**Uncovering Regional Wealth**

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

**2013**



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# Glossary

|  |  |  |
| --- | --- | --- |
| APBD | : | Local Government Budget |
| APBD-M | : | Local Government Budget-Original |
| APBD-P | : | Local Government Budget-Amended |
| APBD-R | : | Local Government Budget-Realised |
| 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 Utilisation Permit – Natural Forest |
| IUPHHK-HTI | : | Forest Timber Product Utilisation Permit – Industrial Plantation Forest |
| IUPHHK-RE | : | Forest Timber Product Utilisation Permit |
| JATAM | : | Mining Advocacy Network |
| KP | : | Mining Authorisation |
| LKPD | : | Regional Government Financial Statement |
| LPDS | : | Other Revenue |
| **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 |
| RPJMD | : | Regional Mid-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

In the name of 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 decentralisation, there is the phenomenon of so-called “rich regions”, with a connotation of those regions successfully managing, utilising 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 optimisation 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 analysing 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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| --- | --- |
| **Yenny Sucipto**  Secretary General  Seknas FITRA | **Blair Palmer**  Environmental Governance Program Director  The Asia Foundation |

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This report was prepared based on the results of field research conducted by local researchers from about 10 civil society organisations, 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);
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**Part I**

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

* 1. **Introduction**

**Decentralisation has created new challenges for the management of natural resources and the environment in the regions.** Decentralisation 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 decentralisation era, as well as the appropriate use of incentives, and a minimum of standards, enforcement and assistance from the central government.[[1]](#footnote-1)

**Corruption is another important challenge faced by Indonesia under decentralisation.** 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 decentralised 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.[[2]](#footnote-2) 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.[[3]](#footnote-3)

**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 mitigate its rate of emissions, but also because deforestation in many cases has eliminated a source of public income. Many studies[[4]](#footnote-4) even suggest that the challenges the Indonesian government has to face 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 utilised 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 governance in Indonesia. This study is an attempt to answer that question.

**This study aimed to analyse 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 analyse two issues: *firstly,* it reviewed the potential and realised 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 mitigation. 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. **Research Framework**

**The research framework used in this study is similar to that for analysing national budget policy on land and forest governance.** In previous studies[[5]](#footnote-5) 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.

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 developmentor in non-green-growth development*.* Ensuring that the money that is available supports green-growth development through optimisation 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 framework of this research.

**Diagram 1.1 Framework of Research on Budget Policies in Land and Forest Governance**

* 1. **Research Methodology**
  2. **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[[6]](#footnote-6) 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[[7]](#footnote-7) under review and West Kalimantan province with its Sintang and Kubu Raya districts under review. **Table 1.1** below is 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

**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 realised 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.

* 1. **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 research 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.

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 Realised(R)[[8]](#footnote-8) | 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 Realised(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 | Realised (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 |

**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 analysed and interpreted.

* 1. **Data Analysis**

**Budget policies were analysed by examining trends, proportions and correlations.** This type of analysis has been employed by Seknas FITRA in its study of previous budgets.[[9]](#footnote-9) Below is the scheme of data analysis employed in the current research.

**Diagram 1.2 Scheme for Analysing Land and Forest Governance Budgets**

**Analysis of land and forest governance at the regional level focused on five functions**. These five functions were forestry, mining, environment, agriculture and spatial zoning. Each region has its own scheme to manage these five functions. Some combine several functions into one to enable management under one department and others assign some functions to their own departments. Appendix 1 describes the table on management of functions of the district- and provincial-level governments under study.

# Part II Examining Regional Planning Policies on Land and Forest Governance in Indonesia

**2.1 Regional Authority Over Land and Forest Governance**

**Decentralisation 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 decentralisation 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 decentralisation era natural resources have been an important factor in the sustainability of a region's governance.

**Decentralisation has also led to important changes in the authority over managing natural resources**. Regional governments have a good deal of authority in utilising 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 utilised 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 utilisation 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 utilisation 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]](#footnote-10)

**Table 2.1 Regional Planning Policies on Natural Resource Utilisation 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 utilisation** | Skillfully, wisely and prudently utilising 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** | Become a regional supplier of sustainable energy resources through the use of coal, petroleum, natural gas, geothermal energy, methane gas and renewable energy.  Become a region that is wise in the management and utilisation of energy, water, forests and other natural resources for the public good | 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 | Encourage an increase in revenue, especially from the agricultural, plantation and mining sectors  Provide infrastructure that supports the production and processing of agricultural, forestry, fishery and products of natural resources |
| **Programs** | * Food Storage Barn Program * Program to Increase agricultural productivity and production * Energy Storage Program * Program promoting investment in the mining sector | * 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 utilisation of potential forest resources | * 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

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

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.

