



# Forest Management Unit (FMU) Mainstreaming in Forest Policies and Forest Licensing

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**Forest Management Unit (FMU) Mainstreaming  
in  
Forest Policies and Forest Licensing**



## PREFACE



Forest Management Unit (FMU) Development is mandated in Law Number 41 Year 1999 on Forestry, and has been emphasized in Government Regulation Number 6 Year 2007 j.o. Number 2 Year 2008 on Forest Arrangement and the Development of Forest Management Plans and Forest Utilization. In the practice of FMU development and operationalization some barriers and constraints were found, especially in the set up of existing policies or regulations which are directly related to FMU.

Existing policies and regulations are still not based on field level management realities as commanded and mandated by existing laws. Therefore, FMU development as a central effort in Indonesia's forest management reform process, leads to change in mindset of forest governance that must be separated from our past and current habits in managing forests.

The greatest challenge is to convey an understanding to all parties on the basic conception and prevailing legislations; for future forest management there must be a separation of duties which actually is equal in weight, namely: forest maintenance duty and forest management duty. There should be a separation of functions between forestry institutions that perform administrative functions as a political regulator and the institutional function which performs area management functions at field level with the scope of activities that are technical forestry.

This study, "Mainstreaming FMU in Forest Policies and Forestry Licensing" is part of an effort to systematically integrate FMU development and operation into the mainstream paradigm of forest management and forestry related matters that is necessary to be carried out in the perspective of forest policies. In this study, identification of laws and regulations which have high leverage in their relation with FMU functioning as forest management organization/institution at site level has been carried out. As a result, recommendations of this study are presented, it is important to get adequate attention to be followed.

Preparation and publication of this study book comes as a result of cooperation between the Ministry of Environment and Forestry (cq. Directorate General of Forest Planology) with FORCLIME GIZ PROGRAMME (Cooperation Programme between Indonesia and Germany in forestry).

To all parties, reviewers/authors, experts and practitioners as information sources who have contributed by providing opinions and information, we would like to thank them.

We sincerely hope that this book will be beneficial

Director General.

A handwritten signature in black ink, appearing to read 'Bambang Soepijanto', written over a large, stylized circular mark.

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## SUMMARY

During the last 10 years an extreme decline of active management in production forests has occurred in Indonesia, partly due to a lower performance of forest licensing in production forests. At the same time, protected forest management which is conducted by local governments has not increased significantly. In 1992 natural forest enterprises still accounted for 580 forest concession companies with an area of 61.38 million hectares, but in November 2013 the remaining forest concession companies merely amounted to 272 companies with an area of 22.8 million hectares under management. Indeed 179 of these companies do not operate. Furthermore, from the 245 plantation business companies, 139 companies do also not operate at present.

Under these conditions, the production forest area of about 80 million hectares and the protected forest area of about 30 million hectares are highly vulnerable to deforestation and forest degradation because of very weak local forest governance. Therefore, mainstreaming the Forest Management Units (FMU/KPH) at national but especially sub national level is needed. This study focuses on regulatory changes of licensing for large scale as well as small businesses and local communities to clarify the relationship with the FMU as smallest permanent local forest management entity.

The core of this review is the analysis of the following regulations of the Forestry Minister: (1) P. 50/2010 and P. 26/2012 on procedures for granting and the expansion of working area for the licensing for natural production forest (IUPHHK-HA), licensing for natural forest restoration (IUPHHK-RE), or licensing for plantation forest (IUPHHK-HT); (2) P. 52/2008 and P. 29/2009 on procedures and requirements extension IUPHHK-HA on natural production forest; (3) P. 56/2009 and P. 24/2011 on work plans for IUPHHK-HA and IUPHHK-RE; (4) P. 62/2008 and P. 14/2009 P19/2012 on work plans for IUPHHK-HT and plantation forest for local people (IUPHHK-HTR); (5) P. 18/2011 and P. 38/2012 and P. 14/2013 on guidelines for forest area leasing (for mining).

The revision of the licensing regulation is also important to accelerate the functioning of FMUs, especially Production FMUs (KPHP). This revised licensing regulation will be closely linked and set up with other parties (outside the Ministry of Forestry), especially to the Ministry of Energy and Mineral Resources and to Local Governments. To facilitate the policy review process, the agenda and the action plan for 12 Ministries/Institutions (NKB-KPK) has been coordinated by the Corruption Eradication Commission (KPK) and the Presidential Working Unit for Development Control (UKP4). In this context to improve local forest governance, this licensing policy review can be used as a guidance how to effectively conduct FMU mainstreaming, mainly to harmonize the interests of other sectors and local governments with regard to the FMU role on licensing.



## INTRODUCTION

1. Forest management through FMU development besides being implemented as mandated in Law No 41/1999, is also an effective solution for managing forest areas in countries where none or only weak management has been on the ground. Despite having been proclaimed for a long time, this policy was only realized within the last 5 years, especially after the issuance of PP No 6/2007 jo PP No 3/2008. Therefore it is not yet fully able to function as expected.
2. The Policy of the Ministry of Forestry in establishing the model FMU, including office facilities and infrastructure, as well as trainings for prospective heads of the FMU has been significantly become the concrete realization of the FMU concept on the ground. However, at national and sub national level the capacities are not yet in accordance with what is needed; one of the barriers found is the existence of many regulations and forestry development programmes that do not consider the FMU concept. Besides, some regional heads or heads of the forestry services have not anonymously accepted the FMU concept. Generally speaking, such cases are due to perception that the FMU is supposed to reduce or partly take over the role of forestry administrations and it is considered as a cost center which would cause local or regional disadvantages.
3. Based on such reality, this study on FMU mainstreaming was conducted, and based on the initial discussion of this study design, the mainstreaming of FMU is focused on the policies of permit issuance and working relations between FMU and other institutions at regional level.

## THE CONDITION OF LICENSING AND URGENCY OF FMU MAINSTREAMING

4. During the last 10 years generally the forest governance situation in Indonesia has not experienced many changes. Management and concession of natural production forests continue to decline and plantation forests has increased (**Figure 1**), on the other hand the lease and use permit of forest area for mining continues to increase (**Figure 2**).

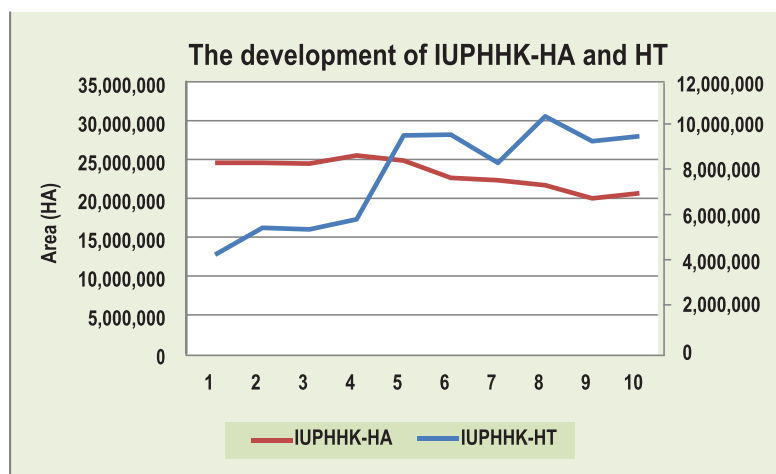


Figure 1. Decrease of Natural Forest Business and Development of Plantation Forests, 2003-2013 (Data source : Directorate General of Forestry Business, Ministry of Forestry, edited)



