

CHAPTER 3

THE POLITICAL ECONOMY OF FOREST GOVERNANCE IN POST-SUHARTO INDONESIA

Maharani Hapsari

INTRODUCTION

Over-exploitation of Indonesian forest has been ecologically detrimental. This is marked by a transition from forest resource abundance to a period characterized by highly degraded growing stock and reduced forested area (World Bank, 2006: 2). Global Forest Watch found that the extent of deforestation between the periods 1950 to 2000 reached 64 million hectares as forest cover decreased from 162 million hectares to 98 million hectares (FWI/GWF, 2002: xi). Directorate General of Land Rehabilitation and Social Forestry (2008), meanwhile, claimed that the rate of deforestation is 1.07 million hectares/year while the rate of forest rehabilitation is 700,000 hectares/year. Given the magnitude of the problem, it will take much stringent effort to rehabilitate degraded forest land and to maintain the regenerative capacity of forest resources. Otherwise, uncontrolled deforestation is likely to undermine the long-term ecological basis of people livelihoods.

Following the end of Suharto regime, pressure from domestic and international communities to implement good governance has grown stronger. National government enacted Law 22/1999 on Local Government and Law 25/1999 on Fiscal Balance between Central and Local Government that provided new framework for creating fair revenue sharing between central and local governments. Meanwhile, the new Forestry Law 41/1999 set a new legal basis to address problems in the forestry sector, including the recognition of community rights in order to increase social participation. The Ministry of Forestry has also implemented several programs, initially under the auspicious of the IMF and the World Bank since the government signed the Letter of Intent in 1998.

This article's objective is to identify the underlying factors behind the seemingly unsuccessful movement towards good forest governance in Post Suharto Indonesia. It posits a strong connection between the political economic dynamics and ineffective implementation of governance reform in the forestry sector. At the surface, there are loopholes in the transition toward good forest governance which have led to political uncertainty and increased incentives to rapid deforestation. Underneath, an examination of power relations among three major actors —the state, corporations, and communities— reveals that implementing good forest governance requires a more fundamental assessment on environmental credibility of major actors who have enjoyed the privilege of broader authority to manage forest resources, yet failed to demonstrate their capability to sustain long-term goals of livelihoods improvements and sustaining the value of forest resources. Problems with unabated deforestation continues as this structural problems are not well addressed.

The structure of this paper is divided into four parts. The first part draws the analytical framework of the political economy of forestry reform. The second part provides an overview of the extent of deforestation in Indonesia. The third part examines the trajectory of forest governance and its limitations. The fourth part analyzes the political economic dynamics which shape the organization and distribution of power over resource rents in the forestry sector. This includes the dynamics of rent-seizing the re-emergence of corporate oligarchy, and the structural barriers to a meaningful social participation by communities.

1. POLITICAL ECONOMY OF NATURAL RESOURCE GOVERNANCE

Recent publications by international organizations and scholars have advocated good governance as a way to address policy and market failures (DFID 2006; Grindle 2007a, 2007b; Kaufmann, Kraay, and Zoido-Lobaton 1999; UNDP 1997, 2010; World Bank, 1992, 1994). With no exception to managing natural resources as the important source of many national economies, problems related to resource degradation and depletion has often been interpreted as an imperative to put forward good governance agenda. In the forestry sector, the World Bank has currently developed good governance concept based upon five major criteria, namely: transparency, accountability and public participation; stability of forest institutions and

conflict management; quality of forest administration, coherence of forest legislation and rule of law; and economic efficiency, equity and incentives (World Bank, 2009: ix); all essentially refer to the importance of building functional institutions.

Governance is considered “good” if it allocates and manages resources efficiently, effectively, and equitably. This is as opposed to ‘poor governance’ characterized by unjust or unenforced legal systems, social exclusion, unengaged civil society, opaque decision-making, abuse of executive power, unaccountable bureaucracies, arbitrary policy making, inequitable resource allocation, and widespread corruption (World Bank, 2009: 10). In addition, good governance is assumed to work best on the basis of synergy and collaboration among the state, private sector and the society as the three main pillars of governance reform. Positive interactions among those elements are expected to foster an enabling environment for curbing deforestation. In practice, building synergy is largely shaped by asymmetrical and antagonistic relations of the three elements (Kimura, 2008: 77). The role of the state remains dominant in directing the process of reform due to its unparallel political authority over natural resource use. The state, therefore, becomes the leading actor in directing the process of reform.

National experiences have shown that natural resource governance is taking place not in a vacuum. Hout and Robison (2009) argued that policies of good governance are often means of avoiding the often politically contentious issues of power in society. Even though there are efforts to impose new institutions and forms of governance in a way that force powerful interests to change their behavior, the direction of this transformation does not always follow the new narratives, particularly when entrenched elites may hijack new forms of governance and institutions to reorganize their own power. The role of power disparities and the way of organizing and distributing resources, therefore, need to be scrutinized (Hout and Robison, 2009: 13). To put it in a more specific context of this article, good governance may negate the fact that the problem of resource degradation and depletion is “not simply as a reflection of policy or market failures, but rather a manifestation of broader political and economic forces” (Bryant and Bailey, 1997: 3).

Natural resource exploitation is intertwined with profit making motivation of forestry businesses and this has been made possible under the framework of government policy. There are many various users competing for access to utilize forest resources. As far as political economy is concerned, the existing power asymmetry may emerge as a significant barrier during the process of reform if policy changes threaten the interests of the

more powerful actors. This is particularly true for those in the structure of property rights who will be affected immediately. This dynamics also involve the roles of various local and transnational actors outside the property rights structure, such as multilateral institutions, environmental non-governmental organizations and grassroots actors associated with their different power characteristics.

The importance of political economic factors as an impediment to reform is acknowledged by international agencies. As indicated in the World Bank's report: "the key impediments to change are vested political and economic interests, both in and out of government and the military, a corrupt and ineffective judicial system, as well as weak governance capacity to achieve decentralized forest management" (World Bank, 2006: 3). Governance reform creates losers who will oppose the reforms and gainers or would-be reformers who must offset the resistance of losers. In this context, "losers are typically a small, well entrenched and politically powerful group that can organize and act forcefully, while potential gainers are a much larger and scattered group, less capable of organizing themselves for collective action" (World Bank, 2009: 7).

In previous studies, there are already several attempts to explain the links between resource rent and institutional deficiencies in managing natural resources (Ascher and Healy, 1990; Ross, 2001). As well as other extractive sector, forestry is generally prone to entrenched rent-seeking and rent-seizing behavior connected to corruption and patronage. Ascher and Healy (1990) used the term 'rent-seeking' when referring to the process of gaining various economic benefits through political system. Rent-seeking can create not only distortion in resource allocation in favor for particular group, but it may have a corrosive effect on the political system as each group eyes suspiciously any project likely to benefit its rivals (Ascher and Healy, 1990: 26-27). Ross, meanwhile, used the term 'rent-seizing' when explaining institutional breakdown in the Southeast Asia, more specifically in Indonesia, the Philippines and Malaysia as the three countries enjoyed the periods of timber booms during 1950-1995. In his conceptualization:

"Rent seizing refers to efforts by the state actors to gain the right to allocate rent, which included rent creation and rent extraction. There are two major differences between rent seeking and rent seizing: first, while rent seekers seek out rent, rent seizers seek the right to allocate rent to other; second, state institutions are exogenous for rent-seekers when private actors face anticorruption laws, regulations on transparency, meritocratic norms, and bureaucratic insulation from political pressure, but are endogenous for

rent-seizing politicians, hence can be dismantled when obstructing the rent-seeking process” (Ross, 2001: 3-4).