Aside from provincial governments, district-level governments also appear to be in a race to utilise 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.[[11]](#footnote-11) 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.[[12]](#footnote-12)

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 maximising monitoring of forest utilisation, 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.

**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[[13]](#footnote-13) 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.

**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 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[[14]](#footnote-14) 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.

**Graphic 2.1 Production Growth of Petroleum, Natural Gas and Coal**

**in South Sumatra and East Kalimantan Provinces, 2009-2012**

Source: Daerah Dalam Angka for each province in 2012

**These three research provinces represent almost half of the forest land under use permits for mining activities[[15]](#footnote-15) 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.[[16]](#footnote-16) East Kalimantan contributes the greatest 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 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[[17]](#footnote-17)**

|  |  |  |  |
| --- | --- | --- | --- |
| **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[[18]](#footnote-18) | 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[[19]](#footnote-19) | 4,726.63 | 30,745.70 | 6,521.08 |
| **Total as of 2012** | **13,790.35** | **186,382.31** | **12,877.84** |

Source: Data from the Directorate General of Forestry Planning 2012, Directorate of Forest Area Use, data to December 2012

**One quarter of the total land area in East Kalimantan is taken up by coal mines.** Based on the data quoted by Jatam,[[20]](#footnote-20) 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.[[21]](#footnote-21) 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 authorisation 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.

**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[[22]](#footnote-22) | 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).[[23]](#footnote-23) 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

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[[24]](#footnote-24) oil palm plantation business permits were issued 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 realised. In reality, the area of oil palm plantation areas on which palms were actually planted in 2012 was only 827,347[[25]](#footnote-25) Ha, and in 2012 the area of oil palm plantations was only 961,802[[26]](#footnote-26) Ha.

**Table 2.6 Area of Oil Palm Plantations[[27]](#footnote-27)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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 addition 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[[28]](#footnote-28)**

|  |  |  |
| --- | --- | --- |
| **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 Puska Antropologi UI, and The Asia Foundation, 2013 unpublished

**The expansion of mining and oil palm areas pose a threat of 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.[[29]](#footnote-29) 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.[[30]](#footnote-30) 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** |
| **Kaltim** | 30 | 26 | 7 | 5 | 37 | 5 | 1 |
| **kalbar** | 55 | 1 | 1 | | 44 | 10 | na |

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

**2.3Exploitative Planning Policies in the Absence of Adequate Recovery Programs**

**The area of critical land[[31]](#footnote-31) in the regions keeps increasing**. Of the three provinces under review, the area of critical land is greatest in[[32]](#footnote-32) 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 critical land covers only 14 percent of the total area. However, East Kalimantan has experienced the greatest growth in area of critical land, constituting more than 300,000 Ha per year from 2007-2011. In South Sumatra province, the area of critical land grew by 250,000 Ha per year during the same period.

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

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

Source: Processed from many sources by Seknas FITRA

**The critical land rehabilitation program has not yet become a priority program at the regional level.** There is minimal information available related tothe area of critical 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 critical land[[33]](#footnote-33) and rehabilitation of 500 Ha of mangrove forest per year. Judging from the existing condition of critical land, the target for this critical land rehabilitation is actually less than optimal, considering that in 2011 there was still 4.6 million Ha of critical land. Using the yearly target of 10,000 Ha, the actual time needed by the East Kalimantan provincial government to nomalise the condition of critical land would be ± 462 years.

**Public access to forest management covers less than 5 percent of the total forest area.** Public access in the utilisation 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/utilised 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/utilisation 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 prioritises corporate and industrial interests over those of the local community in granting access to the utilisation and management of resources.

**Table 2.10 Area of Production Forest Land Utilised**

|  |  |  |  |
| --- | --- | --- | --- |
| **Area of Production Forest Land Utilised (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 legalised 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 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[[34]](#footnote-34), 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 Utilisation, 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 clearly seen 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 Utilisation, 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)[[35]](#footnote-35) 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 is currently being recovered. 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 being opened due to the construction of the road, with an affected area of ± 5,300 Ha**.

