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# PRODUCTIVE LANDSCAPES (PROLAND)

## COMMUNITY-BASED FORESTRY ENTERPRISES INDONESIA VERIFICATION TRIP REPORT



**MARCH 2019**

This publication was produced for review by the United States Agency for International Development. It was prepared by Tetra Tech.

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All photos courtesy of the ProLand project.

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INDONESIA VERIFICATION TRIP REPORT

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## **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# TABLE OF CONTENTS

- ACRONYMS AND ABBREVIATIONS.....ii**
- 1.0 INTRODUCTION ..... 1**
- 2.0 FINDINGS AND CONCLUSIONS REGARDING THE CBFE ENABLING CONTEXT.2**
- 3.0 FINDINGS AND CONCLUSIONS RELATED TO ENABLING CONDITIONS.....4**
  - 3.1 TENURE AND ENABLING POLICY ..... 4
  - 3.2 COMMUNITY AND CBFE INSTITUTIONS ..... 6
  - 3.3 SOCIAL ENTERPRISE BUSINESS MODEL ..... 7
  - 3.4 VALUE CHAIN PARTNERS ..... 8
- 4.0 KEY AREAS FOR FURTHER ANALYSIS ..... 11**
- ANNEX 1: SCHEDULE AND LIST OF KEY INFORMANTS ..... 12**
- ANNEX 2: SITE VISIT DETAILS ..... 15**
- ANNEX 3: BRIEF DESCRIPTION OF SOCIAL FORESTRY COMPONENTS .....21**

# ACRONYMS AND ABBREVIATIONS

BLU	<i>Badan Layanan Umum</i> (Public Services Agency)
CBFE	Community-Base Forestry Enterprise
FMU	Forest Management Units
FSC	Forest Stewardship Council
GHG	Greenhouse Gas
KHJL	<i>Koperasi Hutan Jaya Lestari</i>
Lestari	USAID Program to Reduce Land-based Green-House Gas Emissions and Conserve Valuable Biodiversity in Carbon Rich and Biologically Significant Forest and Mangrove Ecosystems in Indonesia
NGO	Nongovernmental Organization
NRM	Natural Resources Management
NTFP	Non-Timber Forest Product
ProLand	Productive Landscapes
SOBI	<i>Sosial Bisnis</i> Indonesia
SFE	Smallholder Forestry Enterprises
SVLK	Timber Legality Verification System
UKIR	Creative Unit of the People's Industry NGO
USAID	United States Agency for International Development

# I.0 INTRODUCTION

ProLand is undertaking a series of field trips to validate a draft Sourcebook for USAID Missions on designing and implementing activities that incorporate community-based forestry enterprises (CBFEs) as an integral part of sustainable landscapes programming. The draft Sourcebook focuses specifically on CBFEs that engage in timber production. The field visits seek input from in-country USAID officers and local practitioners as well as other knowledgeable sources.

The draft Sourcebook is based on ProLand’s “An assessment of critical enabling conditions for community-based forestry enterprises,” which identified four categories of critical enabling conditions required for successful CBFEs:

1. **Secure rights** to develop, exclude others, and sell a forest product or service are important for long-term social enterprise investment. While these rights are the most basic policy requirement, other policies contribute to a robust enabling environment.
2. **Governance, organization, and management** that provide effective leadership and technical knowledge to the CBFE, accountability to the community, and ensures the CBFE’s financial integrity.
3. **A viable social enterprise model**<sup>1</sup> that produces financial benefits sufficient to reinvest in forest and business management and growth, and provides economic benefits (though not necessarily cash) to the community as a whole.
4. **Partnerships with value chain actors** to access external funding and technical support, help aggregate timber from several communities (or individual producers), market timber to buyers, and build/maintain infrastructure. These partners include national and local government, donors, civil society organizations, and private sector entities.

The assessment includes input from 18 key informants, including several from USAID missions. ProLand asked USAID staff if their missions would be suitable for and support a ProLand team validating the Sourcebook in their country. ProLand first conducted a validation trip to Mexico in December 2018, and Indonesia became the site of the second validation visit following Indonesia’s Senior Natural Resources Advisor/Team Leader expression of interest in participating on behalf of the mission.

This report documents observations during field visits to CBFEs in Indonesia, intended to validate and refine guidance about CBFEs. Deeper background assessment, results of other field visits, and the guidance have been published as separate documents. The Indonesia field trip took place from March 4–13, 2019. The ProLand team comprised Chief of Party Mark Donahue; CBFE International Forestry and Land Tenure Consultant Chip Fay; and locally based CBFE consultant Sandika Ariansyah. The team visited key informants in Jakarta, Lampung Province, and Konawe Selatan in Sulawesi, and spoke to informants supporting smallholder timber cooperatives in Java according to the schedule and locational map in Annex 1. Interviews followed a question guide exploring the CBFE-enabling conditions, found in Annex 2, and the ProLand team addressed other relevant issues as they arose. We wish to thank USAID/Indonesia for hosting the team, USAID Lestari for their logistical support, and all the informants who gave freely of their time with enthusiasm.

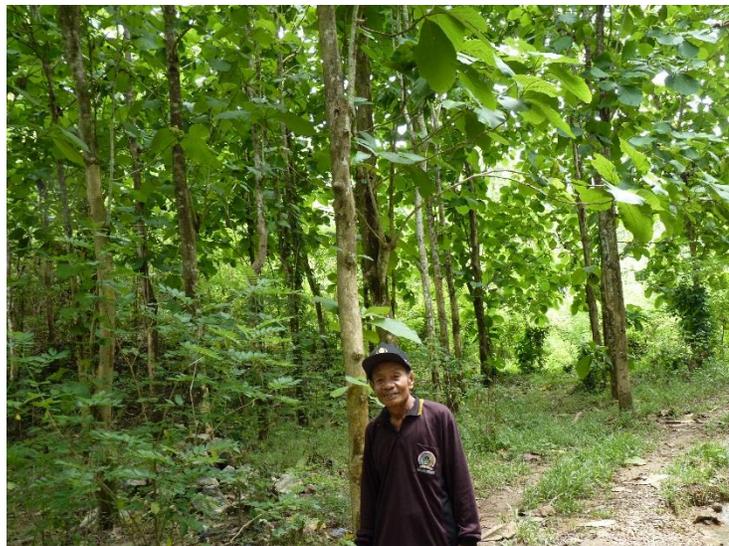
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<sup>1</sup> Social enterprise is used to reflect social, economic, and environmental goals of CBFEs in contrast to the traditional economic and financial emphasis of many “business” models.