In describing how rent-seizing leads to institutional breakdown, Ross (2001) claimed that in much of windfall from resource commoditization would be spent on patronage, corruption, and pork barrel projects. In comparison to rent-seeking, rent-seizing produces a distinctive type of institutional change. In the case of rent-seizing, the state officials need to gain allocation rights which enable them to formally or informally distribute rent to themselves or to others. This allocation rights, however, should be direct, exclusive and discretionary. In order to do so, they may use their rule-making or rule-enforcing powers to remove institutional constraints that stand in their way (Ross, 2001: 35).

Historically, economic rent from forestry has long been the source of political contention at the expense of the less powerful (Peluso, 1992). Powerful actors attempt to secure and maintain their control over access, authority, and benefit from the accumulation of resource rents. Power as manifested in the structure of property rights becomes an essential concept to understand the link between massive resource exploitation leading to environmental degradation and the failure to implement substantial reform. It also underlies the power relations among the state as the sovereign political authority over forest land and other forest land users and exploiters, be they business or communities. In many countries, the structure of property rights has evolved through historical process. Post-independence countries have largely start with nationalizing or centralizing the authority towards natural resource use before re-allocating access to various other users.¹ The implementation of property rights, therefore, may experience a changing configuration from state-centric to favorable larger share of private sector through privatization, deregulation and liberalization of investment. Yet, the role of the state is not simply diminishing in this process because it may still exert its authority to relinquish business licenses in case it is needed.

Initiatives to transform the structure of property rights may seriously challenge or even diminish the pre-existing structure that has sustained unabated deforestation. This means the power of deforestation agencies is at

¹ In the forestry sector, Indonesian government claimed power over 70% of total national land area. This percentage of state owned land as a percentage of the national territory is the highest in comparison to other countries in Asia, for example the Philippines (53%), Sri Lanka (68%), Thailand (40%), and India (23%)(Lynch and Talbott, 1995: 21).

stake despite long efforts and political struggle to accumulate profits from economic activities when a sudden process of power reconfiguration is introduced. Implementing good governance, accordingly, may face difficulty when political economic structure embedded in rent-seizing and rent-seeking are not successfully addressed along with the reconfiguration of resource rents in the forestry sector. Indonesia's experience in Post-Suharto era may add a valuable reflection on the trajectory of forest governance reform. It identifies some unique conditions under which the state has been unable to cope with political economic barriers fortified by the long established nexus between state, capital, and market and the limitation to community participation. Understanding the stumbling blocks of good governance may reveal its thoroughness when its elements are put within the broader context of political economic reality.

2. THE EXTENT OF DEFORESTATION

Deforestation in Indonesia represents a case of massive exploitation with limited efforts to balance their regenerative capacity. Forests as renewable resources have experienced serious depletion and degradation particularly since the beginning of Suharto period. At the national level, Indonesia's formal classification of 'state forest' enlists three major categories: protection forest, conservation forest, and production forest (including permanent forest and conversion forest).² The area of 'state forest' has been redefined and synchronized through the so called Forest Land Use by Consensus (FLUC) or *Tata Guna Hutan Kesepakatan* (TGHK) and Provincial Spatial Plan (PSP) or *Rencana Tata Ruang Wilayah Provinsi* (RTRWP). The total area of current state forest as defined by the Ministry of Forestry is 133 million hectares (Table 3.1).

² Protection forest is designated for watershed protection and prevention of soil erosion. Conservation forest includes national parks and nature reserves. Production forest is divided into permanent forest (for sustained logging) and conversion forest - areas to be clear-felled for agriculture, settlements and other non-forestry uses. Perennial tree crops including rubber, coconut, oil palm and various fruits and nuts are classified as plantations and count as 'estate crops' or agriculture. Paradoxically, industrial timber estates (*Hutan Tanaman Industri* or HTI) of fast-growing tree species to supply the pulp industry are included in the forest inventory (Chidley and Marr, 2002: 19).

Table 3.1. Forest Cover Status by Forest Classification (in Million Hectares)

Classification	Primary	Secondary	Plantation	Not forested	No data	Total
Permanent	17.0	19.9	2.2	14.9	7.0	61.0
Conversion	6.1	4.7	0.2	9.5	2.2	22.7
Protection	14.5	6.2	0.1	4.7	4.4	30.0
Conservation	10.4	2.5	0.0	2.9	3.7	19.5
Total	48.0	33.4	2.6	32.0	17.3	133.1

Source: World Bank 2006: 23

Earlier studies have identified the origin of deforestation based on its direct and indirect causes. In terms of direct causes, deforestation is attributed to at least five factors: commercial logging, forest conversion to estate crop plantations, small-scale agriculture, transmigration, and forest fires. Among all factors, extensive commercial logging through both legal and illegal logging remains the main cause of deforestation. Forest conversion for estate crop plantation has emerged as the next significant factor in recent decades as evident in rapid expansion of oil palm plantation. Initially oil palm plantation replaced rubber plantations, but recent expansion has been undertaken through forest conversion under the category of convertible production forests. To mention specifically, a study by Koh and Wilcove estimated that at least 56% of oil palm plantation in Indonesia has replaced forest land (Koh and Wilcove, 2008: 60). Small-scale agriculture, meanwhile, has lower contribution but the data is not well documented. As for forest fires, its occurrence has been associated with natural factors combined with deliberate fire-settings by plantation companies (FWI/GWF, 2002: 23-24). It was estimated that some 40% of the land that has been allocated was already cleared but not replanted with crops (World Bank, 2006: 26).

Commercial logging activity in Indonesia is legalized in production forest in the category of permanent forest.³ Meanwhile, in conversion forest,

³ As explained by Muhtaman and Prasetyo (2006), there are three main forest production management systems in Indonesia: KPH, HTI and HPH. KPH (*Kesatuan Pemangkuan Hutan*/Forest Stewardship Unit) system has been developed in Java following the long history of plantation forestry back in the colonial era. HTI (*Hutan Tanaman Industri*/Industrial Forest Plantation) is “an activity to rejuvenate and revitalize in order to increase the potential of production forest to guarantee the availability of industrial material and is an effort to rehabilitate unproductive production forest.” In practice, HTI establishment is a vehicle to getting more profits by cutting the logs in the HTI land clearing process. Concerning HPH (*Hak Pengusahaan Hutan*/natural forest concession holders) system, Indonesian corporations or individuals are only granted forest concessions by the Ministry of Forestry in production forests and limited production forests. Government Regulation

timber utilization is also allowed with some requirements during the land clearing for the development of oil palm plantation. Timber harvesting in production forest represents at least half of total forest area (FWI/GWF, 2002: xi). Due to commercial logging, deforestation has been experienced mostly in production forest, while some extent of deforestation is also witnessed in conservation and protection forest. As quoted from the Directorate General of Forestry (1967), Basic Forestry Law designated 50 million hectares as production forest which was made available for commercial logging. Through the 1970s, however, the Directorate General of Forestry repeatedly expanded the area of production forest, raising it to 64 million hectares by 1980 (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono and Setiono, 2006: 23-26).