# 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 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.

**Graphicic 3.1 - Revenue Composition by District, 2009-2012**

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.

|  |
| --- |
| **Graphicic. 3.2 - Revenue Composition by Province, 2009-2012** |

**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 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.

**Graphicic 3.3 Balanced Funds Composition by Province**

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, 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 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 Rp29 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 Rp32,812, or only 7 percent of the total regional budget. Meanwhile, the national average DBH per capita in the same period was Rp501,573. By sector, realisation of DBH SDA for forestry was Rp2.7 billion in 2009 and increased to Rp6.9 billion by 2011. For the general mining sector, 2009 reached 78 percent or Rp9.5 billion and fell to 47 percent or Rp3.7 billion in 2010, before rising again to 75 percent or Rp20.3 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 decentralisation 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, the Graphic has showed 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.[[36]](#footnote-36)

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

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.

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

**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 realisation. Graphic 3.7 below illustrates this finding.

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

Berau district showed an extreme difference in recording in 2009, with almost Rp50 billion. Meanwhile, Musi Rawas district showed a difference of about Rp2 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, 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.[[37]](#footnote-37) 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.[[38]](#footnote-38)

**3.2 Markdown Symptoms and Revenue Politicisation**

**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.

**Graphic 3.8 Provincial Revenue and Growth, 2009-2012**

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.

**Graphic 3.9 District Revenue and Growth, 2009-2012**

**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 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 Rp6.62 trillion in projected value it reached Rp10.09 trillion in its realised value. South Sumatra also projected its regional revenue in 2011 to reach Rp3.5 trillion, but realised Rp4 trillion. West Kalimantan projected its regional revenue to be Rp1.78 trillion in 2011, and realised Rp2.26 trillion. What these regional governments do in projecting their revenues is called a markdown plan of[[39]](#footnote-39)regional revenue, in which the revenue projection or target is planned to be lower than the previous year in order to makethe performance they report on seem successful because it exceeds the stated target.

**Table 3.1 Comparison of Original (M), Amended (P) and Realised (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 |

**Locally Generated Revenue (PAD) as a component is projected to be lower**. In 2011, East Kalimantan projected its Regional Tax to amount to Rp2 trillion, while its realisation turned out to be Rp3.7 trillion. The same occurred in West Kalimantan, which targeted Rp600 billion, but realised Rp902 billion. The practice of reporting a revenue projection that is lower than its actual realisation 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 Rp7,416,879, with West Kalimantan at Rp2,263,404, and South Sumatra at Rp2,077,762 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 [[40]](#footnote-40) is only Rp1,888,681. 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 Rp1,217,000.

**Graphic 3.10 Per Capita Revenue by Region, 2010**

**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.

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

In Berau district, the DBH per capita in 2009 was Rp3.4 million and increased to Rp5.2 million in 2011. Meanwhile, Bulungan district's per capita DBH-SDA was Rp7.7 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 Rp268.7 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.

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

**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 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 suprisingly 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”[[41]](#footnote-41). 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.

**Graphic 3.13 DBH SDA Revenue and Poverty Levels, 2010**

**3.3 Overview of Regional Spending**

**Graphic 3.14 Provincial Expenditure and Growth, 2009-2012**

**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 realisation, 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[[42]](#footnote-42)of regional expenditure planning. These findings further confirm previous findings of studies conducted by Seknas FITRA.[[43]](#footnote-43) The tendency in regional spending is to plan for higher than the previous year, while the realisation is lower than 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.

**Table 3.2 Comparison of Original (M), Amended (P), and Realised (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 |

The table above explains that a markupof regional expenditure planning occurs in two patterns: **Firstly, the expenditure value for APBD-Realisation 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.

**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.

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.

**Graphic 3.15 District Expenditure and Growth, 2009-2012**

**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.** 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[[44]](#footnote-44). 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.

**Graphic 3.16 Composition of District Spending, 2009-2012**

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 districts 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 from the 2013 budget year at 29 percent of the total regional spending. This aimed to support the accleration of national priority programs.[[45]](#footnote-45)

**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.

**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 Rp490 billion, from Rp773 billion in 2009 to Rp1.26 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[[46]](#footnote-46) 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, realisation 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[[47]](#footnote-47) 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 supporting evidence of budget utilisation and even uncountable social assistance and grants. Furthermore, many fund distributions of social assistancedo not reach their targets. More than 60 percent of social assistance and grant funds are given to those with no social risk.[[48]](#footnote-48)

**Graphic 3.17 Composition of Provincial Spending**

**3.4 Low Budget Commitment for Land and Forest Governance**

**Expenditure on land and forest governance[[49]](#footnote-49) 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[[50]](#footnote-50), namely spatial zoning and environmental affairs, and three others classified into optional affairs[[51]](#footnote-51), 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 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.

