	25%
Samarinda Municipality	1,475,902	497,014	34%
Tarakan Municipality *)	1,119,935	526,510	47%
North Penajam Paser District	1,102,006	173,458	16%
Tana Tidung District*) ¹	774,686	688,558	89%

Within the last three years, the average current-year SiLPA in East Kalimantan has been above the average provincial SiLPA at national level, amounting to 16.9 percent of regional spending. The current-year SiLPA for East Kalimantan has reached almost one quarter of the regional spending, that is, 24.7 percent. Meanwhile, in West Kalimantan and South Sumatra the average current-year SiLPA has remained below the average provincial SiLPA at the national level, that is, between 13 and 14 percent. Even though South Sumatra and West Kalimantan remain below the average provincial SiLPA at a national level, a SiLPA greater than 10 percent can be classified as high. According to many studies, a high SiLPA is vulnerable to misuse and to corruption.

Altogether the districts of East Kalimantan province have a SiLPA of more than Rp 100 billion. Berau and Bulungan have the highest proportion, between 58 and 97 percent of regional spending. In the 2011

actual budget spending (APBD-R), the lowest SiLPA of districts in East Kalimantan amounted to Rp 129.7 billion, and the highest reached Rp 2.83 trillion. The growth of the current-year SiLPA in East Kalimantan also shows extremes. During the period 2009-2010, the current-year SiLPA grew at a rate of 6.8 percent, and during 2010-2011 grew to 89.2 percent. On further investigation, the amount of current-year SiLPA for East Kalimantan is mainly due to the low regional revenue projection and the low regional spending absorption. Why is it so? Because most districts in East Kalimantan are designed to be in deficit in their APBD plans, while the realization is actually surplus. Additionally, since surplus occurs, the additional previous year's SiLPA also contributes to the increased current-year SiLPA.

The magnitude of SiLPA in East Kalimantan is also intended to be an anticipation of Multi-Year Contract activities, which are not optimally absorbed in

⁶¹ Data processed by Seknas FITRA based on the realization of 2009-2011 APBD, downloaded from website djpk.depkeu.go.id.

Box 3.6 Methods of Corruption Using SiLPA

Many regions have “deposited” quite large sums of SiLPA funds into their regional budgets (APBD). Several methods of corruption have arisen from cases of SiLPA being deposited in the interests of benefiting certain parties, such as not reporting income deposit interest that accommodates SiLPA. Others misappropriate funds by entering deposit funds into regional recapitulation costs. [Experience of Garut, Mapag researcher Haryono].

the previous year’s budget, for utilization in the next budget year. Such a policy is made after having taken into account the tenure of a governor and the necessity to accomplish all development plans employing a Multi-Year Contract budgeting system.

The high budget surplus of these regional governments shows that the capacity of governments to manage public funds is still lacking. The allocation of local government spending on overcoming environmental destruction is inadequate, even though significant funds remain unused as budget surplus in local government coffers.