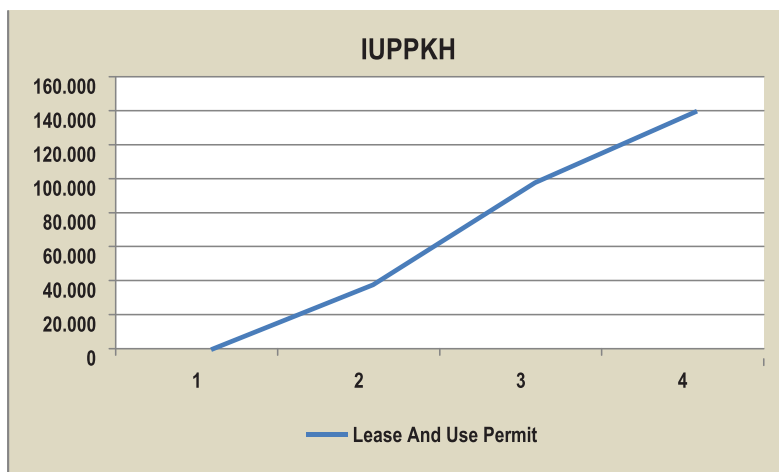


Figure 2. Increase of Mining Business inside Forests Area 2010-2013 (Data from DirGen Planology, Ministry of Forestry, processed)

5. Forestry business performance mentioned above is not quite encouraging. Most of natural forest timber utilization licences (IUPHHK-HAs) and even plantation forest utilization licences (IUPHHK-HTs) are no longer operational on the ground for several reasons (Figures 3 and 4). Results of the evaluations conducted by the Directorate General of Forestry Enterprise Development showed several underlying causes, such as (Kemenhut, 2013):
- Low log prices relatively to the higher production cost;
  - High transaction costs;
  - Various conflicts in land-use either with indigenous/local communities and/or with other permit holders;
  - Low capacity due to the company's management that is no longer the prioritized investment of the owner.

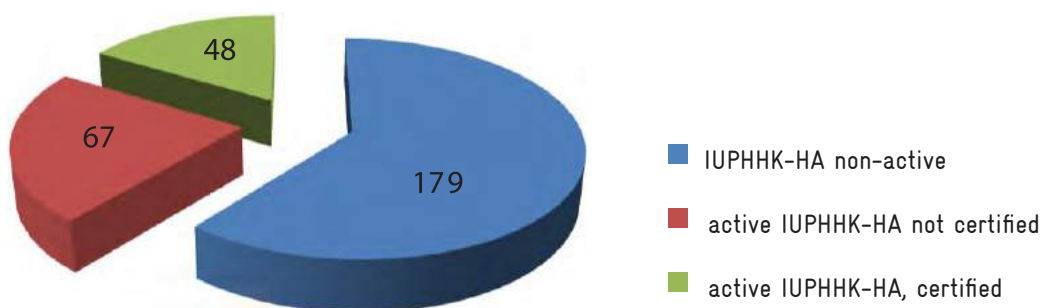


Figure 3. Performance of IUPHHK-HA, December 2012

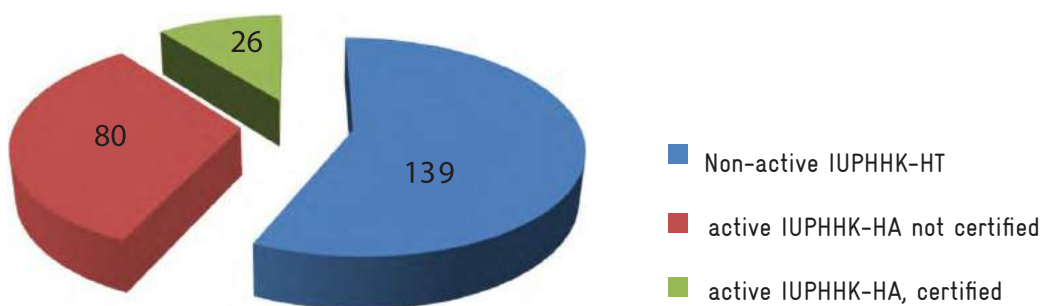


Figure 4. Performance of IUPHHK-HT, December 2012

6. In the past decade, the state forest area has been increasingly threatened, either by the development of agricultural plantation and mining investments, population growth, or by judicial decisions that substantially delegitimize the status of forest areas which generally are still in the state of being designated. Legally, the state forest still possess large area and function, but de facto it is not the case on the ground. There cognition of the real conditions of the Indonesian forest status and functions – in terms of accountability and effectiveness -has not been realized yet. The basic data related to the real situation in the field usually does not become part of discussions and national planning processes. Besides, almost all of the spatial plans always aim at a conversion of forests for non-forest development. The de facto situation of millions of villages and forest area use for non-forest purposes has not been resolved to the present (**Annex 1**).
7. Amidst that situation, expectations on the forestry sector rose sharply, especially in the context of climate change and therefore several new action plans have been set up-especially at cetral and provincial levels-although the solutions (among others: FMU development, accelerating its establishment, simplification of licensing, conflict resolution) are still partially ready and still categorized as “expected” and not becoming a real evidence of how the challenges can be resolved. The great expectations towards efforts to control forest damages is haunted by the issue of injustice in forest usage allocation, especially forest usage by communities (HKM, HTR, HD, partnership schemes) is still stagnating and not yet gaining any priority, especially by regional governments.

**Table 1. Forest Utilization and Usage (million ha)**

<b>1. Big Business &amp; Public Interest</b>		
<i>Types of Utilization and Use</i>	Million Ha	%
a. Natural forest timber concession license (IUPHHK-HA)	24.88	
b. Plantation forest timber concession license (IUPHHK-HT)	9.39	
c. Ecosystem restoration concession license (IUPHHK-RE)	0.19	
d. Release of plantations& trans migration area	5.93	
e. Mining concession license (IPPKH-Mining), etc	0.62	
Total of 1	41.01	99.49
<b>2. Small Business and Indigenous/Local Communities</b>		
Type of Utilization	Million Ha	%
a. Community timber plantation license (IUPHHK-HTR)	0.16	
b. Village Forest (HD)	0.003	
c. Community Forest (HKM)	0.04	
Total of 2	0.21	0.51
Total of 1 and 2 :	41.69	100.00

Source: Regulation of the Ministry of Forestry No. 49/2011

8. The deteriorating situation in forestry business mentioned above is also caused by bad forest and land governance which indicates 4 unresolved and prolonged main issues (UNDP, 2013, Table 6), namely:
- a. open access to state forest area
  - b. conflicts in forest and land governance
  - c. high transaction costs and corruption, and
  - d. legal/regulatory substances and law enforcement;