## 2.0 FINDINGS AND CONCLUSIONS REGARDING THE CBFE ENABLING CONTEXT

The ProLand team presents several broad observations here. These complement the subsequent structured presentation of the four enabling conditions (collated as Section 3 below, and by site in Annex 2). Some observations are features that distinguish Indonesia from many USAID-supported countries, while others are emerging factors relevant to CBFE programs elsewhere that will help improve the draft CBFE Sourcebook.

- Observations and interviews by the ProLand team, as well as our review of the literature, indicates that individual smallholder-planted timber in Indonesia does not fit our definition of a CBFE. In the model, which predominates in Indonesia, communal governance is not evident because the community does not oversee forestry-related land use and does not have the authority to manage benefit distribution, nor are smallholders accountable to the community for their land use decisions. Due to this difference, the team concluded that **the Indonesian institutions visited are Smallholder Forestry Enterprises (SFEs), not CBFEs<sup>2</sup>**. As such the community tenure and governance aspects of the first two ProLand enabling conditions do not apply. However, other aspects of the enabling conditions were validated.
- Findings from ProLand CBFE assessment suggest that the **enabling conditions around rights and governance will have to be strengthened to establish a viable CBFE in areas like Papua and West Papua provinces**, where collective management of forests by local indigenous communities is still practiced, and valuable commercial timber species are present.
- While forestry policies have become more inclusive, pervasive **government resistance to viewing forest product commercialization by communities as a legitimate and sustainable source of income generation remains**, especially from timber. This barrier is likely the biggest impediment to SFE development for timber production and reflects the fact that around 70% of all new social forestry licenses are in protection forests, as opposed to production forests, where policies permit timber harvesting.



*Figure 1. Smallholder farmer in his teak farm plot in Southeast Sulawesi*

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<sup>2</sup> ProLand defines CBFEs as a “community-endorsed enterprise that commercially uses forest resources to generate income that sustains the enterprise, while providing some agreed benefits to the community as a whole.”

- The Indonesian **regulatory framework for the state managed Forest Zone disadvantages local communities interested in sustainably harvesting from natural forests** classified for production. Not only does government policy disadvantage local forestry interests, but various government regulations prohibit community groups from planting trees and managing tree regeneration for timber inside the Forest Zone.
- Counterintuitively, most SFEs, particularly **those focusing on timber production, are most successful outside the designated Forest Zone**, due primarily to fewer regulations and that trees on farm and other “agroforestry” commodities produced outside the Forest Zone are generally treated as agricultural.
- Possibly the most important and broad-based finding concerns **local communities’ tendencies to avoid collective action**. Some interviewees reported that this situation is a result of the 32 years of dictatorship under Suharto when the government actively opposed any form of independent community organizing, which left an entire generation unfamiliar with the efficacy and power of collective action.
- Absent organization around community governance institutions, **SFEs predominantly follow a tiered smallholder cooperative business model**<sup>3</sup> rather than a social enterprise model (in the sense of the CBF Sourcebook) and rely on partnerships with nongovernmental organizations (NGOs) and donors for operational and technical support.
- Because smallholders have small parcels of land (typically 0.5-2 hectares) and forest (even smaller), **SFE cooperatives must aggregate up to thousands of farmers across many villages to achieve economies of scale**. This scale limits enterprise capacity development at the smallholder level.
- As a result of this business model, **SFEs often engage in additional economic activities to help cover SFE operation costs** and provide income to producers during the gaps between timber harvests.
- The team was struck by what appears to be extremely low levels of government assistance to local farmers and farmer groups to access government social forestry programs.
- There has been **little historical focus by the Indonesian government and NGOs on business or social enterprise capacity** development. We saw evidence of this in SFEs visited that had not yet developed business plans based on market studies and existing inventories, and on realistic projections of the timber volumes.
- Despite all the challenges to establishing SFEs, the team was impressed by the **continued commitment of many farmers to plant tree species for timber**. However, this commitment is accompanied by deep discouragement because of the low prices farmers receive for timber.

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<sup>3</sup> The first tier is typically made up of individual community level producers and the second tier is the product and service aggregators and marketers. See Section 3.3 for more description of this business model.

## 3.0 FINDINGS AND CONCLUSIONS RELATED TO ENABLING CONDITIONS

### 3.1 TENURE AND ENABLING POLICY

Indonesia's past and current forest tenure policies and regulations present significant challenges to SFE and CBFEE establishment. The Indonesian Government oversees the management of the Forest Zone, which covers over 70 percent (140 million hectares) of the country. Indonesia has designated about a third of this Zone for protection, 21 percent for conversion to other uses, and 45 percent for timber and other forest product production.<sup>4</sup> The state-sponsored forestry industry initiated in the 1970s led to a boom in which Indonesia either exported most of its harvested tropical hardwoods or pulped them for paper production. Although the government based its guidelines for creating the Forest Zone on criteria related to the protection of existing natural vegetation, areas of conservation importance, and land rights, many communities lost tenure and land use management rights over land they had used historically.

In the late 1980s, in response to backlash from communities excluded from accessing resources in the Forest Zone, the government began piloting social forestry approaches on the main island of Java as a strategy to reduce conflict with villagers. This program, initiated by the *Perum Perhutani* (State Forestry Corporation), allowed local farmers to practice horticulture in the rows between teak or other quicker-rotation tree species (*Tumpang Sari*, "relay cropping"). In the Outer Islands, the Ministry of Forest agreed to issue licenses to local communities to collect non-timber forest products (NTFPs) from natural forests, but the Minister had to personally sign each permit.

A reformist cabinet passed the current forestry law in 1999, soon after the fall of President Suharto. An overlooked component of this law divides Indonesia's Forest Estate (or Forest Zone) into two types: private, where communities hold rights over the land, and public, in which no one claims rights. Since 1999 the Forestry Ministry has done little to identify and delineate private rights within the Forest Zone and has at times opposed efforts from the Bureau of Lands to do so. Yet, a social movement of indigenous communities to gain recognition of their rights over their territories continues to grow. In Papua and West Papua provinces, Indonesia's most forested jurisdictions, local claims are particularly strongly articulated. While the potential for establishing CBFEEs as defined by the ProLand assessment is high in these provinces, numerous efforts over the past few years failed to get either approval or support from the Ministry of Environment and Forestry in Jakarta.

In addition to the Indigenous Forest category that would allow CBFEEs in Papua and West Papua, the government's social forestry program has four other categories (see Annex 3 for more detail).<sup>5</sup> For each of these other categories, the Ministry provides time-bound management licenses for local community groups, which are typically composed of smallholders. Management classifications break down into either production or protection. This distinction is important, since the government does not allow harvesting of timber in areas classified for protection, including national parks and watershed forests.