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

**Graphic 3.19 Spending in the Land and Forest Sector by Province**

**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 stabilisation 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.

1. **Forestry Affairs Spending**

**Forestry affairs spending is allocated only 1 percent 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.

**Graphic 3.20 Forestry Spending Trends by District, 2009-2012**

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 ***[[52]](#footnote-52)***: ***Firstly***, the unclear Regional Spatial Zoning (RTRW) issues, for which no updated Forestry Minister’s Decree has been issued, meaning 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 utilisation 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 Overal Budget Surplus (SiLPA) higher.[[53]](#footnote-53) 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 realised only 1.8 percent. In 2010, it allocated Rp52.5 billion, but realised only Rp6.9 billion, or absorbed 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 realisation 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.

**Graphic 3.21 Proportion of Regional Spending Allocated for Forestry Affairs**

**The unit cost expenditure for forestry affairs is around Rp5,000 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 consumption costs per individual in Indonesia, which reaches Rp5,000 per day, or around Rp150,000 per month.[[54]](#footnote-54) 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.

**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: Ringkasan APBD berdasarkan Urusan, 2009-2011 (appendix II of perda APBD) and Daerah Dalam Angka (DDA) Provinsi 2012, processed by Seknas FITRA

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

**Forty percent of DBH SDA revenue[[55]](#footnote-55) 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.

1. **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.

**Graphic 3.23 Contribution of DBH SDA on Civil Servant Spending, 2011**

**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).[[56]](#footnote-56) 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 Utilisation 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.

**Graphic 3.24 Expenditure on Spatial Planning Affairs, 2009-2012**

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 conductin 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.[[57]](#footnote-57)

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

1. **Spending on Energy and Mineral Resources (ESDM) Affairs**

**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.

**The ESDM affairs expenditure is less than 2 percent, and its allocation is mostly for apparatus spending**. In general, the average ESDM affairs expenditure realisation 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.

**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 transparently 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)[[58]](#footnote-58) 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.

1. **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 realisation 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.

**Graphic 3.26 Expenditure on Agriculture Affairs, 2009-2011**

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 realisation 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’[[59]](#footnote-59) 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 commited 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.

**Box 3.5 Food Estate Program in West Kalimantan**

The province of West Kalimantan continues to trigger an increase in production of food, especially rice, used to realize the equatorial province’s ambition of becoming a national food warehouse. A big step in that direction started since 2011, among other things by pioneering the development of 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 warehouses” 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/ditjentp/berita-cetak-ribuan-hektar-sawah-baru-kalbar-percepat-pengembangan-food-estate.html#ixzz2mnmac97C>

**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 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 analysing 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 a deficit APBD on inefficient spending and unoptimised revenue practice in the budget establishment (APBD-Original). Such a pattern, as can be seen in the Graphic above, shows that almost every year the regional government plans a budget deficit, while in fact its realisation is always surplus. In East Kalimantan, the deficit of 2011 was planned (APBD-M) to reach to Rp808 billion, yet in the APBD-Realisation (APBD-R) it was found to show a surplus of Rp1.67 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 realisation, leaves a significant amount of money in the current year's SiLPA. At a national level, the establishment of a budget deficit in Kalimantan[[60]](#footnote-60) in the stipulation of the 2011 APBD-Original (APBD-O) was the highest among the regions, reaching -12.2 percent of the regional revenue.

**Graphic 3.27 Provincial Surplus/Deficit 2009-2012**

**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 realisation, and the regional expenditure initially planned to be higher with most of its realisation 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.

**Graphic 3.28 Ratio of SiLPA to Provincial Expenditure, 2009-2011**

Within the last three years, the average current-year SiLPA in East Kalimantan[[61]](#footnote-61) 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 methods of corruption.**

**Altogether the districts of East Kalimantan province have a SiLPA of more than Rp100 billion**. Berau and Bulungan have the highest proportion, between 58 and 97 percent of regional spending. In the 2011 APBD-Realised, the lowest SiLPA of districts in East Kalimantan amounted to Rp129.7 billion, and the highest reached Rp2.83 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 realisation is actually surplus. Additionally, since surplus occurs, the additional previous year’s SiLPA also contributes to the increased current-year SiLPA.