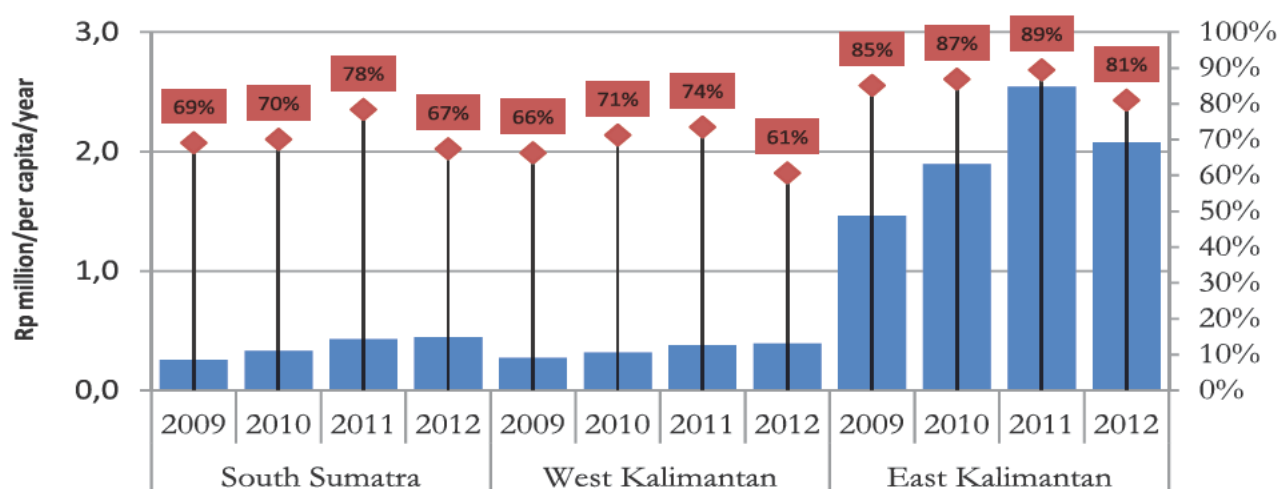
The high amount of fiscal space in the regions is in fact an opportunity to increase allocation of spend-

ing on land and forest governance. Fiscal space is a ratio depicting the amount of revenue regions can use freely to fund their programs/activities according to their needs. The calculation of fiscal space is obtained from deducting the total revenue from the revenue earmarked for use and required expenditure, such as public servant spending and interest. Fiscal space can also arise out of the increased revenue in various sectors and decreased liability for debt payment. Additionally, the effectiveness of budget utilization in a region also supports the generation of sufficient fiscal space to develop a region. In this case, the planning and budgeting contained in a region’s APBD plays a crucial role. Regional governments are expected to have some initiatives to utilize the existing fiscal space in order to trigger economic growth.

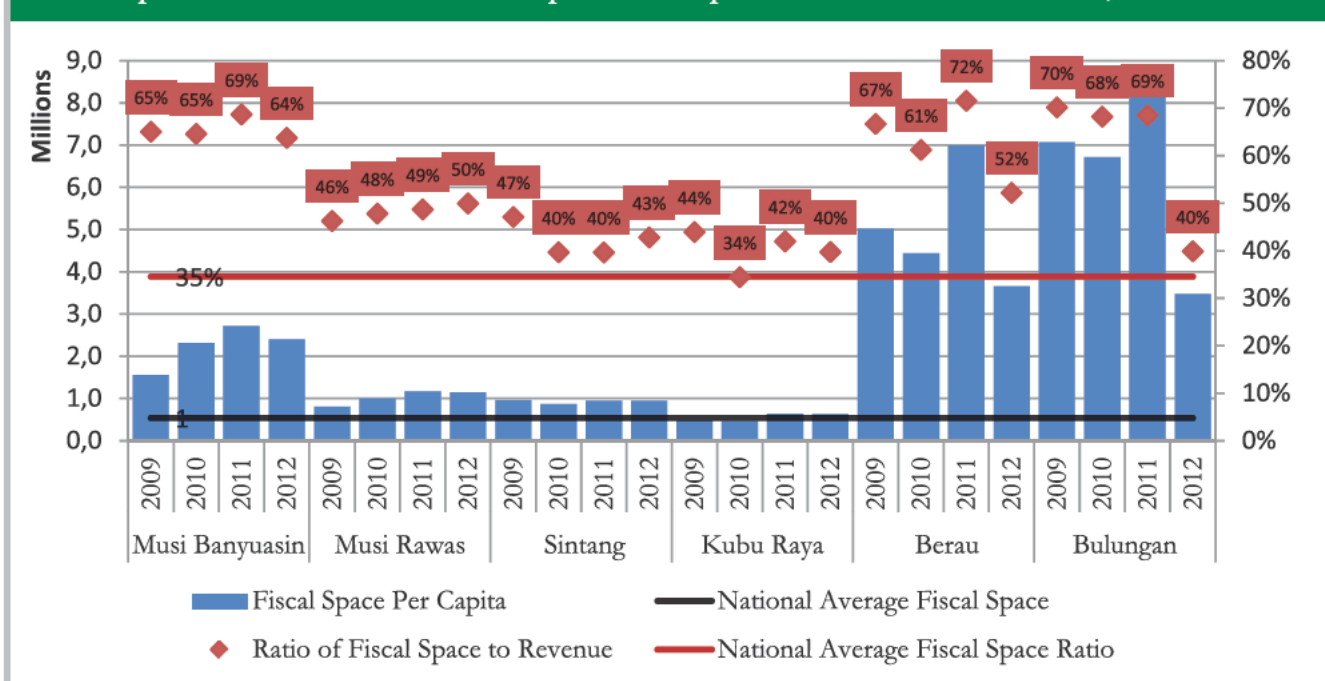
The proportion of fiscal space per capita in provinces is really high, that is, more than 60 percent of the regional revenue is free/flexible to be used for financing regional development. Even East Kalimantan has an average fiscal space of more than 80 percent. Provincial governments generally have more flexible financial capacity compared to that of districts/municipalities.