Targeted to reach more than 12 million hectares during the five-year development plan ending in 2019, the most recent data (2018) show that the social forestry program covers approximately 1,850,000 hectares, less than 14 percent of the government target. Meetings with forestry officials confirmed their

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<sup>4</sup> <http://www.fao.org/3/w7730e/w7730e07.htm>.

<sup>5</sup> This category, *Hutan Adat*, is unlike the other social forest programs as it is based upon the recognition of collective and private *Adat* land rights inside the Forest Zone.

commitment to expand the social forestry program, but officials were unable to describe details of programs supporting SFEs.

Social forestry regulations for land use within protection and production forests may not reflect sustainable natural resource management best practices. Management policy within the Forest Zone is largely determined by whether land is designated as a production or protection forest. Permit holders in production forests can plant, manage, and harvest NTFPs. The law also allows timber harvesting but enabling regulations have not been developed and promulgated. According to a government official interviewed, the government is in the process of modifying the regulations for production forests to address this issue. This revision of regulations is a potential opportunity for donor support.

Permit holders in protection forests cannot harvest timber, but they can harvest NTFPs, produce agroforestry products other than timber, and market environmental services like tourism and watershed protection. While on the surface this regulation aligns with conservation best practices, many of these forests are already degraded and deforested and as such, could benefit from tree regeneration and planting alongside sustainable timber production. At the same time, the management classification may not align with ecological conditions or needs, and restrictions on timber resource use may reduce incentives for protecting trees. Notably for future timber-based SFE establishment, one informant<sup>6</sup> mentioned that 70 percent of social forestry licenses approved to date are in protection and conservation forests.

However, since social forestry regulations permit multiple uses, SFEs have an opportunity to combine income streams from different products and services within a single forest area or even through different forest areas. Diverse land use options can help SFEs increase income, which may help them become more sustainable. Several SFEs visited in Southeast Sulawesi have permits for areas in both production and protection forest, and thus have the opportunity to diversify products.



*Figure 2. Smallholder farmer in Lampung in his planted timber plot*

All SFEs visited had applied to, or were in the process of applying to, different government social forestry schemes as a strategy to increase the potential production area. Several had acquired permits but were unable to move forward with production due to a lack of support from the provincial Forest Management Units (FMUs) for implementing their proposed plans. Indonesia is creating local government FMUs responsible for planning and managing forest resources throughout the Forest Zone although only a handful of FMUs are functioning and only a few of those provide direct assistance through forestry extension. Several informants noted that the effectiveness of local government depends largely on the skill and politics of the individuals in charge.

Farmers establish most Indonesian SFEs using resources from forest gardens. In terms of timber extraction, there is no experience of natural forest being included in these SFEs. As a result, local farmers plant the timber legally marketed from forest gardens. Despite losing land rights in the Forest Zone, farmers plant trees with agroforestry systems referred to locally as “forest gardens” (*Kebun*).

<sup>6</sup> From an interview with Hasbi Berliani, Program Director for Kemitraan, an NGO that supports the Ministry of Environment and Forestry's efforts to expand social forestry license program.

Among other agronomic and income diversification benefits, people plant trees to provide income in times of crisis or economic need. To sell timber on private land outside the Forest Zone, smallholders need only a land certificate obtainable from the village head. The SFEs that the team visited (and most communities in Indonesia) continue to use lands inside the Forest Zone for agroforestry and agriculture. However, they are reluctant to plant trees in that Zone, as they do outside through government sponsored reforestation programs and their own initiatives, for fear they will be unable to harvest the timber.

The impact of past and current government wood export policies on timber prices is unclear. Government policy bias against supporting or even allowing these agroforestry systems to have timber species as their “drivers” links to persistent government policy driven by undervaluation of SFE timber potential. Examples of this policy include export bans on logs and sawn timber as well as semi-processed rattan products. Research demonstrates that while these bans are intended to develop and protect local industries, they have had the perverse effect of reducing farmgate prices for primary producers by as much as 40 percent.<sup>7</sup> Export bans can create a high internal availability of raw material, leading to reduced prices. While lower prices benefit processing industries, individual farmers lose income.

### 3.2 COMMUNITY AND CBE INSTITUTIONS



*Figure 3. Village head and member of the KHJL cooperative in South Konawe, Sulawesi*

All SFEs visited in Lampung, Sumatra, and Konawe, Southeast Sulawesi, are smallholder timber cooperatives at different stages of development. The community governance enabling conditions from the CBE Sourcebook did not apply to these SFEs due to several factors that differentiate forestry enterprises consisting of individual smallholder timber producers from those with community-managed forests. These distinguishing factors include: a) village level land resource planning and management is in its early stages in Indonesia; b) smallholder timber producers mostly plant trees on their own private land outside of the Forest

Zone; and c) the small individual forest plots managed by smallholders requires participation of hundreds to thousands of timber producers aggregated through cooperatives for viability, which often means including farmers across several villages. The team noted that under current conditions (with a few exceptions, such as in West Papua) it is unnecessary in Indonesia to have a separate community governance institution to oversee smallholder SFEs or incorporate accountability to and benefits for the community into the SFE management structure. As land use decentralization evolves through formalized village land use planning and governance, this could change.

SFE technical, business, and administrative capacity at the producer-group and even second-tier cooperative levels are limited in the SFEs visited. Low capacity is likely due to the complexity involved in

<sup>7</sup> [https://www.lestari-indonesia.org/en/lestari-brief-impacts-of-semifinished-rattan-export-ban-on-land-conversion-environment-and-farmers-prosperity/thumbnail\\_policy-brief-2\\_eng/](https://www.lestari-indonesia.org/en/lestari-brief-impacts-of-semifinished-rattan-export-ban-on-land-conversion-environment-and-farmers-prosperity/thumbnail_policy-brief-2_eng/)

aggregating enough smallholder producers to achieve economies of scale, and as such, to heavy reliance on subsidy and value chain partnerships. This limited capacity was an important factor in the collapse of the cooperative *Koperasi Hutan Jaya Lestari* (KHJL) in Konawe Selatan. In the early part of this decade, KHJL was the “poster child” for SFE development. Spanning 46 villages, KHJL gained Forest Stewardship Council (FSC) certification for timber in 2005 and had a membership of 744 farmers with an aggregate of 750 hectares. The cooperative organized members into Management Units at the village or village-cluster level. Each member had a vote, and members elected cooperative management staff. After the cooperative lost access to its market in Java (see page 11), members returned to selling timber individually on stump for a fraction of the price they had previously received. Despite their numbers, they were unable to negotiate better prices from intermediaries and maintain a higher value chain position.