Timber logging has also taken place illegally and its magnitude is believed larger than legal logging. Study on timber demand and supply estimated that over-capacity of timber industries which started to take place in 1980s has largely been balanced with timber supply from illegal logging. As cited from ITTO (2001), illegal logging constitutes 50-70% out of total Indonesian log production (Casson and Obidzinski, 2002: 2134) or even reached 75% (Kato, 2005: 155-156).⁴ Not only it occurred within the legally defined concession area, illegal logging also took place in protected forest and conservation forest, or simply in all categories of 'state forest'. Investigation shows that its occurrence is increasing in conservation areas, which timber potential is better than in production areas. It is conducted mostly by legal operators who violate the terms of their licenses and outright timber theft who have no legal right to cut trees at all (World Bank, 2006: 31).

The total area of forest lost to illegal logging is unknown, but an official of the Ministry of Forestry claimed that theft and illegal logging have destroyed an estimated 10 million hectares of Indonesian forests (FWI/GWF, 2002: 24). The estimated figure of 50-70% illegal logging share in the total production of timber means that only a maximum half of the overall process of log production is grounded on the formal governance network. Considering the fact that even legalized logging does not always

No. 21/1970 grants rights to the private sector to manage HPH forest areas for a non-transferable 20-year right and obliged the concessionaires to follow the principle of sustainable forest management as prescribed by the Indonesian selective logging and planting system (*Tebang Pilih Tanam Indonesia*, or TPTI) (Muhtaman and Prasetyo, 2006: 38-39).

⁴ The volume of illegal logs absorbed by processed wood industry was estimated between 8.9 million m³ (1985) to 42.3 million m³ (2002) (Simangunsong, 2004: 11).

conform to the government regulations, the contribution of this ‘ungoverned’ segment to the extent of deforestation in Indonesia is even larger. Under the situation where legal institutions fail to stop illegal logging practices, this will continue to undermine progress. In spite of unabated deforestation from both legal and illegal logging, however, it is in the government’s interest to keep responding to international market demand.

Following the end of Suharto regime, the government must deal with the legacy of unsustainable practices and undertake rehabilitation of degraded forest land. As one study recorded, at the end of Suharto regime, 389 of the 652 concessions granted to corporations remained in operation. Out of 263 HPHs which were reverted to the state, 77 were reverted before the 20 years concession had ended. The rest of 186 concessions, which were reverted after their lease has ended, were not issued renewal. 33 concessions which cover 3.3 million hectares were reallocated to other concession-holders. A far larger number —147 HPHs covering 9.5 million hectares— were assigned to the control of the state’s forest enterprises or *Inhutani* for ‘rehabilitation’ (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono, and Setiono, 2006: 41-41). Furthermore, at least 59.2 million hectares of degraded forest land is waiting for a more successful rehabilitation program (Subarudi and Dwiprabowo, 2007: 30). Forest governance reform, therefore, shall be able to improve the utilization of current stock of forest resources more efficiently for long term benefit and to rehabilitate degraded forest land.

The government has also been dealing with social grievances among forest-dependent communities who have suffered from unequal opportunity over access to manage forest resources. There are critics that enormous wealth generated from the forestry sector has not clearly led to improving the livelihoods of the communities (see for example Pelusso, 1992). The role of forest dependent communities has long been neglected, leaving many of them in poor conditions despite the enormous wealth created from timber and non-timber exploitation. Commercialization of forest resources has benefitted small segments of actors who particularly have strong affiliation to Suharto and his cronies. Furthermore, unclear resolution to problems related to community rights has exacerbated social tensions and conflicts at the very grassroots level. As quoted from Galudra *et al.* (2006), Indonesia has witnessed nearly 2,000 cases of conflict which involved 600,000 households regarding 10 million hectares of forest land (Ministry of Forestry, 2008: 136).

During Suharto period, although oligarchy and lack of acknowledgement to community rights were contested and criticized, such contention was effectively suppressed. Now that the country is undergoing the transition towards decentralization and as the social groups have more resonance in policy discourse and implementation, many hope to reverse the situation along with the institutionalization of good governance practices. Social participation becomes a crucial element in order to sustain forest governance reform in long-term when the communities are given a fair opportunity to increase the value of forest resources through engaging in various economic activities. The social dimension of deforestation, therefore, becomes an important agenda together with addressing forest resource depletion and degradation.

3. GOVERNANCE TRAJECTORY

The trajectory of governance in Indonesian forestry sector is analyzed by looking at three major elements: the capacity building of government agencies, the role of government in regulating forestry business and social participation of communities.⁵

3.1 Capacity Building in Government Agencies

Based on good governance criteria, capacity building is important to improve the quality of forest administration. Scarce administrative capacity required the government to develop three important mechanisms: first, improving information and analysis to inform priority-setting and policy design; second, developing responsive and effective institutions suited to the administrative traditions of the domestic institutional setting; and, third, inviting greater local participation in policymaking, monitoring, and enforcement (World Bank, 1992: 83). Those will determine how current institutions will be able to meet the most feasible targets.

⁵ The term 'communities' is a category to refer to customary community (native people holding customary land who apply their norms and rules and whose legal existence is legalized by district government), local community (people that have been living in the forest for some generations, but no longer hold to strictly traditional norms and rules), and newly arrived community (people who have no history of settlement in forest zones and possess no legal land or secure employment so they move to the fringes of, or within, the forest zone) (see Santoso, 2009).

The consolidation of state capacity is facing the legacy of Suharto era and such condition is still relevance in explaining why deforestation remains uncontrolled in the present era. Given the very vast area of forest that has to be clearly delineated, the Ministry of Forestry has worked since 1980 to consolidate data at the provincial level. Each governor outside Java was requested to prepare a FLUC map. The map becomes the basis for national government to allocate HPH and HTI. In 1992, national government enacted Spatial Use Management Act No. 24 which includes the role of National Development Planning Agency (BAPPENAS), the Ministry of Home Affairs and the Ministry of State for Environment (KLH) the key roles in implementing spatial planning. Since then, there have been disputes regarding sector-based responsibility (McCarthy, 2000: 94-95). Even though the purpose of PSP is to accommodate various forms of land use in the forest area, lack details concerning the position of communities in the existing areas have also led to conflicts between the communities and the government; and between the communities and forest enterprises, on the use of the land and the utilization of timber and other forest products (Santoso, 2008). Such policy dynamics illustrates how the ongoing negotiation among different sector-based department at the district, provincial and national level is not yet sufficient to provide socially and ecologically acceptable allocation of forest resource use for multiple stakeholders.

In creating effective institutions, the government is limited by minimum organizational resources. As Barr et al., argued, the very vast concession areas and their remoteness has made difficult for forest personnel to access. Understaffing and ill-equipped personnel as well as the over-concentration of personnel in Java, Jakarta, and provincial capital has become barriers to conduct effective monitoring (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono and Setiono, 2006: 54). Improving organizational resources has been a complicated issue when lack of transparency and accountability is pervasive, for example in the case of managing revenue from forestry sector. During Suharto regime, reforestation fund was managed as off-budget fund by the Ministry of Forestry and was managed very often for political purposes (Ascher, 1998). Many corporations benefitted from cash grants allocation for timber plantation development and discounted loans but poor management of plantation has undermined Ministry of Forestry's targets (Barr, Dermawan, Purnomo and Komarudin, 2010: 5). Capacity building has also been challenged by limited rent capture and lack of prioritization of reforestation fund disbursement that otherwise would have been able to strengthen organizational capacity.