**Table 2. Assessment of Forest and Land Governance Index at the Center and 10 Provinces**

Location	Index of Forest	Law & Policy	Government Capacity	CSO Capacity	Community Capacity	Business Capacity	Performance
Central	2.78	2.80	2.49	3.00	2.95	2.97	2.46
Aceh	2.07	2.47	1.82	2.75	2.26	1.24	1.90
Riau	2.28	1.89	2.11	2.72	2.05	2.68	2.23
Jambi	2.38	2.26	2.23	2.78	2.04	2.63	2.34
South Sumatra	2.19	2.05	2.64	2.30	1.37	2.36	2.45
West Borneo	2.73	2.28	2.24	3.32	3.39	2.97	2.20
Central Borneo	2.64	2.29	2.47	3.21	2.56	2.72	2.59
East Borneo	2.42	1.98	2.36	2.60	2.47	2.76	2.34
Central Celebes	2.52	2.03	2.66	2.71	2.86	2.15	2.71
West Papua	2.29	1.99	2.37	2.40	2.11	2.47	2.40
Papua	2.41	2.32	2.12	2.63	2.51	2.32	2.56

**Description: Value interval 0-5. Source: UNDP, 2013**

9. Based on their study regarding the forest and land governance in Indonesia in 2012, the UNDP team has identified four issues, namely: the vast forest area that caused an open access due to lack of management on the ground, conflicts in forest and land use and ownership, weak policy and law enforcement and high transaction costs or the occurrence of high economic costs in the process of obtaining and implementing forest concession management. The UNDP team's finding has been confirmed through its advanced study, both regarding the transaction costs in obtaining and implementing forest licenses and interviews conducted by this study. **In Annex 2** it can be seen that almost all respondents stated that all policies give a positive effect to the occurrence of transaction costs. The policies are including the following:
- a. Implementation of licensing processes, especially the inclusion of forest reserves, macro-micro forest analysis, recommendation from the Governor/District Head (Bupati for obtaining the concessions and conferral of shares;
  - b. Implementation of forest planning, mainly comprised of business work and annual plans validation, delineation of permitted area boundaries and implementation of periodic comprehensive forest inventory (IHMB);
  - c. Production of forest products, which is comprised of admission and utilization of tools, permits for preparation and use of corridors, technical staff recruitment, and operational cooperation in managing plantation forests;
  - d. Trade systems of forest products, which is comprised of forest product information system Management, DR and PSDH management, and PHPL and VLK certifications;



- e. Activities related to forest areas, such as exchange of forest areas, lease and use permit for mining and timber utilization permit related to development of plantation forest or forest conversion for non-forestry businesses;
  - f. Other policy implementations such as routine monitoring and supervision of licensing or forest protection activities including occurrence of conflicts.
10. Forest license stipulation the forest concession area where done when the forest gazettelement and forest establishment was not included the location of the forest concession permit. Thus, implementation of license granting discretion was not executed objectively. It is also due to the high cost of permit management that licensing service for local communities are being neglected. Besides, permit management is also carried out by the prospective permit holder to finalize internal affairs and between the Government and Local Government. Besides, the spatial information (the boundary between forest area and the presence of 3rd party) generally is not available accurately, so the permit recommendation is only administrative. The consolidated elites' power and influence caused the policy and licensing practice to be meaningless and not functioning as forest resources utilization controlling instrument.
11. Based on all above facts, it is very important to operationalize the role of FMU in accordance with PP No. 6/2007jo PP3/2008, which will result not just for physically fulfilling the vacuum situation in forest management at site level, but philosophically and strategically also will change many things in forestry development as a whole.









## THE CONCEPT OF FMU MAINSTREAMING

12. Although in this study the implementation of FMU mainstreaming practically is related to laws and regulations which determine permits and work relationships, yet the definition of mainstreaming itself has a broad meaning, starting from the understanding of mainstreaming individually-both for decision makers, forestry business actors, NGOs, academics and society-until FMU is capable to be included in several levels of development planning, at national, provincial and district/city levels.
13. Functionally, FMU mainstreaming is expected to clarify the three roles of forestry governance, namely:
  - a. Forest administrations enforced by the Central Government/Local Government as regulators of forest resources. Governmental functions such as licensing and implementing public policies like determining the areal status and function of forests, are carried out in this scope of forest administration.
  - b. Forest management which is carried out by FMU and acts as forest use planner and as regulator of forest use planning, utilization, rehabilitation and supervision on the ground.
  - c. Forest planning, which is implemented at higher levels, such as at district, provincial, regional/ island and national levels.
14. Conceptually, the process of FMU development actually is a process of institutional change, in such process there actually are several principal fundamental changes which becomes the underlying philosophy of change, namely:
  - a. Change of value systems and mindsets
  - b. Change of jurisdiction boundaries
  - c. Real output-based management
  - d. Improvement of transparency and accountability
15. Forest management, especially outside the island of Java -which has been implemented through a licensing scheme-had created un separated roles of administration, management, and forest planning as mentioned in paragraph 13, and were often not functioning. Such situation generally caused governance issues that weakened an effective control of forest management activities. This weakness mainly resulted from a lack in adequate sustainable forest management and forest area conservation which actually is the government's responsibility since the responsibility of production forest area conservation is submitted to a permit holder, while the responsibility of protected forest conservation is submitted to local governments, who also has to act as forest administrators and managers, but with de-facto ineffective roles.
16. The four fundamental changes in paragraph 14 are expected to be a logical consequence of the FMU's establishment, because changes towards the separation of the three functions mentioned above are not only necessary for changes or adjustments, but also require changes in the work attitude for implementing a sound forest governance.







## PRINCIPLES FOR ADJUSTMENTS/ADDITIONS OF REGULATIONS

17. Principles of regulatory changes for the purpose of FMU mainstreaming include the following:
  - a. Precisely lay out the roles of forest administration, forest management, and forest planning as a foundation of a clear distribution of authorities in the FMU setup.
  - b. Assigning the FMU as an information provider of forest utilization license allocation through the already built local forest management structures, making the forest utilization administration more efficient at local level.
  - c. Sustainably manage open access forest areas directly by the FMU which are not managed by other permit holders.
  - d. Cooperating with other parties, where FMU can prepare community capacities to carry out forest management and utilization, either through licensing or in partnership schemes.
18. Based on the reviewed permit types such as: natural forest timber concession, plantation forest timber concession and ecosystem restoration concession, extension and work plans, as well as IPPKH permits, the following general aspects can be related with the roles of FMU, namely:
  - a. Governmental authorities in particular to ensure the certainty of the license location, which has not been completed in advance by the central and local governments, but which has been completed by the prospective permit holder. The process of permit stipulation is preceded by a preliminary license for state forest areas. The prospective permit holder should know the location where the permit will be granted and obtain a recommendation from the District Head/Governor on the requested location.
  - b. Determination of the location requested by the respective permit holder is verified by the Ministry of Environment and Forestry through the related technical working unit (UPT). This mechanism is done on big scale permits with allocation of working areas by the Ministry of Environment and Forestry c.q. the Directorate General of Forest Planning.
  - c. Development of indigenous/local communities' capacities to actively collaborate with forest concession holders or obtaining permission is carried out by the technical working unit (UPT) or NGOs is important but practically still difficult to be executed due to limited capacities of the UPT and NGOs.
19. Based on the principles and characteristics mentioned above (paragraph 9 and 10), the direction of adjustment/addition of permit regulations is as follows:

Principle	Licensing related to the role of FMU		
	Recommendation for licenses/ permits/location for large business	Verification of licenses/ permits location for small businesses	Capacity building of local/customary communities
<b>1. Main Duties and Functions</b>	FMU determines the location of large business licences / permits in the Long Term Plan (RJP) which has been approved by the Ministry of Environment and Forestry, and local forest administration.	The roles of the Ministry of Environment and Forestry and local governments are limited to forest administration.	The FMU conducts a dialogue and sets up a strategy for the location of indigenous/ local communities' utilization rights and location, the determination decision is conducted by the Ministry.