### 3.3 BUSINESS MODEL

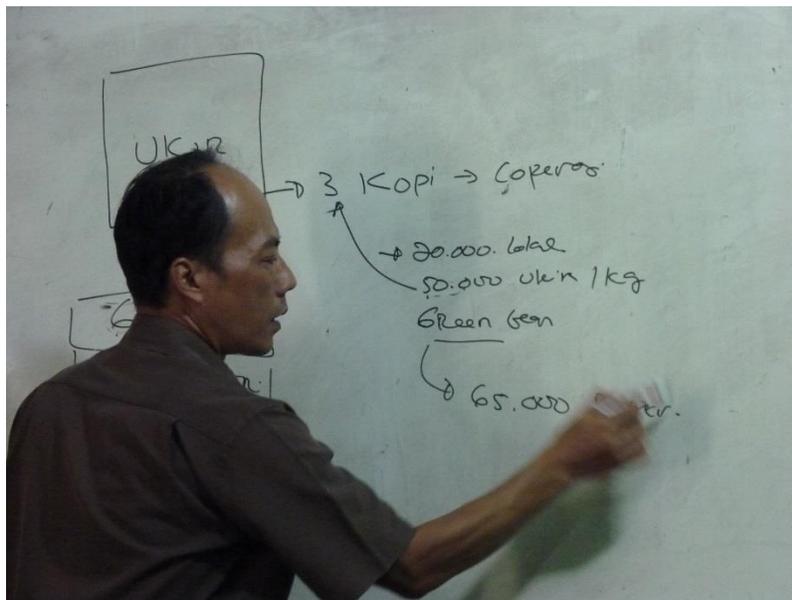


Figure 4. UKIR Director explaining how the timber cooperative is based on its coffee cooperative model

As noted above, the SFEs visited, and most SFEs in Indonesia, are not social enterprises. They are not based on communal tenure, or community governance of individual land holdings, and benefits do not accrue to the community as a whole. The ProLand team uses “business model” rather than “social enterprise model in this Indonesia report as a more accurate designation of these “family businesses” and aggregating cooperatives.

A key challenge inherent to SFEs in Indonesia is having adequate forest resource (commercial timber volumes and value) to support an economically viable business model. This issue results from

limited land area allocated to communities for sustainable use, and very small plots of smallholder planted timber within these areas. The SFE business model promoted in the forest groups visited, and the more mature SFEs operating on Java that the team reviewed, reflect this challenge. Individual smallholders still in the nascent stages of enterprise development make up all these SFEs except for KHJL. As in the case of KHJL and other reported SFEs in Java, the SFEs visited were in the process of forming tiered timber cooperatives. In Lampung, the groups visited are modeling their timber enterprise around a tiered coffee cooperative facilitated by the NGO UKIR (Creative Unit of the People's Industry). The first tier includes smallholder farmer groups or cooperatives at the community or intercommunity level. The second tier aggregates the first-tier farmer groups; UKIR will either manage them or facilitate establishment of a separate entity (see Figure 6).

Smallholder cooperative members pay dues, sell their timber to the second-tier cooperative (for above-market prices, in the case of KHJL), and receive a portion of the cooperative profits, if any. The first-tier groups manage nurseries, provide seedlings to interested farmers, and maintain their timber plots. The second-tier cooperative is responsible for planning and managing harvests, developing commercial agreements, facilitating certification and access to finance, and supporting primary or secondary

processing. UKIR currently operates with small amounts of partner funding (*Kaoem Telapak* supports SFE establishment; Samdhana Institute supports access to a social forestry scheme; Rainforest Alliance supports commercialization) but hopes to use eventual profits from the sale of timber to administer the second-tier cooperative.

Organizing and managing production from hundreds of smallholder-planted timber plots of varying ages, species, and quality adds another level of complexity. The SFEs visited had not yet developed business plans based on market studies and existing inventories or realistic projections of future timber production volumes. Several SFEs visited and interviewed were applying for legal access to land inside the Forest Zone. The additional land could provide access to additional commercial timber resources, but it could also further complicate the business model: long-term reforestation and/or restoration efforts are required, because in many cases harvesting has depleted commercial tree species in the Forest Zone. In Konawe, KHJL obtained a social forestry permit for a large area inside the Forest Zone, but cooperative members do not have the time or resources to work on it. In the case of Java, rights to additional land in the Forest Zone might reduce market access since there is a limited number of buyers that comply with the more stringent regulations on timber sales from the Forest Zone.



Figure 5. From ProLand CBFE Assessment, “Representation of a possible tiered organizational structure” (adapted from Macqueen, Bolin, and Greijmans, 2015)

Even when SFEs have sufficient timber to establish a viable business, accessing markets that are more lucrative remains a challenge. All SFEs visited target the timber market on Java island, despite the additional logistics and cost related to transport and the more rigorous quality requirements, including FSC certification and the government-required Timber Legality Verification System (SVLK). Groups in Lampung and Southeast Sulawesi do sell to local markets for pulp and furniture making but prices are very low, and sales are mostly to middlemen. While KHJL demonstrated that access to the Java market from another island is possible, when KHJL was unable to compete with increased production and competitors on Java, it was unable to adjust its business model to access new markets.

### 3.4 VALUE CHAIN PARTNERS

The SFEs carry out most value chain functions, but at the input end, as government value chain partnering options are absent, they rely on substantial donor and NGO financial support and technical and managerial direction to establish and maintain themselves. As discussed, the Indonesian government prioritizes its social forestry program and is making progress toward increasing the numbers of permit holders. However, emphasis is on assisting groups to apply to the program. Once the government provides permits, groups do not receive the support they need to apply the production, management, and commercialization plans outlined in their permit applications.

SFEs are responsible for everything from identifying buyers and negotiating sales prices, to managing legality and certification and forest management; they are also responsible for transport and finance, and, in the case of KHJL, for sawmill processing and export. As such, the right value chain partnerships are essential to their success. At the same time, the SFE cooperative business model relies on external support to access value chain partners leaving the enterprise susceptible to decline or collapse when that support disappears.

In the KHJL example, KHJL produced teak for the Java market, where furniture manufacturers add value and export to the global market. Initiated by the NGO Telepak, the cooperative received substantial support from The Forest Trust (forest certification and management, and market access), as well as from the local NGO JAUH (community organization and livelihoods), funded mostly by the UK-supported Multi-Stakeholder Forest Project. Once external support ceased and the supply of teak on Java increased, the cooperative became stagnant. One informant interviewed did mention a potential commercial opportunity currently facilitated by Telepak, but it is unclear whether this will materialize



Figure 6. Tree nursery in Lampung Province

and under what conditions.