In the era of *reformasi*, international donor community and non-governmental organizations have demonstrated broader attention to support capacity building towards conditioning greater transparency and accountability.⁶ Their roles can be witnessed from the mobilization of organizational resources as well as policy consultation. This has been influenced by the changing approach on the side of donor community in responding to the potential collaboration with broader stakeholders outside the government structure. Opportunity to engage with broader stakeholders is more open as public has given more attention to the ongoing reform.

Within the government structure, capacity building is an issue relevant not only for central government, but more importantly for local governments as the agents of decentralization. Many local governments still have minimum resources and technical capacity to deal with the occurrence of illegal activities under their jurisdictions. Decentralizing authority is being implemented in the situation where local governments are urged to increase their accountability and transparency in managing forest resources while at the same time exploiting them in order to sustain economic revenue. The connections between central and local government has developed with less stringent guidance and political control from central government ensuring the implementation of decentralization up to local levels (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono, and Setiono, 2006: 14). Among lower governmental levels, provincial governments are facing difficulties to coordinate actions with Forestry Service at the district levels as there is strong resistance from district levels to follow instructions from the province (Kartodihardjo, 2006: 20-21). Issues on coordination and overlapping of responsibilities among governmental agencies, therefore, remained to occupy policy debates.

3.2 Regulating Oligarchy in the Face of Corruption and Patronage

For national government, commercialization of forest resources has been economically beneficial and it strengthens the motivation for massive exploitation. During timber boom periods, revenue generated from forestry sector was able to support the national government to deal with financial difficulties while at the same time creating enormous wealth for forest

⁶ As recorded in the document of the Ministry of Forestry, in 2006 the Ministry collaborated in at least 20 different cooperation projects with various foreign institutions (Ministry of Forestry, 2006).

corporations. Massive forest exploitation has been supported by strong policy framework. This was particularly true after the national government centralized authority over forests land by promulgating Basic Forestry Law (BFL) and Foreign Investment Law, both in 1967, which further intensified the extraction of forest resources, particularly timber.⁷ The promulgation of these two legislations has brought an immediate consequence on the liberalization of Indonesian forestry sector. With no surprise, this invited private corporations who have since then become the dominant players of forest exploitation and remained as such in recent context.

Forest governance has been characterized by patronage-driven oligarchy which was developed around Suharto and his political cronies. They have played important role in consolidating and maintaining political power of Suharto regime. State corporations dominated forest exploitation in Java Island until they were overridden by domestic and transnational private corporations which heavily involved in expanding forest exploitation in the Outer Islands. Since the beginning, the military has also engaged in forestry business.⁸ The national government applied some requirements for foreign firms to take on domestic partners, who are mainly the military officers and generals. The military-backed firms relied on either subcontracting agreements or joint ventures with foreign or Indonesian Chinese firms, which produce huge profits (Ross, 2001: 177). While controlling at least fourteen timber firms by 1978, direct involvement of the military in the business declined through 1980s and in 1990s, there were few large operations.⁹ Nonetheless, it needs more careful analysis to claim that the actual political influence of the military is simply decreasing under such condition.

⁷ The 1967 BFL has increased the resource power of the forestry department from 3 million to 146 million hectares (Ross 2002: 167). Also see Government Regulations 21/1970 Article 10 in which forest concessionaires were allowed to apply for concessions to exploit forest resources for twenty years.

⁸ Suharto appointed Major General Sutjipto as Minister of Agriculture in the Ampera Cabinet formed in July 1966 and Soedjarwo, a civilian functionary with family ties to Mrs. Suharto, as Director General of Forestry. Between 1967 and 1980, Soedjarwo authorized 519 timber concessions to private investors covering over fifty-three million hectares in total. He also assigned logging rights to over four million hectares in East Kalimantan and other parts of the Outer Island to three state-owned forestry enterprises: Inhutani, Inhutani II, and Inhutani III (Barr C. M., 1998: 5-6).

⁹ One of which owned 51 % share in the International Timber Corporation of Indonesia, a company which was running 600,000 hectares of forest area in East Kalimantan. This company was also owned by Bambang Trihatmodjo —the son of Suharto— and timber tycoon Bob Hasan (Dauvergne, 2005: 177).

The relations between the state and corporations are the key to extensive commercialization of forest resources in international market. At the same time, they influence whether regulation enforcement may be undermined or strengthened. An analysis by Gellert concluded that “the blurred lines between private firm power and state power are critical to understanding the so-called “developmental success of Indonesia’s timber sector” (Gellert, 2003: 64). Patron-client relations between the state and corporations have sustained lack of public accountability and transparency, which erodes state’s credibility as regulator. Around 62 million hectares of forests were granted without tender to 51 conglomerates and national corporations that had ties with the military and Suharto family (WALHI, 2007), which illustrated such blurred lines. The establishment of Apkindo as plywood cartel in 1980s that was able to hit the dominance of Japanese plywood industries in international market was another example. Chaired by a very close crony of Suharto, Bob Hasan, Apkindo’s tremendous power intertwined with vested interest of Suharto regime to secure political legitimacy. Relations between the state and corporations have secured the existence of corporate oligarchy, even though it was partially broken down when Apkindo was obliterated as part of IMF and World Bank’s conditionality.¹⁰

During Suharto era, corporations that have close tied to Suharto and the military also benefitted from audit-free process and logging concessions have also been enforced without proper monitoring. As learned from Crouch (1978: 323-324), the military enjoyed the greatest impunity in terms of implementing government regulations on sustainable tree felling and tree planting as well as on reporting the quantity of exports from their concessions (Ross, 2001: 179). This has led to low compliance of concession holders. In the present era, deforestation is still going unchecked because many concessionaires cannot be held accountable by public, or having sufficient degrees of compliance to avoid unsustainable patterns of resource use within their concession area. Recent research by Greenomics, research institute based in Jakarta, 48 out of 68 companies who hold HTI concession have unclearly defined concession area. Meanwhile, Indonesian Corruption Watch (ICW) found 44 corruption cases by HPH/HTI concessionaires which also involved state officials and apparatus. As the concessionaires have not paid the reforestation fund, the state has suffered from loss of revenue

¹⁰ A greater length of this aspect is discussed in Christopher Barr’s article titled “Bob Hasan, the Rise of Apkindo, and the Shifting Dynamics of Control in Indonesia’s Timber sector” (Barr C., 1998).

accounting for trillion rupiah. At least 53% of HPH concessionaires are under the category of poor performance when it comes to their ecological performance while only 11.4% relatively has good performance. In the case of HTI, concessionaires with poor performance constitute 59.2% while 11.8% was under good criteria. The rest belongs to average performance to very poor (Suara Pembaruan Daily, 2004).