**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 magnitude of SiLPA in East Kalimantan is also intended to be an anticipation of Multi-Year Contract activities, which are not optimally absorbed in the previous year’s budget, for utilisation 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 bugdeting system.[[62]](#footnote-62)

**Table 3.4 Current-Year SiLPA and Its Ratio to Regional Spending,**

**East Kalimantan 2011**

(Million Rupiah)

|  |  |  |  |
| --- | --- | --- | --- |
| **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\*)[[63]](#footnote-63) | 774,686 | 688,558 | 89% |

Source: Database APBD-Realisasi DJPK Kemenkeu 2011, obtained by Seknas FITRA

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 spending 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 utilisation 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 utilise 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.

**Graphicic 3.29 Provincial Real Fiscal Space Per Capita and Its Ratio to Revenue, 2009-2012**

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 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 Rp2,692,164 over four years. At a national level, however, the average fiscal space per capita of these districts is only Rp539,538. Bulungan and Berau districts showed the highest average fiscal space among the six regions above, amounting to Rp6,357,637 and Rp5,029,403 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 Rp932,861 and Rp552,021/individual/year.

**Graphicic 3.30 District Real Fiscal Space Per Capita and Its Ratio to Revenue, 2009-2012**

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.

## 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 optimally with the challenges presented by the decentralisation era for the good of society. Regional responsibility is interpreted 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 during the decentralisation era. 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 prioritise the optimisation of natural resource use with no optimum recovery plan. The regional governments’ visions and missions emphasise 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 authorised, to a fairly great 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 led 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 to monitoring forest damage resulting from mining and plantation activities. The budget allocated for monitoring is really disappointing. Only a few regions make the allocation, and the budget for dispute settlement is allocated in an ad hoc manner since the case is also deemed to be a temporary event.

***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. The scheme through Profit-Sharing Funds for forestry affairs (included in this is DBH-DR forestation fund) in Bulungan was unabsorbed by up to 80 percent because it failed to meet the utilisation 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 for lower gains than are actually realised. In contrast, regional expenditure is always set higher than the expenditure that is realised. 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:
   1. 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, rather than by emasculating them.
   2. Giving more authority to regional governments, particularly for the acceleration of environmental damage recovery or rehabilitation targets, and giving the public access to forestland governance. International experience suggests that public participation in forest governance is effective in maintaining forest coverage. There is a need for further studies on this in order to maximise 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.
   3. Developing an incentive scheme to reduce more massive environment damage, for example, to encourage regional governments that are serious about settling boundary demarcation and land disputes. As is already is known, clear boundary demarcation is a critical stage in mitigating deforestation and land and forest degradation. However, thus far, many regions have not accomplished these activities.
2. That the central government maximise 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:
   1. Developing benchmarksrelated to land and forest governance. For example, a benchmarkfor land recovery costs, number of monitoring personnel per hectare and other issues.
   2. 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.
   3. Adjusting the programs and activities in the guideline structures of drafting an APBD each year in order for strategic activities on preventing deforestation and land and forest degradation to be implemented optimally, such as adding a new account code.
   4. Developing more transparent and accountable public financial management monitoring and control instruments, particularly for tracking regional revenue from the land and forest sector and reclamation guarantee fund.
   5. Encouraging the House of Representatives (DPR) to play a more optimal monitoring role by:
   6. Developing sanction schemes for regions that may be conducting public financial management malpractice. The great number of regions having 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:
   1. Build regional government transparency, participation and accountability mechanisms in land and forest governance. This can be achieved, for example, by developing a 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.
   2. Adjust the programs and activities in the guidelines structure in drafting the APBD each year to ensure optimal implementation of strategic activities for the prevention of deforestation and land and forest degradation.
   3. Use the internal review scheme to assess whether or not planning policies and budgets have been effective enough in preventing deforestation and land and forest degradation.
   4. 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:
   1. Increasing the number of mining inspectors and PPNS using an alternative scheme to improve the monitoring of mining and forest areas.
   2. 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 benchmarksfor 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**

|  |  |  |  |
| --- | --- | --- | --- |
| **Level**  **Affair** | **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 boandary 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 |