Principle	Licensing related to the role of FMU		
	Recommendation for licenses/permits location for large business	Verification of licenses /permits location for small businesses	Capacity building of local customary communities
2. Administration efficiency in licensing	Recommendation for licensing is carried out by an inter institutional/ governmental working unit/local government-FMU and does not involve the prospective permit holder.	The FMU determines the licensed location for local/ customary communities.	–
3. Minimize in open access	Cooperation of FMU and large business permit holders to implement forest protection at the FMU areas.	FMU and local customary communities develop relationships with formal/informal community institutions to implement forest protection.	FMU can develop a partnership scheme with the communities.
4. Enhancing the community's capacity	Cooperation between FMU and permit holder in strengthening the community's social capital.	Development of public consultation mechanisms in determining forest use planning related to the location of the business/ customary communities/ local permits.	FMU together with other parties prepare the community to be ready for permit arrangement.

20. Based on the framework above, the direction of change, change of articles, and analysis of implementation and impact for Regulation of the Ministry of Forestry No. P.50/2010 jo P.26/2012 on the Method of Granting and Extending the Work Area of Forest Timber Products Utilization Business Licenses (IUPHHK) for Ecosystem Restoration, or Industrial Plantation Forests and Production Forests in Natural Forests are as follows:

No	Aspect	Description
1	Direction of Change	The regulation change is expected to fulfill the efficiency principle, minimizing transaction costs and completion of the main duties of the institution/ Government working unit/Local government's function accurately.
2	Article Amendments	
A	Articles to be amended	<ul style="list-style-type: none"> <li>Article 4(1.g): May become article 4(2), which contains regulation of the Government's recommendation. The Governor's recommendation is not part of the requirements to be arranged by the applicant, but should be finalized by the government through the hierarchical task of FMU-Forestry administration-District Head-Governor.</li> <li>Article 4(1.g.1): Becomes the part of Article 4(2), where the technical considerations can be delegated to FMU (When FMU is already present)</li> <li>Article 5(1): FMU should get a copy of IUPHHK request</li> <li>Article 12(5): FMU should get a copy of the IUPHHK extension request</li> </ul>
B	Articles to be created	<ul style="list-style-type: none"> <li>It is necessary to add Article 3A, which regulates working area preparation by the FMU.</li> </ul>



No	Aspect	Description
3	Aspects of Implementation and Impact	
A	Implication of change on working relations	This change would shift the working relations, in which the technical allocation of permit location is carried out by the FMU and it is approved and validated through the Long Term Planning (RJP) by the District Head/Governor/Minister. By this scheme of change, the prospective permit holder does not have to arrange the permit recommendation from the District Head/Governor and it is not necessary to arrange the <i>workingarea</i> scheme which is designated by the Ministry of Forestry. The difference of working relationships before and after the functionality of FMU can be perceived by comparing the schemes in Annex-3 and Annex-4.
B	Readiness of the FMU organization and related agencies	Implementation of this policy could be carried out in stages in accordance with the readiness of FMU functionality.
c	Implication on budget	To accelerate implementation of this policy, the effort to accelerate the functionality of FMU is very much needed. Budget for this issue should be prioritized.
D	Implication on community/permit holder burden	It is expected that by enacting this policy, it would lessen the community's and private sectors' burden because it would increase the pace and efficiency of licensing.
E	The impact of change on the mechanism in forest governance	Acceptance of this policy should be supported by changes in the structure and functions of the forestry organization in general. The direction of this policy, as a cause, is to prioritize enforcement of forest governance by the state, not by the permit holder which has been done to the present.

21. The direction of change, change of articles, and implementation and impact analyses for Regulation of the Ministry of Forestry No.P.52/2008 jo P.29/2009 on Methods and Requirements for Extension of Forest Timber Products Utilization Business License in Natural Production Forests (IUPHHK-HA) is as follows:

No	Description
1	<b>Direction of Change</b> Permit extension could be regarded as a technical issue, because the permit has been in effect before and FMU has a complete knowledge of the permit's activity. The presence of FMU is expected to be able to ease the Government/Local Government in determining the permit extension.
2	<b>Article Amendments</b>

No	Aspect	Description
a	Articles to be amended	<ul style="list-style-type: none"> <li>Article 3(2): FMU should get a copy of the IUPHHK extension request</li> <li>Article 4(1.a): Could become article 4(2), which contains the regulation of the Governor's recommendation. The Governor's recommendation is not a requirement that has to be arranged by the applicant, but it should be finalized by the government through the task thread FMU-Forestry Service-District Head-Governor. The Governor's recommendation is preceded by technical considerations from the FMU (when FMU exists).</li> </ul>
b	Articles to be created	<ul style="list-style-type: none"> <li>Article 4(1.f) should be added, it regulates the conformity between the request for IUPHHK-HA extension and FMU management plan.</li> </ul>
3	Aspects of Implementation and Impact	
a	Implication of changes on working relations	<p>This change would not affect work relations such as the mechanism of different concession licenses (IUPHHK HA/HT/RE) granting after the functionality of FMU.</p> <p>The difference of working relationships before and after the functionality of FMU could be seen by comparing the schemes in Annex-5 and Annex-6.</p>
b	Readiness of the FMU organization and related agencies	Implementation of this policy can be done in stages in accordance with the readiness of FMU functionality.
c	Implication on budget	There will be no increase of the budget
d	Implication on community/permit holder burden	Lessen the community's/permit holder's burden
e	The impact of change on the mechanism in forest governance	Increases efficiency of the governance

22. Direction change, article amendments, and analysis of implementation and impact aspects for Regulation of the Ministry of Forestry No.P.56/2009 Jo P.24/2011 on Work Plan of Forest Timber Utilization Business and Ecosystem Restoration is as follows:

No	Aspect	Description
1	Direction of Change	A business work plan should be validated by the central and local government, in regard to suitability with the permit holder's purpose and it should be in conformity with the central and local government's purpose in managing forests. However, the contents of RKU, RKT and BK are related to the technicality of forest biophysics and social environment, in which FMU has a closer access to this information. So FMU has an important role in the determination of RKU, because the RKU should be in line with FMU's purpose.