With their high natural resource revenue and fiscal space, regional governments, particularly the provinces, should be able to develop a sustainable natural resources system with consideration of the existing land and forest condition in their areas. With a high

Graphic 3.30 Provincial Real Fiscal Space Per Capita and Its Ratio to Revenue, 2009-2012



Graphic 3.31 District Real Fiscal Space Per Capita and Its Ratio to Revenue, 2009-2012



amount of fiscal space, governments are not overly burdened by earmarked costs that must be used accordingly. This means that local government spending needed for land and forest governance can still be allocated in optimal proportions.

The fiscal space trend per capita of natural resource-producing districts is very high and lies above the national average. It is noted that on average, the six regions have a fiscal space of Rp 2,692,164 over four years. At a national level, however, the average fiscal space per capita of these districts is only Rp 539,538. Bulungan and Berau districts showed the highest average fiscal space among the six regions above, amounting to Rp 6,357,637 and Rp 5,029,403 respectively, or equal to almost 62-63 percent of the regional revenue per capita. Sintang and Kubu Raya districts are the lowest one of only Rp 932,861 and Rp 552,021/individual/year.

These findings are consistent with the DBH and its ratio to regional revenue, in which the natural resource-producing regions occupy a place far away

above the local average at a national level, including the condition of the regions' fiscal space. It is safe to say that producing regions have more flexible financial capacity as compared to other regions. With their high natural resource revenue and fiscal space, regional governments should be able to develop a sustainable natural resources system with a consideration of the existing land and forest condition in their areas.

⁶² See page 20 of Chapter III in RKPD East Kalimantan Province 2013

⁶³ Areas with *) sign are currently included within the territory of North Kalimantan Province. The inclusion of these areas to their parent province is just to facilitate the analysis and when the research is conducted those areas still belong to East Kalimantan.

Part IV

Conclusion and Recommendations

4.1 CONCLUSION

The responsibility taken for land and forest governance by regional governments is less than optimal. The central government has failed to deal with the challenges presented by decentralization in a way that benefits society. Regional responsibility is interpreted by regional governments to mean using land and forests for the greatest possible profit. Meanwhile, not enough responsibility has been taken for the constant increase in environmental damage that has occurred since decentralization. Local leadership and regional governments' capability and capacity to plan, implement and monitor land and forest governance has become part of the poor accountability of the regional government.

Firstly, the vision and mission of regional governments has tended to prioritize the optimization of natural resource use with no optimum recovery plan. The regional governments' visions and missions emphasize land and forest exploitation as a source of regional revenue. Meanwhile, their environmental recovery policies, in addition to being planned in a less than optimal way, are given very small budget allocations. Sustainable development policies are interpreted as plans to expand mining and oil palm plantations.