Telepak and its business partners established PT. Sosial Bisnis Indonesia (SOBI) in 2016. SOBI, which “acts as a market hub to promote and connect sustainable wood-derived products from the community-based cooperatives to fulfill the market demands,” has held discussions with some of the KHJL Management Units about buying their timber for the Java market.

The UKIR-supported groups are holding discussions with Rainforest Alliance and an IKEA furniture manufacturer contactor to evaluate a

potential business relationship for sourcing acacia from central Lampung, although at the time of our visit it was unclear whether the discussions will evolve into a commercial agreement.

The team found that access to seedlings was not a problem in any of the places visited, due largely to support from provincial forestry officials, and sometimes from the office of the FMU. In some places, good-quality seedlings were available at reasonable prices from local nurseries.

None of the groups visited have had success negotiating with intermediaries or furniture makers, which could therefore be an area for potential value chain support to SFEs. In all cases, farmers complained about receiving extremely low prices for their trees. Low prices reduce the incentive to invest in relatively long rotation tree crops over other production activities. In most cases, farmers were selling their trees on the stump to middlemen. In Lampung, several farmers complained that they lost many other species in their forest gardens due to damage from the harvesting of timber species, citing this problem as yet another reason for their waning interest in tree farming.

One study shows that the profitability of brokering timber varies substantially from location to location, with Java being the most profitable. A 2014 study that looked at outcomes for forest certification by

smallholder timber growers noted that the profit share of middlemen was not always greater than that of timber growers, but they did not have to wait as long as farmers to gain the return. The study also noted that it was not unusual for the middlemen to arrange all permits for harvesting and transport, which in Java could reach 13 percent of the farm gate price and in Sulawesi could go as high as 32 percent. These costs are often passed on to the producers.<sup>8</sup>

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<sup>8</sup> Stewart H.T.L., Rohani, D., and Irawanti, S. (2014b). *Special Study into the Outcomes of Forest Certification for Smallholder Forest Growers*. ACIAR Project FST/2008/030.

## 4.0 KEY AREAS FOR FURTHER ANALYSIS

### ***How to make forest protection profitable / Will results-based payments/fiscal incentives materialize?***

Indonesia is a priority country for maintaining and increasing forest cover in the global effort to reduce land-based greenhouse gas (GHG) emissions. For several years, policymakers, academic institutions, and civil society have explored options for making forest protection and increasing tree cover a livelihood strategy for local communities. Communities benefit little from being in a protected forest area, and local farmers are getting little return on their planted timber.

The Indonesia-Norway partnership, as defined in the 2010 Letter of Intent, is now entering its third and final phase. This phase includes payment for performance. The main performance indicator is a measurable reduction in deforestation rates across Indonesia. The imminent first payment to Indonesia from Norway for documented reductions based on 2017 data will serve as an important precedent.

In September 2018, the Government of Indonesia issued Presidential Regulation No 77/2018, mandating establishment of an Environment Fund managed via a public services agency (*Badan Layanan Umum*, or BLU). This fund, which will disburse part of the Norway funding, is designed to reward performance and community-based forest protection and tree planting. The BLU will likely become operational in 2020, but its policy and fiscal framework remain at the design stage. The question remains how favorable the rules developed by the BLU will be to local communities. Clearly, input into the policy process that will define the parameters of the BLU operation is important to improve and protect the role of communities in sustainable natural resource management. This role is central to new efforts to assure that these communities realize benefits from community-based sustainable management. The process badly needs a focused and long-term effort at participatory policy development and implementation of community-based reward mechanisms for protection. Over 10 years, such a program could prove pivotal in successfully protecting Indonesia's remaining forests and increasing forest cover as part of strategies to mitigate land-based GHG emissions.

### ***Is there a robust demand for farm-grown timber? What is the current supply?***

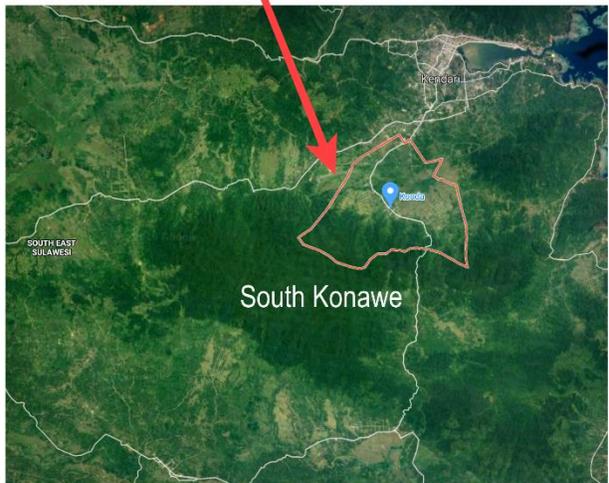
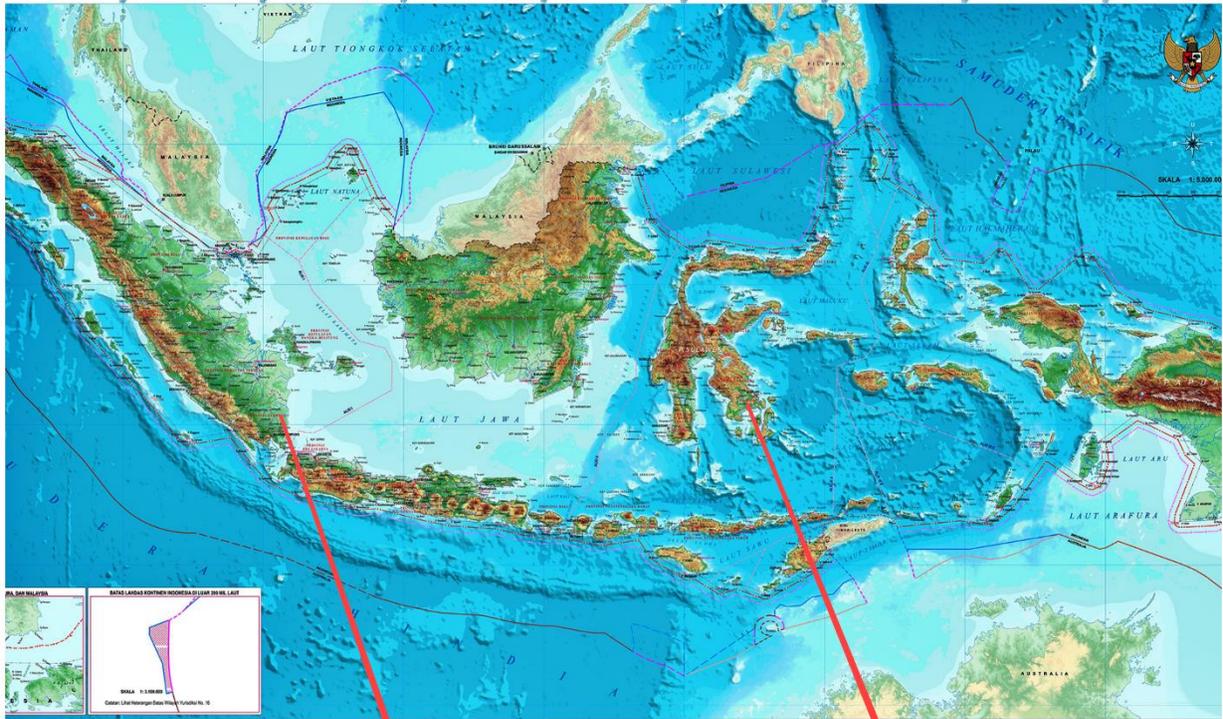
A clear picture of supply and national and international demand for Indonesian soft and hardwoods requires detailed study. To the best of our knowledge, up-to-date information does not exist. Anecdotal evidence from interviews with timber traders and the Ministry of Environment and Forestry staff points to rapid rises in the price of timber from natural forests in Indonesia, but there appears to be no corresponding increase in the price of planted quick-rotation timber that can be substituted in some cases for hardwoods. Understanding the impact of past and current export regulations and prohibitions on the price of farm timber would also be useful.