No	Aspect	Description
2	Article Amendments	
a	Articles to be amended	<ul style="list-style-type: none"> <li>• Article 3, RKUPHHK proposal is designated to FMU with a copy to the Minister c.q. the Dir Gen, etc.</li> <li>• Article 6(1), The FMU assesses and approves RKUPHHK. Likewise, the same with article 8(4).</li> <li>• Article 9(3), proposal of RKTUPHHK should be submitted to FMU.</li> <li>• Article 11(2), FMU obtains RKTUPHHK report from the permit holder who gets self-approval authority.</li> <li>• Article 13(1), on-the-ground inspection by the proposals of RKTUPHHK-HA and RE are carried out by the FMU. The content of article 14 also should be adjusted.</li> <li>• Article 13(2), Was Ganis PHPL-Can hut as supervisor and advisor of RKTUPHHK-HA and RE implementations are stationed at FMU.</li> <li>• Article 15(2), proposal of RKUPHHK revision should be submitted to FMU. The next paragraph, likewise, should be adjusted.</li> <li>• Article 17(3), proposal of BKUPHHK-HA and RE should be submitted to FMU.</li> <li>• Article 19(1), on-the-ground assessment by the proposals of BKTUPHHK-HA and RE are carried out by FMU.</li> <li>• Article 20(1), assessment and approval of BKUPHHK by the FMU.</li> <li>• Article 23(1), implementation report of RKTUPHHK and BKUPHHK are addressed to the FMU with copies for other relevant governmental institutions.</li> </ul>
b	Articles to be created	<ul style="list-style-type: none"> <li>• Article 4, as a requirement in formulating RKUPHHK, the permit holder should make adjustments with the management which will be carried out by the FMU.</li> <li>• Article 15(6) In proposal of RKUPHHK revision it is also necessary to conduct a field inspection which can be carried out by the FMU.</li> </ul> <p>Article 23A, it is necessary to affirm in this regulation about the role of FMU for implementing supervision and technical coaching routinely at their work area.</p>
3	Aspects of Implementation and Impact	
a	Implication of changes on working relations	<p>Simplify the working relations, in particular for institutions/work units which are governmental administrative in nature does not have to directly arrange management aspects. The difference of working relationships before and after the functionality of FMU could be seen by comparing the schemes in Annex-7 and Annex-8.</p>



No	Aspect	Description
b	Readiness of the FMU organization and related agencies	Implementation of this policy can be carried out in stages in accordance with the readiness of FMU functionality.
c	Implication on budget	There will be no increase of the budget.
d	Implication on community/permit holder burden	Increases efficiency of planning for permit holders.
e	The impact of change on the mechanism in forest governance	Increases efficiency of the governance.

23. Direction change, article amendment, and analysis of implementation and impact aspects for the Regulation of the Ministry of Forestry No.P62/2008 Jo P14/2009 on Work Plan of Forest Timber Utilisation Business and Ecosystem Restoration are as follows:

No	Aspect	Description
1	Direction of Change	As long as the investment has been fully borne by the permit holder, the business work plan is no longer of any concern to the Government/ Local government. What concerns now are the resources inside the permit location which are related to public interests, such as the existence of protected areas and local community needs. The FMU will be capable to handle these public interests.
2	Article Amendments	
a	Articles to be amended	<ul style="list-style-type: none"> <li>• Article 3, the RKUPHHK proposal is designated to FMU with a copy to the Minister c.q. the Dir Gen, etc.</li> <li>• Article 5, the FMU assesses and approves the RKUPHHK.</li> <li>• Article 7(1), the task of facilitation in RKUPHHK-HTR formulation could be transferred from UPT to FMU</li> <li>• Article 10(3), the proposal of RKTUPHHK should be submitted to FMU.</li> <li>• Article 13(2), FMU obtains the RKTUPHHK report from the permit holder who gets the self-approval authority.</li> <li>• Article 13(3), Was Ganis PHPL-Can hut as supervisor and advisor of RKTUPHHK-HTI implementation are stationed at FMU.</li> <li>• Article 14(1), the task of facilitation in RKTUPHHK-HTR formulation could be transferred from UPT to FMU</li> <li>• Article 19(3), proposal of BKUPHHK should be submitted to FMU.</li> <li>• Article 21, on-the-ground assessment by the proposals of BKUPHHK-HTI is carried out by FMU.</li> <li>• Article 23, report of RKUPHHK and BKUPHHK-HTI and HTR implementation with their copies should be addressed to other relevant governmental institutions.</li> </ul>

No	Aspect	Description
b	Articles to be created	<ul style="list-style-type: none"> <li>Article 4, as a requirement in formulating RKUPHHK-HTI, the permit holder should make adjustments to the direction of management which will be carried out by the FMU.</li> <li>Article 11, as a requirement in formulating RKUPHHK-HTI, the permit holder should have to harmonize with the direction of management which will be carried out by the FMU.</li> <li>Article 23A, it is necessary to affirm in this regulation about the role of FMU for implementing supervision, facilitation and technical coaching routinely at their work area.</li> </ul>
3	Aspects of Implementation and Impact	
a	Implication of changes on working relations	Significantly reduces the role of institution/work unit which handle forest administrations so that they are no longer involved in this activity. The difference of working relationships before and after the functionality of FMU could be seen by comparing the schemes in Annex-9 and Annex-10.
b	Readiness of the FMU organization and related agencies	Implementation of this policy could be carried out in stages in accordance with the readiness of FMU functionality.
c	Implication on budget	There will be no increase of the budget.
d	Implication on community/permit holder burden	Lessen the community's/permit holder's burden.
e	The impact of change on the mechanism in forest governance	Directing the governance to become more efficient.

24. Change of direction, article amendments, and analysis of implementation and impact aspects for Regulation of the Ministry of Forestry No.P.18/2011 Jo P.38/2012 on the Work Plan of Forest Timber Utilization Business and Ecosystem Restoration is as follows:

No	Aspect	Description
1	Direction of Change	The direction of change is expected to fulfill the efficiency principle, minimize transaction costs and completing main duty of the institution/ Government working unit/Local government's function accurately.
2	Article Amendments	
a	Articles to be amended	<ul style="list-style-type: none"> <li>• Article 11(2), the parties who should get the copy of the application letter should be mentioned and include the FMU.</li> <li>• Article 13(1), recommendation of the Governor and District Head/Mayor is not a requirement to be directly arranged by the applicant but should be finalized between the governmental relation levels it self. It is the same with a number of technical considerations.</li> <li>• Article 13(2), technical considerations are provided by the FMU.</li> <li>• Article 16(1b), supervision and coaching of tree stand inventorying are implemented by Was Ganis Can hut at FMU.</li> <li>• Article 35(1), implementation of reforestation technicalities of compensation land by the permit holder is supervised and guided by FMU.</li> <li>• Article 38A(2), monitoring is carried out by the FMU.</li> <li>• Current article 38A(4)'s position is now changed into Article 38A(5).</li> <li>• Article 38B(2), FMU should be included in the evaluation team.</li> </ul>
b	Articles to be created	<ul style="list-style-type: none"> <li>• Article 10(2c), it is necessary to consider the FMU's management plan.</li> <li>• Article 13(3d), the implication view on the FMU's management plan.</li> <li>• Article 26(1l) point 5, additional report, a copy should be addressed to the FMU.</li> <li>• Article 38A(4), monitoring by the FMU is carried out monthly.</li> </ul>
3	Aspects of Implementation and Impact	
a	Implication of changes on working relations	This change will shift the working relations. Technical arrangement in determining the permit location has been implemented by FMU and validated through the Long Term Planning (RJP) by the District Head/Governor/Minister. By this scheme of change, the prospective permit holder does not have to arrange the permit recommendation from the District Head/Governor and it is not necessary to arrange for the working area scheme which is designated by the Ministry of Forestry.