Secondly, authority over land and forest governance is still chaotic, as monitoring is not properly conducted. Regional governments have been authorized, to a fairly large extent, by the central government to manage mining and plantations. As for the management of forest resources, the central government still holds control. Regional authority over the management of mining and plantations has resulted in mining business permits and plantation business permits to be rapidly granted on a massive scale. Meanwhile, authority held by the central government to monitor regional authorities is inadequate. The number of monitoring officers (mining inspectors and PPNS) is estimated to be inadequate for the job of monitoring land and forest issues. The central government has also not established

any scheme for monitoring forest damage resulting from mining and plantation activities. The budget allocated for monitoring is disappointing. Only a few regions make allocations for monitoring, and budgets for dispute settlement is allocated in an ad hoc manner.

Thirdly, the regional incentive scheme is incapable of addressing forest and land damage issues. The regional government has failed to implement any incentive scheme to recover forest and land damage due to inappropriate regulations. Up to 80 percent of the scheme through Profit-Sharing Funds for forestry affairs (included in this is DBH-DR forestation fund) in Bulungan was not absorbed because it failed to meet the utilization provisions, which indicates how ineffective this policy is. Meanwhile, the incentive scheme for regional governments to reduce conflicts and to demarcate boundaries is not well-developed. One of the reasons for conflicts arising is the unclear demarcation of boundaries by regional governments, a process which is still unfinished.

The politics of local government budget policies has led to poor land and forest governance. The current direction of budget policymaking regarding land and forest governance puts great emphasis on increasing revenue in land and forestry sectors, while expenditure on the rehabilitation of damaged land and forests is still very limited.

Firstly, markdown of revenue plans and markup of expenditure plans has the potential to harm regional land and forest governance activities. Regional revenue is always set lower than actual spending. In contrast, regional expenditure is always set higher than the actual expenditure. Regional governments repeat these scenarios again and again, indicating that public financial management at the regional level is very poor. Poor public financial management brings with it the potential for loss of regional revenue, particularly in the land and forest sector.

Secondly, the high regional revenue from the land

and forest sector is not followed up with an allocation of regional spending on prevention of deforestation and land and forest degradation. The high amount of regional revenue from this sector has no impact on social welfare, unlike what is promised by regional governments' vision and missions. Despite the absence of a benchmark, particularly one specifying the ideal amount to allocate on land and forest governance spending, the findings indicate that the spending allocation provided by regional governments are disproportionate with their efforts to make the land and forest sector a source of regional revenue. In several cases, it was found that spending on land and forest governance only received half the portion allocated to social assistance and grant spending. The expenditure allocation for the forestry, environment and spatial zoning sectors were only allocated around 1 percent each. Even for forestry functions, such a small budget cannot be absorbed well.

Thirdly, it should be possible to use regional financing to fund greater spending on land and forest governance, since many regions have high SiLPA and fiscal space.

4.2 RECOMMENDATIONS

For the central government, this research recommends :

1. That the central government develop and revise its incentive schemes for more optimal land and forest governance by:
 - a. Revising the policy on DBH DR management in order to steer it more towards its objective, that is, mitigating forest and land damage by allowing regions to innovate.
 - b. Giving more authority to regional governments, particularly for the acceleration of environmental damage recovery or rehabilitation targets, and giving the public access to governance mechanisms. International experience suggests that public participation in forest governance is effective in maintaining forest coverage. There is a
 2. That the central government maximize the monitoring role of regional planning and budgeting policy in order to prevent high rates of deforestation and land and forest degradation in the regions. The central government can do this by:
 - a. Developing benchmarks related to land and forest governance. For example, a benchmark for land recovery costs, number of monitoring personnel per hectare and other issues.
 - b. Developing a review instrument for regional planning and budgeting policy with greater partiality to mitigation of deforestation and land and forest degradation. Studies conducted by the government are generally too broad and give too little consideration to environmental damage and greenhouse gas emissions. The Indonesian government's commitment to mitigating emissions should be addressed by, among other things, providing review instruments for regional policy. Such a review instrument may take the form of a "pro-environmental policy statement" in planning policy documents such as the RPJMD and budget policies such as APBD.
 - c. Adjusting the guidelines for drafting an
- need for further studies on this in order to maximize regional authority. The granting of greater authority should be followed by the establishment of clear performance indicators and an adequate fiscal policy for its implementation.