# ANNEX I: SCHEDULE AND LIST OF KEY INFORMANTS

Contacts and scheduling outside USAID were made by consultant Chip Fay based on his broad and deep experience with SFE development in Indonesia. The primary contact is listed, though other individuals joined discussions in most cases. A map of field locations is below the table.

Name	Title, organization	Contact information (all phone numbers +62)
<b>Jakarta: 4 March</b>		
James Halperin	USAID Senior Natural Resources Advisor/Team Leader	<a href="mailto:jhalperin@usaid.gov">jhalperin@usaid.gov</a>
Matthew Burton	USAID Director, Environment Office	<a href="mailto:mburton@usaid.gov">mburton@usaid.gov</a>
Mohamad Rois Ridlo	USAID Project Management Specialist (Forestry and Biodiversity), Environment Office	<a href="mailto:mridlo@usaid.gov">mridlo@usaid.gov</a>
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Amen Budiarjo	USAID	<a href="mailto:abudiarjo@usaid.gov">abudiarjo@usaid.gov</a>
<b>East Lampung: 5-6 March</b>		
M. Sidik Farmer groups facilitated by UKIR	Director, UKIR Association (Creative Unit of the People's Industry Association) <ol style="list-style-type: none"> <li>Cooperative Wana Karya Tani Sejahtera, Buana Sakti Village, East Lampung</li> <li>Cooperative Makmur, Toto Projo Village, East Lampung</li> </ol>	M. Sidik, 62 813-7910-1402
<b>South Konawe, 8-9 March</b>		
KHJL Farmer groups facilitated by KHJL	Hutan Jaya Lestari Cooperative <ol style="list-style-type: none"> <li>Gapoktan Teporombu, Ambololi Village, South Konawe</li> <li>Gapoktan Andakule, Tanea Village, South Konawe</li> <li>KTH Samaturu, Lambakara Village, South Konawe</li> </ol>	Abdul Maal, local facilitator (member of KHJL) 62 822-92041725  Syamsuddin, local facilitator 62 852-4164-0422
<b>Jakarta, 10 March</b>		
Christopher Bennett	University of British Columbia, Professor	<a href="mailto:c.bennett@ubc.ca">c.bennett@ubc.ca</a>
<b>Jakarta, 11 March</b>		
Erna Rosdiana	Ministry of Environment and Forestry, Directorate General: Perhutanan Sosial dan Kemitraan Kehutanan (PSKL). Directorate: <ol style="list-style-type: none"> <li>Directorate Penyiapan Kawasan Perhutanan Sosial (PKPS)</li> <li>Directorate Bina Usaha Perhutanan Sosial dan Hutan Adat (BUPSA)</li> </ol>	Erna Rosdiana, Director of PKPS 62 812-1051-514
FMU support program representative	GIZ	
<b>Jakarta, 12 March</b>		
Hasbi Berliani, Program Director	Kemitraan (Partnership for governance reform)	Hasbih Berliani, 62 812-3752-077

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*Field sites visited in Lampung and Konawe*

## ANNEX 2: SITE VISIT DETAILS

The following tables are arranged by the four enabling conditions, which formed the framework for organizing information gathered at each site. The first two columns are the guiding information for the interviews. The last and third columns are responses from informants (see Annex 1) with some clarification from Sandika when needed, based upon his extensive knowledge of Indonesian SFEs in general and the sites visited.

### I. WANA KARYA TANI SEJAHTERA AND MAKMUR COOPERATIVES; UKIR ASSOCIATION (CREATIVE UNIT OF THE PEOPLE'S INDUSTRY)

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
<b>Policy</b>			
<b>Tenure Land/trees</b>	Access, ownership, exclusion, timber harvest	In Lampung, UKIR supports establishment of a second tier SFE (coop) made up of three first tier smallholder farmer cooperatives with a total covering 172 hectares on private or community forests outside the state forest zone. 60% of the farmers either have land title or a certificate from the village head, permitting sale/transport of planted timber. UKIR is also helping coops apply for social forestry program in 450 hectares of production forests.	Clarify tenure with remaining farmers. Provide support to farmers to legally use and access timber and NTFPs on de facto village land located inside the forest zone through the social forestry program (productive and protected zone).
<b>Other policies</b>	(support, neutral, interfere)		
Forestry		Smallholders have full rights over land and forest resources outside the forest zone. State forest zone designation restricts land use in areas historically used by farmers. Big push at national level for allocating social forestry licenses, although the protection zone is prioritized. Regulations for accessing production forests are complex and burdensome. Provincial level social forestry working group charged with implementing policy not functioning effectively.	Support revision and piloting of simplified social forestry regulations for state forest production zone. Support strengthening of social forestry working group. Document and communicate SFE advances outside forest zone to demonstrate effectiveness and potential of SFE model.