The impacts of low compliance by concessionaires is exacerbated by unabated corruption (Casson and Obidzinski, 2002: 2134; Gellert, 2005: 1352). Recent report by NGO Coalition for Anti-Forestry Mafia identified at least 15 modus operandi of corruption in the forestry sector (Fadillah 2010).¹¹ Although there are some achievements in corruption eradication,¹² many forest-related corruption cases ended without legal prosecution, let alone effective and credible sanction. Legal process to deal with for forest-crime perpetrators has not yet demonstrated impartial law enforcement and more importantly, ‘the big fish have not been reined in’ (Gellert, 2010: 558). Critics from civil society also emphasized slow investigation of corruption case in forestry sector (Saragih, 2010). In 2009 report of Human Rights Watch, it was founded that corruption and mismanagement in the timber sector between 2003 and 2006 alone caused revenue loss of US\$ 2 billion, which was equal to the entire health spending at national, provincial, and district levels combined and to the amount sufficient for basic health care for 100 million of the nation’s poorest citizens for almost two years (Human Rights Watch, 2009: 2). Indonesian Financial Transaction Reports and Analysis Centre (PPATK) found the highest number of dubious transactions involving law enforcers—including local forestry officials—took place between 2006 and 2007 while not giving details of the number. However, it has declined to less than 10 cases in 2009 (Simamora, 2010). According to Indonesian Corruption Watch, from 2005-2008, there were 205 perpetrators of illegal logging put on trial. Among them were director of companies, manager, commissioners, sawmill owners, middle-men, law officials, forest agencies officials, contractors, and foreign nationals. The result of the trial was the released 137 persons while 44 persons were convicted to 1-2 years

¹¹ Details of these 15 modus operandi can be accessed from <http://us.detiknews.com/read/2010/04/22/220655/1343784/10/15-modus-mafia-kehutanan>.

¹² The conviction of Bob Hasan and Probosutedjo, two of major cronies of Suharto in forestry business, was appreciated as government’s early commitment to implement more stringent law enforcement.

in prison. Only 10 persons were charged with more than 2 years in prison (Indonesian Corruption Watch, 2010).

Lack of consistency between regulation and its implementation remains the case. As quoted from Indonesian Society for Transparent Organization (2000), an examination of the implementation of 925 Ministry of Forestry decrees issued during 1998-2000 revealed that there were at least seventy-four deviations. More than 73% of them were related to forestry concessions. For example, even though concession area for a company in a province is granted for a maximum of 100,000 hectares, many enterprises obtain more than 100,000 hectares. This has led to a conglomeration among several business enterprises (Suhardi n.d.,: 225). Recent governance practices reveal ineffectiveness in addressing violations to forest regulation. This signals that the government must pursue more uncompromising efforts to penalize past abuses and to demonstrate stronger regulatory power in governing the forestry sector.

3.3 Stumbling Steps to Strengthen Community Participation

Local communities have historically become the active agents of production of forest resource as evident in the practices by indigenous forest management.¹³ The role of indigenous forest management, however, has been largely replaced with massive scale of exploitation in pursuant of economic growth which focuses more on the extraction of timber resources and other valuable commodity to be exported to international market. Due to the failure of replanting, the balance between resource extraction and resource regeneration has been disrupted. The idea of ‘scientific forestry’ — initially introduced during Dutch colonialism and has been maintained by post-independence political regimes— puts the state control over centralized forest land and local institutions of forest access and property were gradually phased out of legal discourse (Peluso, 1992: 44). The Basic Forestry Law claimed all forests inside the Indonesian territory, including their natural resources under state’s control. What was clear in practice is that it became difficult for communal rights to register under the National Land Agency as long as the land remains classified as state forests (FORDA, Indonesian

¹³ As noted from Michon and De Foresta (1996), farmers developed methods to the domestication and cultivation of more than a hundred of fruit and nut species in order to support subsistent livelihoods. At the same time, they have also involved in trading of forest products between the islands of the archipelago and beyond (Sirait, 2002: 8).

Ministry of Forestry and JICA, 2005: 3). Forest tenure to communities is allocated on the basis of collective ownership since under the framework of community forestry. The national government introduced some system in which community can work collectively to manage forests land for their benefit.¹⁴ Individuals, households, and cooperatives, therefore, have also benefited from the generating resource rent, but to a much smaller extent (Kartodihardjo, 2002: 147). Furthermore, tenurial rights for community were limited to collect rattan in the classified are within the category of protected forests (Lynch and Talbott, 1995: 54).

Problems concerning social participation of the communities center on the issue of tenure security.¹⁵ It underlines lack of substantial public participation, recognition of property rights, ecosystem integrity, and equitable allocation of forest benefits as regards to good governance criteria. Power asymmetry which is institutionalized in the structure of property rights under state claim has put aside forest dependent communities from fair access and benefit-sharing. More specifically, the inability of communities to assert their rights in the face of government-sponsored concessions or programs becomes the root of the problem (Lynch and Talbott, 1995: 98). As Indonesia entered into decentralization era, there is an opportunity to fix the failures of forest exploitation that works side by side with the marginalization of community rights if addressing poverty issues is to be substantially achieved. Ideally, good governance shall improve substantial participation by communities in managing forest resources by providing a clear legal framework and protection of their resource tenure, by facilitating the development of their capacity and by making available appropriate incentives to productive economic activity.

Government approach to resolve issue of tenure security reflects contending views among those who believe in state control (embraced mainly by state officials) and those who believe that more authority should be devolved to local communities (supported by non-state actors, especially NGOs). Current trend shows that the government has become more accommodative to the second as appears in the inclusion of community

¹⁴ Among others are Tumpangsari system in 1980's, Community Development System (*Pembinaan Masyarakat Desa Hutan*) in 1991-1995, and Community Forestry (*Hutan Kemasyarakatan*) in 1995 (Rosenberger, 2009: 30).

¹⁵ As adopted from Place, Roth and Hazell (1994): "security of tenure is an individual perception of having a piece of land or resource on a continuous basis, free from imposition or interference from outside sources, and getting the benefits of labour and capital invested in that land, either in use or upon transfer to another holder" (Safitri, 2006: 13).

forestry concept in the New Forestry Law No.41/1999. At the same time, the idea of collective action has encouraged non-state actors to enhance their position in influencing state policies (Lindayati, 2002: 53). The Ministry of Forestry has also shown its political will to introduce some redistribution policies. In 1998, the Minister enacted the Ministerial Decree No.677 on Community Forestry, which provides community groups the right to apply for 35-year licenses (previously 20 years) and made renewable to manage small-scale forest areas in the form of HPHKM (*Hak Pengelolaan Hutan Kemasyarakatan*), or the rights to manage community forest. Communities may benefit both from timber and non-timber forest products. There was recognition that the process leading to this regulation was open, transparent, and participatory because several NGOs and university staffs were deeply involved in conceptualization and drafting process. Another redistribution strategy was to require all corporations that have been granted government concession to be shared with cooperatives. Recognition of 29,000 hectares of state forest zone under the management of Krui agroforestry farmers in Lampung Province was a groundbreaking commitment (Fay and Sirait, 2002: 132-135).

In 2001, the Ministry of Forestry issued Ministerial Decree 31/Kpts-II/2001 transfer the authority to grant community forestry license from Minister of Forestry to local government. The decree also reduced the duration of license from 35 years to 25 years. In practice, there will be a preparatory phase and a permanent phase during which the capability of local communities to manage forests under the framework of cooperative before getting a definitive license. Community forestry is to be implemented particularly in protection and production forests, and is prohibited in conservation forests. In addition, the area applied under community forestry scheme is those that has been allocated for community, but the zoning is not clear (Safitri, 2006: 5).