No	Aspect	Description
		The difference of working relationships before and after the establishment of the FMU could be seen by comparing the schemes in Annex-11 and Annex-12.
b	Readiness of the FMU organization and related agencies	Implementation of this policy could be carried out in stages in accordance with the readiness of FMU functionality.
c	Implication on budget	To accelerate implementation of this policy, efforts to accelerate the functionality of FMU is very much needed. Budget for this issue should be prioritized.
d	Implication on community/permit holder burden	It is expected that by enacting this policy, it would reduce the burden of communities and private sectors because it would increase the pace and efficiency of licensing.
e	The impact of change on the mechanism in forest governance	Acceptance of this policy should also be supported with a change in forestry organization structure and EMR (Energy Mineral Resources). The direction of this policy is to prioritize enforcement of forest governance by the state and not by the permit holder which has been done until the present.

25. The amendment of regulations above could be harmonized with the agenda and action plans of 12 Ministries/Institutions which are coordinated by the KPK and UKP4. This agenda is related to: delineation of boundaries of permits, clarity of permit recommendation in permit area provisions; limited license stipulation, information standards for licensing, licensing time consumption and licensing costs, standards for endorsement time consumption and costs, standards for forest product registration and administration time and costs, weakness in supervision and control by the Government on PNPB reporting, and the policy of log trading.

## FINAL REMARKS

26. As outlined in the concept and principle of FMU mainstreaming above, the amendment and addition of articles of the existing licensing regulations cannot stand alone but have to be accompanied by change of mindset and value systems for implementing regulations. The mentioned values system - in regard of this licensing regulation policy-in particular, is the realization that the role of FMUs is meant to support efficiency and openness of public services on licensing process and allocation. In the medium term, regulation changes and the process of establishing functional FMU is necessary to be accompanied by a change of organizational change of the Ministry of Forestry and the forest administrations; these organizations should only focus on political and administrative functions in the context of forest law enforcement and not managerial functions and direct forest management activities on the ground, except in management of conservation area which is under the authority of the central government.

27. Implementing this policy of FMU mainstreaming also has to pay attention on the pace of FMU development and functional readiness on the ground. A revision of these licensing regulations is also an important part in the effort of accelerating progress of FMU functions. This revision should be related to the enforcement of a licensing policy review as a whole. The agenda and action plans of 12 Ministries /Unstitutions (NKB-KPK), coordinated by the KPK and UKP4 can be used to implement FMU mainstreaming, especially for conforming with other sector's interests and/or areas related to the FMU development. From discussions with the NKB-KPK monitoring implementer at KPK, it is mentioned that the permit review implementation agenda related to FMU mainstreaming could be carried out together with the permit review based on KPK study results on licensing policy by using a corruption index (*corruption index assessment*). The Directorate General of Forestry Business Development also agreed with this permit review implementation and it will be started in February 2014.
28. It is quite possible that the revision for a wider spectrum of regulations will be necessary, both in the forestry and related sectors, by using the mandate of Law no. 41/ 1999 as philosophical basis of the change from forestry utilization to forest management paradigms. Implementation of revision which is not specially included in this study, at the scope of first echelon of the Ministry of Forestry basically could be implemented by considering the principles in paragraph 17, and the framework of change such as in the framework table point 20-24. As guidance of change direction in placing each party's role by referring to functional basis of forest governance as in paragraph 13 and the conceptual basis of institutional change as in paragraph 14.
29. The revision of regulations for mainstreaming FMU into the forestry development system will require a change of mindset among all stakeholders and a number of concrete steps to be carried out side by side; this should include among others the preparation of a roadmap for strengthening the formed FMUs and FMU sunder establishment. Besides physical targets, the adjustment of the organizational structure, setting up of the rules of the game, budgeting system, preparation for professional human resources, information and knowledge dissemination, network development and communication strategy development should become the substantial part of the roadmap.

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## Annexes

- ◆ Annex 1 : Portrait of Issue of Regional/Island Forest Areas Stability
- ◆ Annex 2 : Distribution of Respondents in Identifying the Occurrence of Transaction Costs in the Process of Management and Licensing
- ◆ Annex 3 : Scheme of IUPHHK HA/HT/RE Permits Based on the Regulation of the Minister of Forestry No. P.50/2010 jo P.26/2012
- ◆ Annex 4 : Scheme of IUPHHK HA/HT/RE Permits by Functioning of FMUs
- ◆ Annex 5 : Scheme of IUPHHK HA/HT/RE Extension Based on Regulation of the Minister of Forestry No. P.52/2008 jo P.29/2009
- ◆ Annex 6 : Scheme of IUPHHK HA/HT/RE Extensions by Functioning of FMUs
- ◆ Annex 7 : Work Plan of IUPHHK HAR and RE based on Regulation of the Minister of Forestry No. P.56/2009 jo P.24/2011
- ◆ Annex 8 : Work Plan of IUPHHK HA and RE by Functioning of FMU.
- ◆ Annex 9 : Work Plan of IUPHHK HTI based on No. P.62/2008 jo P.14/2009 jo P.19/2012
- ◆ Annex 10 : Work Plan of IUPHHK HTI by functioning of FMU.
- ◆ Annex 11 : Guidance of Lease and Use of Forest Area based on Regulation of the Minister of Forestry P.18/2011 jo P.38/2012 jo P.14/2013
- ◆ Annex 12 : Guidance of Lease and Use of Forest Area by Functioning of FMU





A low-angle photograph of a dense forest. The trees are tall and have thick green foliage. The sky is visible at the top, appearing light blue and slightly hazy. The overall tone is natural and serene.

## **Annex 1:**

Portrait of The Issue  
of Regional/Island Forest Areas Stability





Annex 1. Portrait of The Issue of Regional/Island Forest Areas Stability

ISLAND / REGIONAL	SEVERAL CONDITIONS OF							
	PROPORTIONAL AREA OF FOREST AREA TO ISLAND (%)	ESTABLISHMENT OF FOREST AREA (DE- TERMINATION OF FORESTS AREA)	PROPOSAL OF CHANGE OF FOREST AREA IN THE PROVINCIAL AREA SPATIAL PLANNING (RTRWP) (%)	AREA OF MANAGEMENT AT FIELD LEVEL (%)	CONFLICT OF FOREST AREA UTILIZATION (%)	TRIBAL TERRITORY (%)	NUMBER OF VILLAGES INSIDE, BORDER AND AROUND THE FA	PARTNERSHIP LEVEL
SUMATRA	54.62	27.28	23.83	70.26	High	High	10,771	?
JAVA	27.94	65.90	0 ,00	92.28	Medium-high	Low	2,935	High
BALI, LESSER SUNDA IS- LANDS	37.93	26.49	0 ,00	76.74	Low	Low	3,157	?
BORNEO	65.84	19.76	22.90	79.81	High	High	6,404	?
CELEBES	64.29	28.51	13.64	69.78	Medium	Medium	5,519	?
MOLLUCAS	91.68	20.80	33.84	55.94	Medium	Medium	2,010	?
PAPUA	96.99	5.02	4.68	55.54	Low	High	3,528	?