APBD each year, in order that activities related to preventing deforestation and land and forest degradation can be implemented optimally, such as adding a new account code.

- d. Developing more transparent and accountable public financial management monitoring and control instruments, particularly for tracking regional revenues from the land and forest sector and reclamation guarantee fund.
- e. Encouraging the House of Representatives (DPR) to play a more optimal monitoring role by developing sanction schemes for regions that may be conducting public financial management malpractice. The large number of regions that have high SiLPA ought to be addressed by the central government through certain policy schemes, including a sanction instrument for regions.

For regional governments, this research recommends :

1. Increasing the expenditure allocation on land and forest governance, and improving public finance management by making it more transparent and accountable.
2. Developing local government innovation schemes to:
 - a. Build regional government transparency, participation and accountability mechanisms in land and forest governance. This can be achieved, for example, by developing more transparent and accountable management of reclamation guarantee funds through the establishment of an institution or system and providing an alternative scheme for public participation in overcoming and preventing environmental damage, as well as in optimally maintaining forest coverage in the regions.
 - b. Adjust the the guidelines for drafting the

APBD each year to ensure optimal implementation of strategic activities to prevent deforestation and land and forest degradation.

- c. Use the internal review scheme to assess whether or not planning policies and budgets have been effective in preventing deforestation and land and forest degradation.
 - d. Provide governance access to communities that are committed to maintaining forest coverage in Other Use Areas (APL), remembering that the authority for APL policies lies with regional governments.
3. Strengthen the monitoring of regional governments to reduce the rate of deforestation and land and forest degradation. This can be done by:
 - a. Increasing the number of mining and civil servant inspectors by using an alternative scheme to improve the monitoring of mining and forest areas.
 - b. Encouraging the Regional People's Representatives Assembly (DPRD) to play a more active monitoring role, including by establishing a Regional Financial Accountability Agency (BAKD) in order to ensure the efficiency and effectiveness of budget management.

For civil society, this research recommends that groups:

1. Use the results of this study as an instrument to improve budget and planning policies in the regions, and to thereby improve land and forest governance.
2. Conduct studies related to budget policies for better land and forest governance, both at the national and local levels, as a way to increase public debate on the issue. Studies on financing benchmarks for environmental recovery and the mitigation of deforestation and land and forest degradation also need to be followed up

- on. Meanwhile, studies on the loss of state revenue in the land and forest sector still need to be conducted because of the considerable amount of money being lost.
3. Work on issues of budget policy that support a stronger civil society movement for land and forest governance, as part of strengthening Indonesian civil society in general.
 4. Advocate for public involvement in the process of preparing and monitoring budgets so that the rights and aspirations of communities can be adequately considered by governments in drafting budgets, including aspirations for the conservation of natural resources and prevention of deforestation.