Recognition of community rights is a long process given the limited administrative capacity and lack of political will. In many other cases, administrative and procedural complexity has made it difficult for many communities who would like to obtain the legal status (Muhtaman and Prasetyo, 2006: 40). Learning from the experience of Lampung Province, Safitri concluded that community licensing has in practice become community supervising, which does not actually grant a clear legal rights to utilize forest resources as promised (Safitri, 2006: 16-17). Lack of implementing guidelines indicates the hesitation of the major fraction of the government to institutionalize community rights on a clear legal basis. Current tenure system,

therefore, has not yet reflected substantial progress at the implementation level to address tenure insecurity and to protect the rights of communities.

4. POLITICAL ECONOMIC DYNAMICS

Limitations to implement good governance shows that there is still strong resistance from domestic institutions towards substantial change. Within the state structure, political economic dynamics has evolved along with the redistribution of authority over forest resources among different levels of government since decentralization that led to rent-seizing behavior. Decentralization also creates more complexities as it exacerbates the loopholes in previous regime and leads to the emergence of local political economic structures which benefit from uncontrolled deforestation. Beyond the state structure, the relations between political clienteles and market actors which had sustained strong oligarchy during Suharto era was challenged when many corporations run into huge debt following Asian financial crisis in 1997 and they became the subject of debt restructuring program. As a part of the plan to reduce over-capacity of forestry industry, the Ministry of Forestry was considering to shut down the operation of a numbers of enlisted indebted companies. Although the debt restructuring brought mixed result, it was soon recognized that the role of oligarchy was never effectively curtailed. Major companies who were holding large share of concession were able to secure licenses and continue their operation. These two factors have further blocked the transformation of property rights structure that has backed deforestation institutions.

4.1 Rent Politics and the Reconfiguration of State Authority

The structure of resource rent accumulation and redistribution which was long maintained during Suharto era is being transformed by the new policy dynamics. At the horizontal level, the Ministry of Forestry, as the institution which holds the authority over vast track of Indonesian land, needs to negotiate more intensively with sector-based government agencies regarding the implementation of its policies and the process has led to contention with other sector-based agencies. This appears for instance in the debates between Ministry of Forestry and Ministry of Trade and Industry on Supply and Demand of raw materials for forest based industry; between Ministry of Forestry and Ministry of Agriculture on prioritizing crops and

strategy for reforestation; Ministry of Forestry with Ministry of Labor and Transmigration on relocating settlements (Kusumanto and Sirait, 2002: 16). Concerning the relations between Ministry of Forestry and Ministry of Agriculture, for example, Ministry of Forestry has implemented some strategies to maintain timber supply for market despite the decreasing output of timber corporations under HPH concessions since 1990s, one of which is by relying more on the conversion of the forest for pulp and oil palm industries in which timber corporations are given timber use license or *Ijin Pemanfaatan Kayu* (IPK) (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono and Setiono, 2006: 44). Such efforts are followed by the relinquishment of forests land for the purpose of agricultural plantation and mining and other industries.

At the vertical level, contestation over resource rent is more discernible as local governments' aspiration has more priority in a decentralizing governance. Decentralization has provided the local governments with political authority to create and extract resource rent which was previously not accommodated under Suharto regime. Decentralization law also mandated the redistribution of resource rent in forestry sector in favor of more allocation to local government. The redistribution of resource rent before and after the implementation of decentralization can be examined in Table 3.2.¹⁶

Unabated deforestation has become much more complex to address as political authority in the forestry sector is redistributed among central, provincial and local governments. A recent study argued that decentralization has provides political economic incentives for district governments to be more permissive to logging activities. Burgess, Hansen, Olken, Potapov and Sieber (2011) examined that increasing deforestation is associated with increasing numbers of political jurisdictions because the emergence of new districts has disrupted previous legal logging activities and other districts within the same province increase logging immediately. As modeled from Scott (1977), McCarthy described how decentralization has also created the so-called "office-based patronship" in which district and sub-district officials used their discretionary power over licensing, permits and law enforcement as a basis of taking over the role of adat heads. This form of patronship generates rents for individuals and for local government. It further increases

¹⁶ The Ministry of Forestry Decree No.31/2001 mandated district governments the sole authority to grant forestry community licenses (previously in the hands of Ministry of Forestry), restricting the areas which can be granted licenses to production and protection, and reduces the license duration from 35 years to 25 years (Rosenberger, 2009: 31).

the popularity of key local politician, particularly district head who utilizes expanded provincial budget to support projects and programs that will benefit clients and followers (McCarthy, 2000: 11).

Table 3.2. Forest Revenue Sharing before and after Decentralization

Revenue classification	Revenue sharing mechanism	
	Before decentralization	After decentralization
Forest product royalty (<i>Juran Hasil Hutan</i> or IHH) ^a	Generally, 45% was allocated for provincial and district governments while 55% was for central government	Central : 20% Provincial: 16% Producing district: 32% Other district in relevant province: 32%
Forest concession license fee (<i>Juran Hak Pengusahaan Hutan</i> or IHPH) ^b	Central: 30% Local:70%	Central: 20% Province: 16% Producing district: 64%
Reforestation fund	Unclear (non-budget revenue)	Central: 60% Producing district: 40%

Note: ^a This is now called the Forest Royalty (PSDH). PSDH rate ranges from Rp5,000 - Rp100,000 per cubic meter, from Rp2,000 - Rp70,000 per ton, or from Rp10, 000-Rp35,000 per piece, depending on the product type and the region

^b The IHPH rate ranges from Rp2,600 to Rp50,000 per acre for a set time (usually 20 years), depending on IHPH status, region and the group of forest resources

Source: Modified from Alisjahbana (2005: 112-113)

Under decentralization law, larger share of resource rent will be managed by local governments, but discontent has tagged on its actual implementation. As summarized by Rosenbarger from Resosudarmo (2005) and Suswanto and Wardoyo (2005), the Ministry is now limited by national-level budget cuts and district governments continue to claim to their rights to manage the forests within their borders (Rosenberger, 2009: 25). Local governments have a general tendency to speed up the implementation of the decentralized forest policy while central government shows their reluctance to cede resource power.

Swift redistribution as mandated by decentralization law has a direct effect on the use of authority by government at district levels where rent-seeking behavior has characterized day-to-day practices of state officials.¹⁷

¹⁷ Investigation by Human Rights Watch found that there are cases in which investors must pay bribes to obtain recommendation letter from district authorities, operational expenses for field surveillance, unspecified “entertainment” fees ranging from US\$ 550-770 per person, and “grease” payments for routine administrative procedures in order to operate their forest concessions. More detailed information on this can be examined in the section

Particularly, rent-seizing has affected the intensity of uncontrolled deforestation when district governments used their authority to issue timber license. As Casson and Obidzinski argued, “decentralization process has blurred the distinction between “legal” and “illegal” logging because local governments may legitimize timber extraction by issuing timber permits, however, they do so without any due regard for sustainable rates of extraction” (Casson and Obidzinski, 2002: 2134). Bigger authority of district governments to issue concessions has affected the scale of timber exploitation at the local level. A study by Dermawan compiled trends of small-scale concessions licensing in 11 districts in Outer Islands. The period of 1999-2001, in fact, shows the most aggressive issuance of small-scale concessions permits by district governments (Dermawan, Komarudin, and McGrath, 2006: 7). District governments often allocated Forest Product Harvesting Permit (HPHH) and Timber Extraction and Utilization Permit (IPPK) and other types of timber licenses for areas that were much larger than the district forestry bureaucracy could effectively monitor (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono and Setiono, 2006: 127). Instead of reversing the negative trend of uncontrolled deforestation, it is the case that decentralization has exacerbated the intensity of the problem.