1. World Bank, Country Environmental Assessment, Investing in a More Sustainable Indonesia, 2009. [↑](#footnote-ref-1)
2. CIFOR, Tata Kelola Keuangan dan Dana Reboisasi selama Periode Soeharto dan Paska Soeharto 1998 – 2009, 2011. [↑](#footnote-ref-2)
3. Setengah Hati Berantas Kejahatan Kehutanan, Indonesia Corruption Watch, 2012 [↑](#footnote-ref-3)
4. CIFOR, 2011 and World Bak, 2009, *ibid*. [↑](#footnote-ref-4)
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. [↑](#footnote-ref-5)
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. [↑](#footnote-ref-6)
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. [↑](#footnote-ref-7)
8. M = APBD Plan, P = Amended APBD and R = Realized APBD. [↑](#footnote-ref-8)
9. Regional Budget Analysis: Study of 2008-2011 APBD in 20 districts/municipalities in four provinces, Seknas FITRA, 2012: 4 [↑](#footnote-ref-9)
10. World Bank, 2009, *Investing in a More Sustainable Indonesia*, Jakarta. [↑](#footnote-ref-10)
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). [↑](#footnote-ref-11)
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. [↑](#footnote-ref-12)
13. World Bank, 2009: Investing in a more Sustainable Indonesia, Jakarta [↑](#footnote-ref-13)
14. Kementerian Koordinator Bidang Perekonomian Republik Indonesia,2011:Dokumen MP3EI, Jakarta [↑](#footnote-ref-14)
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 [↑](#footnote-ref-15)
16. Total of 33 provinces. [↑](#footnote-ref-16)
17. It should be noted that each government publication contains different forest area figures [↑](#footnote-ref-17)
18. The 2012 data includes the extension/revision of the previous permits [↑](#footnote-ref-18)
19. The 2012 data includes the extension/revision of the previous permits [↑](#footnote-ref-19)
20. Presentation of “Tambang dan Keselamatan Rakyat”, Jatam, 2012 [↑](#footnote-ref-20)
21. Forestry Minitry, 2012: Forestry Profile in 33 provinces, Jakarta: http://www.dephut.go.id/uploads/files/c61ee2b47b73147c42bf266ad0d556a5.pdf [↑](#footnote-ref-21)
22. Malinau, Nunukan, Tanah Tidung, Tarakan and Bulungan have been included as regencies of North Kalimantan Province [↑](#footnote-ref-22)
23. Dirjen Perkebunan, Kementerian Pertanian, 2012: Profil Kelapa Sawit di Indonesia [↑](#footnote-ref-23)
24. http://fwi.or.id/tag/intip-hutan/ [↑](#footnote-ref-24)
25. Provinsi Kalimantan Timur dalam angka tahun 2012 [↑](#footnote-ref-25)
26. RKPD Pemerintah Provinsi Kalimantan Timur tahun 2013 [↑](#footnote-ref-26)
27. It should be noted that each government publication contains different forest area figures. [↑](#footnote-ref-27)
28. Kajian Tata Kelola Hutan dan Lahan di Kalimantan Barat, Puska Antropologi UI – The Asia Foundation, 2013 [↑](#footnote-ref-28)
29. Sekolah Tinggi Pertanahan Nasional, April 2013, Bhumi Jurnal Ilmiah Tertanahan PPPM – STPN nomor 37 tahun 12, April 2013, Yogjakarta [↑](#footnote-ref-29)
30. http://regional.kompas.com/read/2013/09/27/1000488/Konflik.Lahan.Terus.Muncul [↑](#footnote-ref-30)
31. In these terms, critical land is a sum of the critical and very critical land data. [↑](#footnote-ref-31)
32. Based on the critical land data released by the government, the critical land identification includes residential and community agricultural lands. [↑](#footnote-ref-32)
33. RKPD Pemerintah Provinsi Kalimantan Timur tahun 2013 [↑](#footnote-ref-33)
34. Seknas FITRA dan The Asia Foundation, 2013:Mengukur Komitmen: Analisis Kebijakan Perencanaan dan Anggaran Nasional terhadap Pengelolaan Hutan dan Lahan di Indonesia, Jakarta. [↑](#footnote-ref-34)