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
Land use conflict		Private/communal land tenure inside and outside forest zone unclear in some instances.	Support participatory mapping to determine land boundaries between group members and boundaries with state forests (if overlap occurs)
Business (markets, trade)		Past and current log/plantation export restrictions may influence low domestic timber prices.	Evaluate the impact of timber export policies on domestic sector
Other sectors?	Agriculture, conservation.	State forest zoning may not effectively reflect conservation and economic development needs. Regulations for areas allocated for protection do not allow harvesting of planted trees but allow coffee and even maize production.	Support revisions to land use regulations in protection forests
CBFE policy advocacy	Need; presence, absence	UKIR is a pioneer in encouraging community social entrepreneurship scheme-based farmer groups and cooperatives. Others such as Kemitraan, Telepak, and the Independent Forest Monitoring Network support SFE policy as well.	Support exchange visits with government officials and SFEs inside and outside Indonesia – to show the potential and continued challenges of SFEs.
<b>Organizational Capacity</b>			
Community governance	Structures, relationships, legitimacy	There is no direct organizational relationship between community governance and SFEs.	
CBFE management		Each cooperative has its own internal governance structure in accordance with government requirements. UKIR is establishing a secondary cooperative made up of the three primary cooperatives that it will oversee.	Provide support to establish a transparent management system that includes checks and balances, builds the capacity of coop members, and allows for expansion of members.
Aggregation	Intermediary level; coops, associations	The limited forest resource of smallholders requires aggregation of hundreds, possibly thousands, of farmers to effectively reach the Java market. UKIR is developing a database of members, including the extent and also the potential of timber (inventory of standing stock) of each member.	Provide assistance to evaluate existing and potential forest resources as well as market needs, and the aggregation size range (number of farmers/hectares) needed for viable cooperatives at different levels.
<b>Social Enterprise Model</b>			
Forest resource	Quantity/quality	Forest resource is divided amongst hundreds of smallholders spread across many villages and sub-districts. Quality, age, species, and density vary. Most land managed by farmers is privately owned typically of 0.5-1 hectares with various types of trees planted based on local needs, including Acacia, Albizia, Hibiscus, teak, bayur, Gmelina, and	Support more extensive forest resource feasibility, value chain, and market assessments. Explore feasibility of expanding business model to include additional NTFPs and agroforestry crops.

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
		pulai. Most farmers do not plant trees in their farms inside the forest zone due to perceived risk of not being allowed to harvest.	
Value chain position	On-stump – finished product spectrum	UKIR is trying to replicate its coffee cooperative model. The SFE initiative partly comes from an exchange visit between UKIR and Peten, Guatemala. Details of business model are still being explored. Some members sell timber on the stump individually. UKIR trying to assist with most aspects of value chain, including aggregation, technical support, marketing and sales. Coops managing tree nursery and providing seedlings for free.	Support development of realistic business models and plans based on the above assessments. Strengthen enterprise development capacity. Support value-added processing based on feasibility.
Financial aspects	Revenues re-invested Community benefits Access to external finance	Absence of or limited opportunities for accessing business capital. Currently support comes from NGOs.	Evaluate options for financing, including use of village development funds, and loans from buyers based on future harvests.
Market access	Remoteness, spread out, local transport	Target market is “external” (Java). Currently, members sell to intermediaries, who dominate the market, and control prices. UKIR is exploring market opportunities with IKEA (Rainforest Alliance is facilitating) and others. These options require FSC certification, adherence to quality and volume requirements.	Support/strengthen local/regional market linkages in Lampung. Try to use aggregation to negotiate with intermediaries, furniture makers, or other local/regional buyers.
<b>Value Chain Partnerships</b>			
Roles of private sector	Finance Marketing Technical Other	Absent support from government, SFEs rely on private sector and civil society organizations for value chain support, from harvesting to commercialization.	Building partnerships with buyers and investing in value-added are priorities
Roles of government	Finance Marketing Technical Infrastructure/equipment Other	Ministry of Environment and Forestry (MoEF) provides legal access to forest management to the community through the Social Forestry scheme. Support from MoEF is provided through; 1) Establishment of a social forestry business group (KUPS). 2) Providing tools for management of timber, NTFP & environmental services	Strengthen the technical and administrative capacity of forward thinking FMUs.

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
Roles of civil society	Network Marketing Technical Other	UKIR leads/facilitates SFE development. Kaoem Telapak supports SFE establishment; Samdhana Institute supports access to social forestry scheme; Rainforest Alliance supports commercialization.	Build partnerships with similar organizations in other parts of Lampung or Sumatra Region and at the national level
Roles of donors/projects	Finance Marketing Technical Infrastructure/ equipment Other	UKIR depends entirely on donor support.	Coordinate efforts with government decentralization processes and FMU implementation.

## 2. GAPOKTAN TEPOROMBU, GAPOKTAN ANDAKULE AND KTH SAMATURU, SOUTH KONAWE, SOUTHEAST SULAWESI

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
<b>Policy</b>			
<b>Tenure</b> Land/trees	Access, ownership, exclusion, timber harvest	In Southeast Sulawesi, Gapoktan Teporombu and Gapoktan Andakule are social forestry business groups (KUPS) with permits covering both production (100 ha and 330 ha) and protection forest (60 ha and 70 ha); KTH Samaturu is a forest farmer group located on private lands that was formerly a part of KHJL.	
<b>Other policies</b>	(support, neutral, interfere)		
Forestry		The groups have use rights over land and forest resources but those in the social forestry program have been unable to go beyond the permitting process. Lack of timber traceability systems makes it difficult to prove timber is legal.	Support harmonizing policies and simplifying permit process and forest product use. Support timber traceability system.
Land use conflict		Private/communal land tenure inside and outside forest zone unclear in some instances.	Support participatory land mapping to determine land boundaries between group members and boundaries with state forests (if overlap occurs)
Business (markets, trade)		Past and current log/plantation export restrictions may influence low domestic timber prices.	Evaluate the impact of timber export policies on domestic sector