There were inconsistencies leading to contention that national government attempts to retain authority despite the promise of political decentralization. Immediately after granting the rights to district government to issue small-scale timber-extraction permits in 1999, a ministerial decree was passed to postpone its implementation. In the year of 2000 alone, in fact, two ministerial decrees were issued to revoke and re-implement the licensing rights to district government. In 2002, Ministry of Forestry issued another decree to revoke the right, which was generally overridden by district governments as decentralization policies were already in effect. A definitive revocation was then issued through Government Regulation No.34/2002 to deal with rampant permit abuse (Rosenberger, 2009: 22). Decentralization of forestry sector, as concluded, has experienced recentralization (Barr, Resosudarmo, Dermawan, McCarthy, Moeliono and Setiono, 2006: 127). Contention over resource rent redistribution between central and local government continues to interrupt transition to decentralizing forest governance and it has created turmoil within the government structure as evident from uneasy transfer of authority to local governments.

discussing anatomy of corruption in forestry sector (see Human Rights Watch, 2009 Section 4).

4.2 Reemergence of Corporate Oligarchy

In the aftermath of 1997 financial crisis, major timber corporations experienced financial breakdown due to large amount of private debts. Under the conditions agreed with the International Monetary Fund and the World Bank, forest oligarchy became the immediate target of reform. In the Letter of Intent with IMF, forest sector reform was to be conducted mainly through market mechanism.¹⁸ The context of reform during that period was on more liberalization of Indonesian forestry sector (Kato, 2005: 156). Indonesian Bank Restructuring Agency (IBRA) was set up in 1999 by Indonesian government, supported by technical assistance from the World Bank. As of March 2001, there were 128 companies including 23 forest concessionaires or HPH firms, 52 wood processing firms without HPH, 11 wood processing firms with HPH, and 4 pulp and paper firms under IBRA's scheme. The number of companies increased to 228 by May 2002, which includes those owned by big conglomerates (Setiono, 2002: 3). The indebted companies represented 78% of pulp capacity, 58% of installed paper capacity, 60% of plywood capacity and 75% of block board capacity. Indonesian Bank Restructuring Agency (IBRA)-controlled debts included companies with over half of the country's forest logging concessions (Gellert, 2010: 554). The following Table 3.3 below shows some major corporations under IBRA's scheme of debt restructuring. At the end of 1990s, Hasan's Kalimantan Group run logging rights to 1.63 million hectares while Prajogo's Barito Pacific Timber controlled about 3.5 million hectares through twenty-seven companies (Dauvergne, 2005: 178).

The presence of IBRA set an opportunity for a targeted political intervention to reduce the power influence of corporations with low credibility but has significant control in the structure of property rights as regards to forest concessions. However, political economic dynamics brought less

¹⁸ Some points in the Letter of Intent that have strong correlation with forestry sector reform are: 40% increase of land and property tax (point 10); inclusion of Reforestation Fund or Dana Reboisasi (DR) in national budget (APBN) (point 12); establishment of *resources rent tax* (point 37); 10% ad valorem decrease of log export tax (point 37); 10% ad valorem decrease of sawn timber and rattan (point 37); removal of export quota at least for three years (point 38); liberalization of investment (point 39); removal of all barriers to plywood market of the APKINDO price cartel (point 40); removal of retribution (point 42); environmental law drafting, increase of forest stumpage fees, conducting tender for forest use license, lengthen the period of forest concession, allowing transfer of forest use license, applying performance bond, and reducing natural forest conversion (point 50) (Kartodihardjo, 1999: 34; Kato, 2005: 156).

dramatic impacts on the changing power of the corporations. Even though monopoly of corporation in the forestry sector was once torn down after the obliteration of Apkindo, most of the rights to forest land use are still in the hands of conglomerates. The role of the military in Post Suharto era also remains identifiable (see for example, McCarthy, 2000).

Table 3.3. Forestry Tycoons and the Financial Crisis (as of 2000)

Founder	Conglomerate	Major Forestry Asset	Bank	Total IBRA Debt (US\$)
Eka Tjipta Wijaya	Sinar Mas	Asia Pulp and Paper	Bank Internasional Indonesia	42 million
Sukanto Tanoto	Raja Garuda Mas	Riau Andalan Pulp & Paper; Toba Pulp Lestari (formerly Indorayon)	Unibank	92 million
Prajogo Pangestu	Barito Pacific	Tanjung Enim Lestari	Bank Andromeda	640 million
Bob Hasan	Kalimanis APKINDO Suraya Hutani Jaya	Kiani Kertas	Bank Umum Nasional Bank Bukopin Bank Universal	450 million

Source: Barr (2000) summarized in Chidley and Marr (2002).

Oligarchy in forestry sector has survived the economic turbulence as the restructuring of corporations has not corresponded to the needs of reversing uncontrolled deforestation. In the process of debt restructuring, it became clear that environmental sustainability has not been of serious concern despite the failure of many corporations to carry out replanting in the concession areas in previous periods. Instead, the restructuring process has benefitted the interest of private domestic and international business who have been part of the long-lasting deforestation institutions; and who are seeking for security in their access to forest exploitation in the evolving forestry regime. As a matter of fact, some segments of forest concessionaires were able to secure their power by renewing their licenses before the new forestry law was enacted. These trends have led to the sustenance of the structure of resource rent distribution in favor of actors with large financial capital. As quoted from Akbar (1999), many large corporations have secured their license by renewing it before Indonesia entered officially into decentralization era (Kartodihardjo, 1999: 30).

Furthermore, as Barr and Setiono argued, many indebted forestry and estate crops enterprises have been allowed to operate under their pre-crisis owners as long as they agree to repay some portion of their debts over time. Given their engagement with high-risk and illegal activities, this movement has reinforced poor corporate governance that has long existed within the forestry sector (Barr and Setiono, 2001: 101). Debt restructuring in the forestry sector was carried out without a strict consideration by executing agency. As Barr and Setiono explained further, IBRA officials have expressed reluctance to incorporate either a detailed technical forestry audit or social and environmental impact assessments into the debt restructuring process for companies active in the forestry sector. It was argued that such details should be in the hands of the Ministry of Forestry and other regulatory agencies and not IBRA's responsibility. Furthermore, it will be difficult to reach an agreement with debtor companies (Barr and Setiono, 2001: 113). Breaking the long-chain of negative trends that sustain uncontrolled deforestation in Indonesia has met with limited success despite the very precise momentum since the policy negotiation ended with less stringent qualifications for indebted corporations.¹⁹

Resistance towards reform as demonstrated by ambiguous attitude of corporations towards accountability, transparency, and resource use efficiency suggests that a retreat from business as usual is unlikely to be witnessed. Borrowing Robison and Hadiz' thesis: "an effective regulatory state has not emerged in Indonesia, we argue, is precisely because those complex interests, the beneficiaries of the system of distributive administrative oligarchy, proved to be more resilient and pervasive than expected and able to reorganize their power and insinuate themselves successfully into the new economic and political regimes" (Robison and Hadiz, 2004: 190). Despite the opportunity to undertake substantial reform by linking debt restructuring with a more selective options towards eradicating the agents of uncontrolled deforestation in the structure of forest tenure, major actors were able to regain their power. The reemergence of oligarchy in the forestry sector, therefore, brings the attribute of deforestation institutions with it.