35. www.antarabengkulu.com/berita/18940/hutan-harapan-terancam-tambang-batubara [↑](#footnote-ref-35)
36. Pusat Kajian Antropologi Universitas Indonesia, 2013 in a study report “Analisis Ekonomi Politik dan Agenda Perubahan Tata Kelola Hutan dan Lahan di Provinsi Sumatra Selatan.” [↑](#footnote-ref-36)
37. Konsolidasi laporan keuangan pemerintah daerah dengan laporan keuangan transfer ke daerah tahun anggaran 2008 & 2009, prepared by Direktorat Jenderal Perimbangan Keuangan, Kemenkeu RI. [↑](#footnote-ref-37)
38. Mumbunan,S dan Wahyudi, R (2012), Transparansi Penerimaan Industri Ekstratktif Sektor Kehutanan di Indonesia, Article 33, Jakarta. [↑](#footnote-ref-38)
39. This term was developed by analysts of regional budgets, pioneered by Seknas FITRA. [↑](#footnote-ref-39)
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. [↑](#footnote-ref-40)
41. Yuli Isnadi, Opini: “Kutukan Sumberdaya Alam” in riaupos.co. Downloaded from http://www.riaupos.co/2358-opini--kutukan-sumber-daya-alam-.html#.UpXRQuJElUY [↑](#footnote-ref-41)
42. This term is used by researchers of budget analysis, including Seknas FITRA [↑](#footnote-ref-42)
43. Seknas FITRA dan Asia Foundation, Analisis Anggaran Daerah 2011; Studi Terhadap APBD Tahun 2008-2011 di 20 Kabupaten/Kota di 4 Provinsi Supported by USAID in KINERJA program. [↑](#footnote-ref-43)
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. [↑](#footnote-ref-44)
45. Ministerial Regulation of Home Affairs No 37 of 2012 concerning the General Guidelines of 2013 APBD Drafting. [↑](#footnote-ref-45)
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. [↑](#footnote-ref-46)
47. Seknas FITRA and The Asia Foundation, Studi Anggaran Daerah 2010; Studi terhadap Anggaran Tahun 2007‐2010 di 42 kabupaten/kota dan 5 provinsi. Supported by Department for International Development (DFID). [↑](#footnote-ref-47)
48. Laporan Ikhtisar Hasil Pemeriksaan Semester (IHPS) BPK Tahun 2012 Semester I, 2012. [↑](#footnote-ref-48)
49. In this report, there are five affairs under review, namely environmental, spatial zoning, agricultural, forestry and energy resources mineral affairs spending. [↑](#footnote-ref-49)
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. [↑](#footnote-ref-50)
51. Mandatory affairs are those governmental affairs the provincial and local governments are required to do, in relation to basic services. [↑](#footnote-ref-51)
52. RKPD Kab. Berau tahun 2013, BAB II - hal. 60-61. [↑](#footnote-ref-52)
53. See SiLPA analysis in regional financing section [↑](#footnote-ref-53)
54. http://health.liputan6.com/read/494714/menkes-orang-indonesia-konsumsi-10-batang-rokok-per-hari [↑](#footnote-ref-54)
55. The said DBH SDA has been deducted with DBH-DR. [↑](#footnote-ref-55)
56. As set forth in APBD spending by affairs (in appendix II of APBD Perda of each region) [↑](#footnote-ref-56)
57. ICEL, Seknas FITRA dan The Asia Foundation, 2013: Indeks Kelola Hutan dan Lahan : Kinerja Pemerintah Daerah dalam Pengelolaan Hutan dan Lahan di Indonesia, Jakarta [↑](#footnote-ref-57)
58. ICEL, *Laporan Penelitian Potret Reklamasi dan Pasca Tambang di Indonesia*, 2011. [↑](#footnote-ref-58)
59. RPJMD Kabupaten Kubu Raya 2009 - 2014 [↑](#footnote-ref-59)
60. Deskripsi dan Analisis APBD TA. 2011, Direktorat Jenderal Peimbangan Keuangan (DJPK) – Kemenkeu RI, 2011 [↑](#footnote-ref-60)
61. Data processed by Seknas FITRA based on the realization of 2009-2011 APBD, downloaded from website djpk.depkeu.go.id. [↑](#footnote-ref-61)
62. See page 20 of Chapter III in RKPD Provinsi Kalimantan Timur 2013 [↑](#footnote-ref-62)
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. [↑](#footnote-ref-63)