Source: Material for Allocating the National Level Forestry Plan, 2011





## **Annex 2:**

**Distribution of Respondents in Identifying the Occurrence of Transaction Costs in the Process of Management and Implementation of Permits**





**Annex 2. Distribution of Respondents in Identifying the Occurrence of Transaction Costs  
in the Process of Management and Implementation of Permits**

Implementation of Forestry Policies	Influence on Transaction Cost										
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
IMPLEMENTATION OF PERMITS											
Reservation of forest area (Decree 6273/2011)								2	2		1
Macro-micro Analysis							1	2	1	1	1
Permit arrangement (P 50/10, 26/12)– Gov/Dist. Head recommendation									1	1	1
Online information for licensing service (P 13/2012)	1			1		3		2			
Conferral of Shares										3	1
FOREST PLANNING											
Work plan (RKU) validation (P 56/2009, P 24/11)					1		1	1		2	2
Annual work plan (RKT) validation (P 56/2009, 24/11)—determining the production quota						1			3	2	2
Delineation of permit area ((P 19/11, P 43/13)								1	1	1	
IHMB (P 33/2009)								2		1	
PRODUCTION OF FOREST PRODUCTS											
Tools admission and utilization (P 53/2009)						5	1				1
Operational cooperation in plantation forests (P20/05, P 29/12)						1	1	1			1
Provision of forestry technical personnels (GANIS) (P 58/2009).							1	2	3	2	1

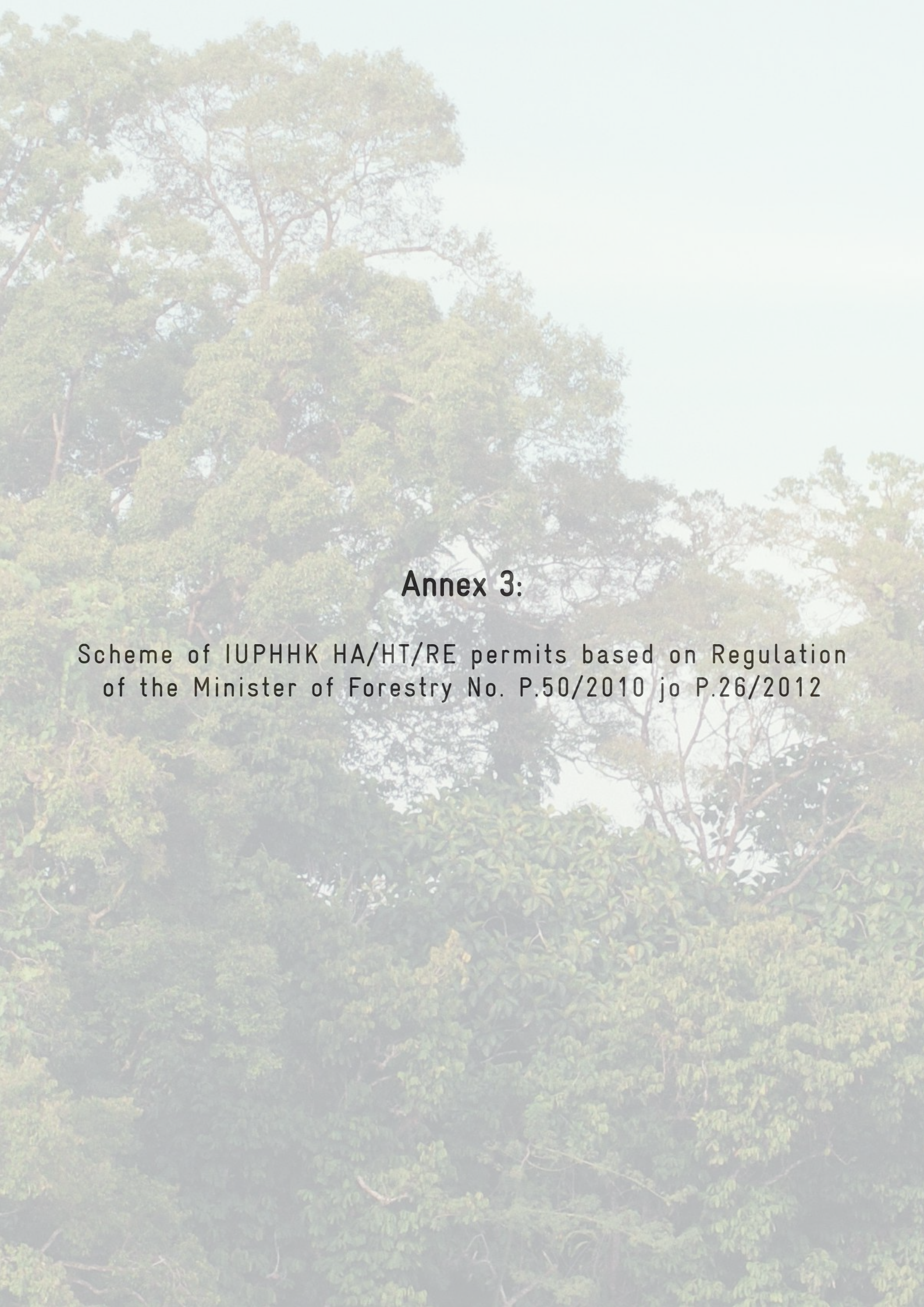
(Continuation)

Implementation of Forestry Policies	Influence on Transaction Cost										
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Permit for corridor preparation and utilization (P 9/2010)						1	1		1	1	3
MANAGEMENT OF FOREST PRODUCTS											
Information system management of forest products and management of DR-PSDH (P 8/2009)				2				2			
Certification of Sustainable Forest Management (HA, HT) (P 38/09,						1		2	3		1
Timber Legality Verification (P 38/09, P 68/11, P45/12, P42/13)						1	1	2	1		
FOREST AREA RELATED											
Timber Utilization Permit (P 14/11, P 20/13)								1	3		3
Forest Area Lease and Use Permit (P 18/2011, P 14/2013)						2			1	1	
Exchanges of forests area (P 32/2010, P 41/2012)						1				1	1
OTHER POLICIES											
Monitoring and routine supervision							1				4
Forest protection (including when social conflict occurs)									1	3	

Remarks : numbers in the table indicate the number of respondents who expressed their opinion