¹⁹ This appeared for example in the debates between the then Minister of Forestry, the Economic Minister, and the Ministry of Industry and Trade regarding their positions to shut down half of the total indebted companies under IBRA's scheme. While the Minister of Forestry and the Economic Minister were keen to proceed, the Ministry of Industry and Trade did not support the policy (see Chidley and Marr, 2002).

4.3 Structural Barriers to Social Equality

Despite the presumably enthusiastic drive for reform, post Suharto context has not yet provided a clear answer to communities' demands on tenure security and fair benefit-sharing of forest resource use. It is worth to see how current political economic dynamics has contributed to such condition. As some scholars examined, the structure of resource rent distribution in the forestry sector suggests a picture of a reverse pyramid. In this structure, timber corporations occupied the largest segment of the pyramid with accrued rent represents 67-85% out of total rent generated from timber exploitation in outer islands. The state is at the lower segment with rent capture represented only between 15-33% (Ruzicka, 1979), or was possibly fluctuating between 15% and 27% (Haughton *et al.*, 1992) during the era of timber booms with particularly reference to rent generating revenue through logging in Outer Islands (Barr, 2001: 22) and declining to less than 10% by 1985-86 (Ascher, 1998: 51). The share of community forestry over resource rent is generally undefined, particularly because the existence of community forestry in the total structure of property rights is not clearly organized. Corruption and misuse of forest resources rents also means that it cannot be taken for granted that rent capture by the government goes to optimal use for improving the livelihoods of local communities.

Recognizing community rights has encountered strong resistance by political economic actors at the higher position in the pyramid. This has left the importance of community forestry agenda as a basis for the supposedly long-term fundamental of good forest governance overshadowed by short-term political economic calculations of bureaucrats and politicians who maintain their opposition. Achieving good governance objectives, therefore, is concerned with how various criteria can be implemented against the existing barriers embedded in the structure of property rights associated with authority of powerful actors to accrue the economic benefits of forest exploitation.

Political economic contestation among different levels of government and the revival of corporate oligarchy in the forestry sector affects the movement towards greater social participation. Not only does it retain the existing structure of the reverse pyramid, it also blocks any movement towards power distribution that may strengthen the role of communities. Recognizing community rights means "governments should cede claims of forest ownership and management rights to those communities and households that have historically used and occupied forested lands" (Hatcher,

2009: 4). What makes the ongoing reform in slow progress is because the issue of community rights, in reality, is addressed only in the later layers of the reform. Resource rent contestation within the government structure, indeed, is potentially more damaging. Fay and Sirait (2002) even predicted that “when opportunities to profit from the logging of natural forests end in the near future, the control of land for timber plantation and reforestation projects still become the main arena for rent-seeking activities” (Fay and Sirait, 2002: 141-142).

Land rights recognition will be implemented in a situation where most of concessions remain in the hands of corporate oligarchy. As explained by Fay and Sirait, the state already allocated 65 million hectares to timber industry, 15 million hectares to plantation and 48 million hectares for protected forest including national parks. Overlapping in this area of ‘state forest’ is 482 mining concessions and transmigration areas (Fay and Sirait, 2002: 141). Resistance from corporations towards any efforts that may rationalize the industry through implementing good governance criteria has strong political repercussion on the feasibility of pushing the reform agenda. Political deliberation of the government to acknowledge and to protect the rights of communities as evident among others in the case of Krui Agroforestry was a useful starting point towards more social equality. However, the institutionalization of community forestry requires more comprehensive efforts. Fragmented political deliberation may lead to the question of long-term sustainability. Even though the Ministry of Forestry targeted 400,000 hectares of community forests by 2009 and 2 million hectares by 2012, as of 2008, certificates have been given to 6000 households over an area of more than 8000 hectares (Ministry of Forestry, 2008: 26). Successful reform still depends on the extent to which the changing structural factors fit the political economic calculation of the more powerful actors in the current system, a logic that cannot be reversed by good governance rhetoric.

There is a need to critically review the overall corporate practices by applying more stringent environmental criteria. The evolving structure of property rights as a result of capital restructuring and weak regulatory enforcement has not responded promptly to such needs. This is despite the contribution of unsustainable corporate practices to long unabated deforestation. Political reform is carried out still not by integrating environmental criteria and credibility in the restructuring of property rights, which otherwise may clearly demonstrate the government’s political will towards achieving good forest governance objectives. Also, even though the changing narrative has led to more democratic forest governance, property

regime structure has yet represented such direction. This shows how good forest governance is still paradoxical. A constructive structural change that will reexamine and reallocate structure of property rights based on credibility, transparency, and accountability of forest resource users in maintaining long term ecological sustainability, is definitely of the essence.

CONCLUSIONS

This paper has presented the underlying political economic dynamics that hamper the implementation of good forest governance in Post-Suharto Indonesia. Despite the changing governance narratives, domestic institutions show signs of strong resistance. Such resistance subsists in the deeper political economic structure that has maintained deforestation institutions. The uneasy paths to good governance reveal how the pre-existing political economy structures have reacted negatively to the new reconfiguration of power. They have been seeking ways and to a large extent been able to sustain their power through maneuvering in the new political economic constellation (Robison and Hadiz, 2004). Decentralization has also given rise to political economic clusters at the local level which propagate deforestation under the limitations of unsmooth transition of authority from central to local government. Motivations surrounding rent-seizing have caused a drawback in the transition to decentralizing political authority when it leads to contention between central and local government and among governmental departments over resource rents.

Problems regarding institutionalization of good governance are concerned with not only internalizing new values, but more importantly de-institutionalizing political economic structure which has sustained unabated deforestation. Success and failures of good governance, eventually, is not only concerned with the capacity of the state to govern the forestry sector, but also with the political economic trade-offs that underlies resistance towards institutional change. Indonesian case has also demonstrated the uniqueness of implementing good governance in the area of natural resource management in which ecological balance of resource exploitation should be put as the basis of assessing the responsibility of actors in the structure of property rights. Despite its centrality, this aspect is vaguely handled in the restructuring process of forest corporate businesses because there are failures to integrate environmental criteria in order to dismantle the legacy of unsustainable practices under Suharto era. This further undermines effort

towards good forest governance. At the same time, forests are still jeopardized for short-term incentives.

The implication for future transformation is clear; it is unlikely that a substantial progress in implementing good governance in managing natural resources can be achieved without seriously considering the ecological repercussion of the political economic structure that propagates unabated deforestation and its social ramification. Environmental criteria need to be indicated clearly and implemented in the process leading to decentralizing governance, business restructuring and stronger social participation. Without any significant efforts to deal with the ecological consequences of reform, addressing deforestation remains paradoxical.

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