TOPIC	FACTORS	STATUS AND ISSUES ARISING	PROJECT/DONOR SUPPORT; current & key needs/gaps, issues
Other sectors?	Agriculture, conservation	Social forestry policies support other agriculture and agroforestry products and environmental services.	Evaluate the potential to incorporate diverse products and services into SFEs.
<b>CBFE policy advocacy</b>	Need; presence, absence	Telepak and JAUH have provided significant policy support.	Support exchange visits with government officials and SFEs inside and outside Indonesia to show potential and challenges of SFEs
<b>Organizational Capacity</b>			
Community governance	Structures, relationships, legitimacy	The farmer groups have an internal governance structure in accordance with MoEF requirements for establishment of social forestry business group (KUPS), but it's essentially a list of members with leadership titles.	To strengthen linkages with and support from FMUs.
CBFE management		With KHJL stagnant, the enterprises remain at the KUPS level.	Institutional and technical capacity development to strengthen KUPS. Evaluate the possibility of establishing a new cooperative or incorporating timber and NTFPs in existing agricultural cooperatives.
Aggregation	Intermediary level; coops, associations	With KHJL stagnant, there is no aggregation entity in the region. The farmer groups expect to become business units themselves because they already have forest management licenses.	Provide assistance to evaluate existing and potential forest resources as well as market needs.
<b>Social Enterprise Model</b>			
Forest resource	Quantity/quality	The forest managed by farmers groups is a mixture of private and state forest with individual areas of 1-2 hectares with various types of trees planted based on local needs. Condition of the land is quite diverse with different ages and types of trees	Support more extensive forest resource feasibility, value chain, and market assessments. Explore feasibility of expanding business model to include additional NTFPs and agroforestry crops.
Value chain position	On-stump – finished product spectrum	The first two groups sell on stump. The groups have working plans in accordance with regulations, but the plans are not being implemented due to lack of resources and knowhow.	Help groups develop realistic work plans, and link them with funding sources such as government or donor programs.
Financial aspects	Revenues re-invested Community benefits Access to external finance	Currently no funding has come from banks or investors to KUPS. KHJL had received grants previously and accessed commercial financing.	Evaluate options for financing, including use of village development funds, and loans from buyers based on future harvests.

<b>TOPIC</b>	<b>FACTORS</b>	<b>STATUS AND ISSUES ARISING</b>	<b>PROJECT/DONOR SUPPORT; current &amp; key needs/gaps, issues</b>
Market access	Remoteness, spread out, local transport	No market to buy sustainable timber from farmers at competitive prices. Some members sell privately to unregistered local buyers.	Support/strengthen local/regional market linkages. Try to use aggregation to negotiate with intermediaries, furniture makers, or other local/regional buyers.
<b>Value Chain Partnerships</b>			
Roles of private sector	Finance Marketing Technical Other	Absent support from government, SFEs rely on private sector and civil society organizations for value chain support, from harvesting to commercialization.	Building partnerships with buyers and investors in value-addition are priorities
Roles of government	Finance Marketing Technical Infrastructure/equipment Other	MoEF provides legal access to forest management for the community through the Social Forestry (SF) scheme. Currently the authority is given to the provincial government to manage forests inside the state forest based on proposals from the community. Support from MoEF is provided through; <ul style="list-style-type: none"> <li>1) Establishment of social forestry business group (KUPS).</li> <li>2) Providing tools for management of timber, NTFP &amp; environmental services</li> </ul> MoEF and the Local Government can't fully support this initiative due to lack of resources.	Strengthen the technical and administrative capacity of forward thinking FMUs.
Roles of civil society	Network Marketing Technical Other	After the project Multi-stakeholders Forestry Program together with JAUH and Telapak ended and KHJL was formed, no donor or other project had continued the work	Help groups develop realistic business models and plans that can be used to solicit support from donors and NGOs.
Roles of donors/projects	Finance Marketing Technical Infrastructure/equipment Other	There are no longer donors or projects to support social forestry initiatives unlike in the past. There are several new initiatives exploring interventions such as with PT SOBI.	Coordinate efforts with government decentralization processes.

## ANNEX 3: BRIEF DESCRIPTION OF SOCIAL FORESTRY COMPONENTS

### Social Forestry Components:

1. *Hutan Kemasyarakatan* (Community Forestry) is one of the earlier approaches and is based on local people forming a legal body, usually a cooperative, and being awarded a permit over an appointed area of the Forest Zone based on an approved management plan. This approach is primarily implemented in watershed forest areas (25-year contract renewable).
2. *Hutan Desa* (Village Forests) is like community forestry but based on a government recognized village unit. This approach is generally implemented in various forestry classification types with the exception of strict conservation zones (35 years renewable).
3. *Hutan Tanaman Rakyat* (Peoples Plantations) is a social forestry approach launched in 2006 with an ambitious target of 5 million hectares by 2012. Of all the social forestry components, this approach has the most land area set aside for implementation. Though not explicit in its initial design, it has become apparent over time that this approach was intended by many within government to supplement fiber supplies to the paper mills. A rich debate over the species allowed for this program took place soon after its inception resulting in a long and impressive list of allowable species.
4. *Kemitraan* (Partnership) is the least defined social forestry approach designed as an opportunity for local communities to “partner” with the legal entity that holds the forest management license over a given area of the Forest Zone. While this approach is implemented in some protection areas (watersheds), it has also become most relevant for timber plantations (HTI), which are required to partner with local communities in 20% of their existing concession areas. Species planted under this component are referred to in separate regulation as *Tanaman Kehidupan*, or livelihood species. This approach can be implemented in all forest types (conservation and production).
5. *Hutan Adat* (Indigenous Forests) is the most recent and potentially far-reaching social forestry component. It is based on the collective recognition of indigenous territories and negotiated management plan with the Ministry of Environment and Forestry. While this component has high potential, little area has been placed under this classification and implementing guidelines are still nascent compared to the other four social forestry components. When looking at “reaching scale”, the Hutan Adat approach has the potential to reach the largest amounts of communities and area, making it a focus of community and forestry and SFEs and potentially of true CBFs.

Data from the Directorate General of Social Forestry and Environmental Partnerships (DG of PSKL-KLHK) on the achievement of legal access permits for 2018. The following tabulation of data per region and per-schema:

No	Province	Caprian 2018						Total	%
		Target RKP 2018	HD	HKm	HTR	KK			
I	Wilayah Sumatera	683,833	194,616	186,158	44,688	29,663	455,125	66.55	
II	Wilayah Jabalnusra	176,069	1,713	23,683	1,132	70,991	97,519	55.39	
III	Wilayah Kalimantan	632,318	231,080	51,384	30,761	50,933	364,158	57.59	

No	Province	Caprian 2018						
		Target RKP 2018	HD	HKm	HTR	KK	Total	%
IV	Wilayah Sulawesi	149,504	95,737	46,638	2,944	223	145,542	97.35
V	Wilayah Maluku Papua	358,276	169,388	23,225	288	-	192,901	53.84
	Total	2,000,000	692,534	331,088	79,813	151,810	1,255,245	62.76

(source of material for presentation from Director of Preparation Forest Area of Social Forestry, Mrs. Erna Rosdiana)

*Note: the data above only focus on four schemes, namely HD, HKm, HTR and KK. For the Customary Forest and Private Forest scheme, the mechanism is regulated through other regulations because the status of the forest is outside the state forest.*

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