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APPENDIX 1

Table – Management of Land and Forest Governance Affairs in the Research Areas

Affair	Forestry	Mining	Agriculture	Environment	Spatial Zoning
Province					
East Kalimantan	Forestry Office	Mining and Energy Office	Plantation Office, Food Crop Agriculture Office, Husbandry Office	Environment Office	Public Works Office
West Kalimantan	Forestry Office	Mining Office	Plantation Office, Food Crop Agriculture and Horticulture Office, Husbandry Office	Environment Office	Cipta Karya of Public Works Office, Bappeda
South Sumatra	Forestry Office	Mining and Energy Office	Plantation Office, Food Crop Agriculture and Horticulture Office, Husbandry Office	Environment Office	Bappeda, Cipta Karya of Public Works Office
District					
Musi Banyuasin	Forestry Office	Mining and Energy Office	Executing Agency of Agriculture, Fishery, and Forestry Counseling, Plantation Office, Agriculture and Husbandry Office	Environment and Research and Development Agency, Sanitation, Landscape, and Street Lighting Maintenance Office	Bappeda, PU Cipta Karya and Spatial Zoning
Musi Rawas	Forestry Office, Executing Agency of Agriculture, Fishery and Forestry Counseling	Mining, Energy, and Mineral Resources Office	Executing Agency of Agriculture, Fishery and Forestry Counseling, Forestry Office, Husbandry and Fishery Office, Food Crop and Horticulture Office	Environment Office	Cipta Karya of Public Works Office and Spatial Zoning
Sintang	Forestry and Plantation Office	Mining Office	Executing Agency of Agriculture, Fishery, Forestry, and Food Resilience Office, Bappeda, Forestry and Plantation Office, Agriculture, Husbandry and Fishery Office	Sanitation, Landscape and Firefighting Office, Environment Office	Sanitation, Landscape and Firefighting Office, Public Works Office
Kubu Raya	Forestry, Plantation and Mining Office	Forestry, Plantation and Mining Office	Forestry, Plantation and Mining Office, Agriculture and Husbandry Office	Environment Office	Bappeda, Public Works Cipta Karya and Spatial Zoning Office

Berau	Forestry Office	Mining and Energy Office	Food Resilience and Counseling Executing Agency, Plantation Office, Food Crop Agriculture Office, Husbandry and Animal Health Office	Environment Office	Housing and Spatial Zoning Office, Regional Secretariate
Bulungan	Forestry Office	Mining Office	Agriculture Office	Regional Environmental Impact Control Agency, Sanitation, Landscape, Grave and Fire Problem Response Office	Bappeda, Public Works Cipta Karya and Spatial Zoning Office

APPENDIX 2

Table 2.1 Authority Distribution between Government Levels in the Governance of Forestry, Mining and Plantation Affairs

Affair	Level	Central Government	Province	District
Forestry		Granting technical approval and substance of spatial zoning at province and district levels	RTRW Drafting and proposed revisions	RTRW Drafting and proposed revisions
		Issuance of Decision Letter for designated forestland	Provision of technical considerations for proposed designated forestlands at the district level	Proposal of designated forestland
		Approving forestland boundary demarcations	Establishing a forestland boundary demarcation committee	Committee's demarcation of forestland boundary through the compilation of official reports
		Designating forestland use	Technical consideration for district government's proposal	Proposing a shift in forest status and function, proposal for APL to be an area, forest area use and exchange and release
		Granting IUPHHK HA/HT/RE business licenses	Giving recommendation of application for IUPHHK HA/HT/RE business licenses	Giving technical consideration for recommendation of IUPHHK HA/HT/RE business licenses
		Designating reserve areas of HKM/HTR/HD	Giving recommendations regarding HKM/HTR/HD reserve proposals	Issuing HKM/HTR/HD permits in the reserve areas designated by the Minister
		The drafting of rehabilitation governance plan within conservation areas and its governance authority at cross-district level	The drafting of rehabilitation governance plan within protection and production forest areas and its governance authority at cross-district level	The stipulation of rehabilitation governance plan within forest, protection forest and production forest areas not imposed with usage permit
		Control of forest fires at national level	Control of forest fires at national level	Establishment of a forest fire control plan at the district level
		Monitoring and improvement of forestry PPNS capacity	Appointment and placement of provincial forestry PPNS	Appointment and placement of district forestry PPNS
Mining		IUP issuance	Inter-district IUP issuance	District-level IUP issuance
		Granting approval of forest area lease principle or permit	Granting forest area lease permit for non-commercial facility construction at 5 Ha wide. Recommendation of lease permit for IUP issued by Regent in forest areas	Giving technical considerations of application for area lease permit
		District-level IUP issuance	District-level IUP issuance	District-level IUP issuance

Plantations	Stipulating NPSK (criteria guidelines of standard norms)	Issuing inter-district IUPs	Issuing IUP in districts
	Issuing Decision Letters for the release of forestland (Ministry of Forestry)	Proposing the release of forestland for a plantation	Proposing the release of forestland for a plantation



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