Source: Kartodihardjo and Nagara, 2013



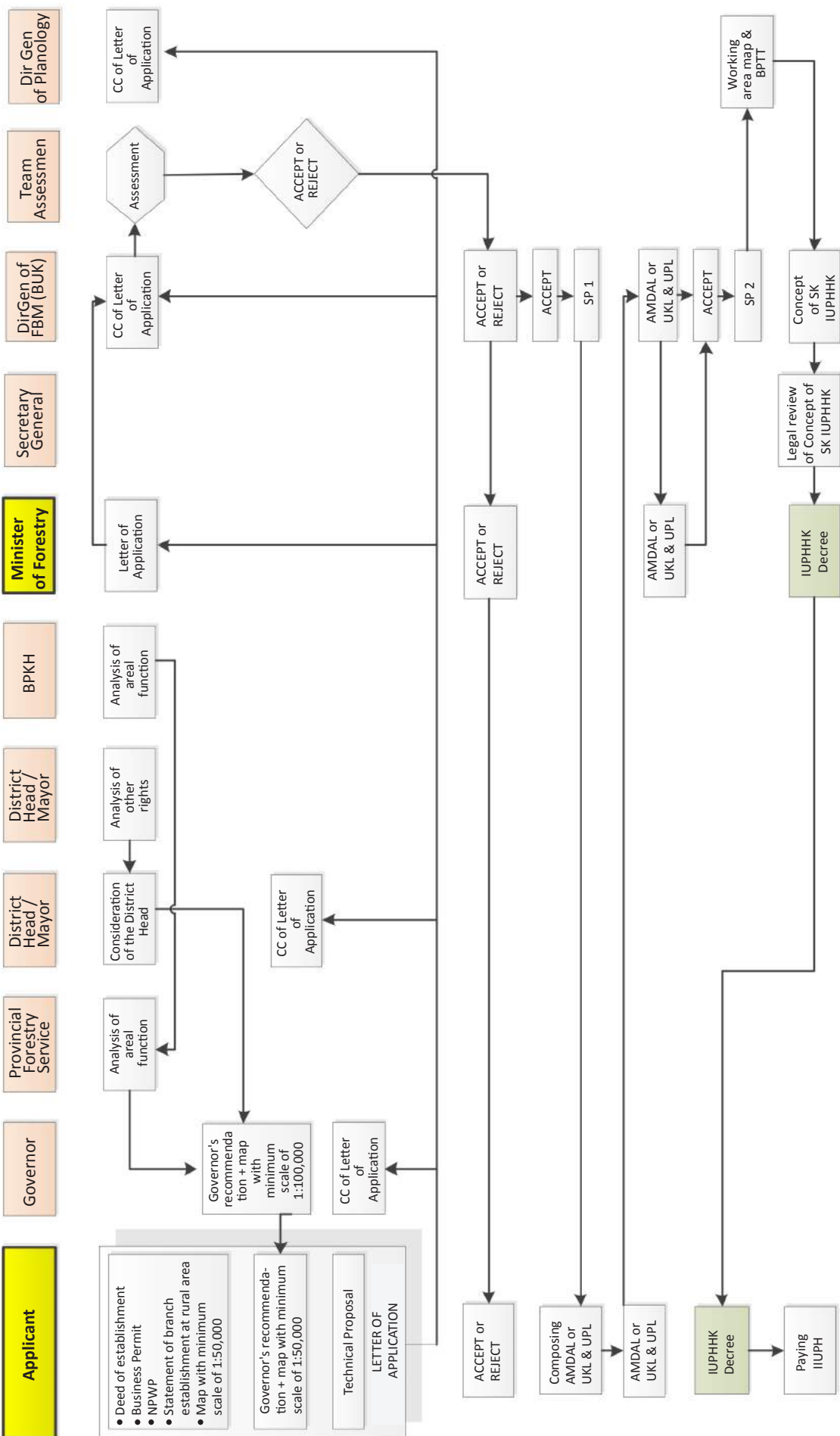


## **Annex 3:**

**Scheme of IUPHHK HA/HT/RE permits based on Regulation  
of the Minister of Forestry No. P.50/2010 jo P.26/2012**



## FORESTRY NO. P.50/2010 JO P.26/2012







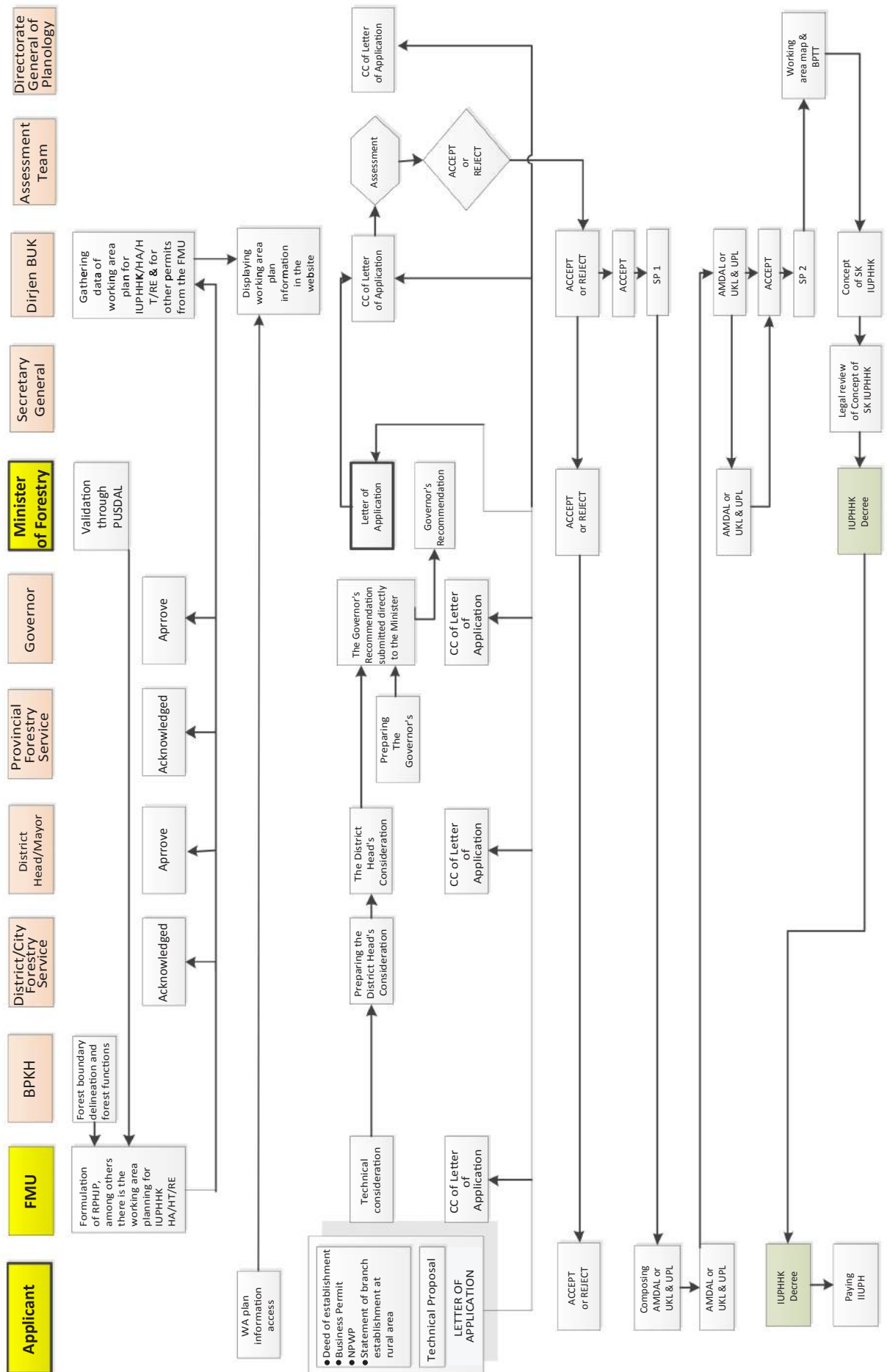
## **Annex 4:**

**Scheme of IUPHHK HA/HT/RE Permit  
by Functioning of FMU**





Annex 4: SCHEME OF IUPHHK HA/HT/RE PERMIT BY FUNCTIONING OF FMU





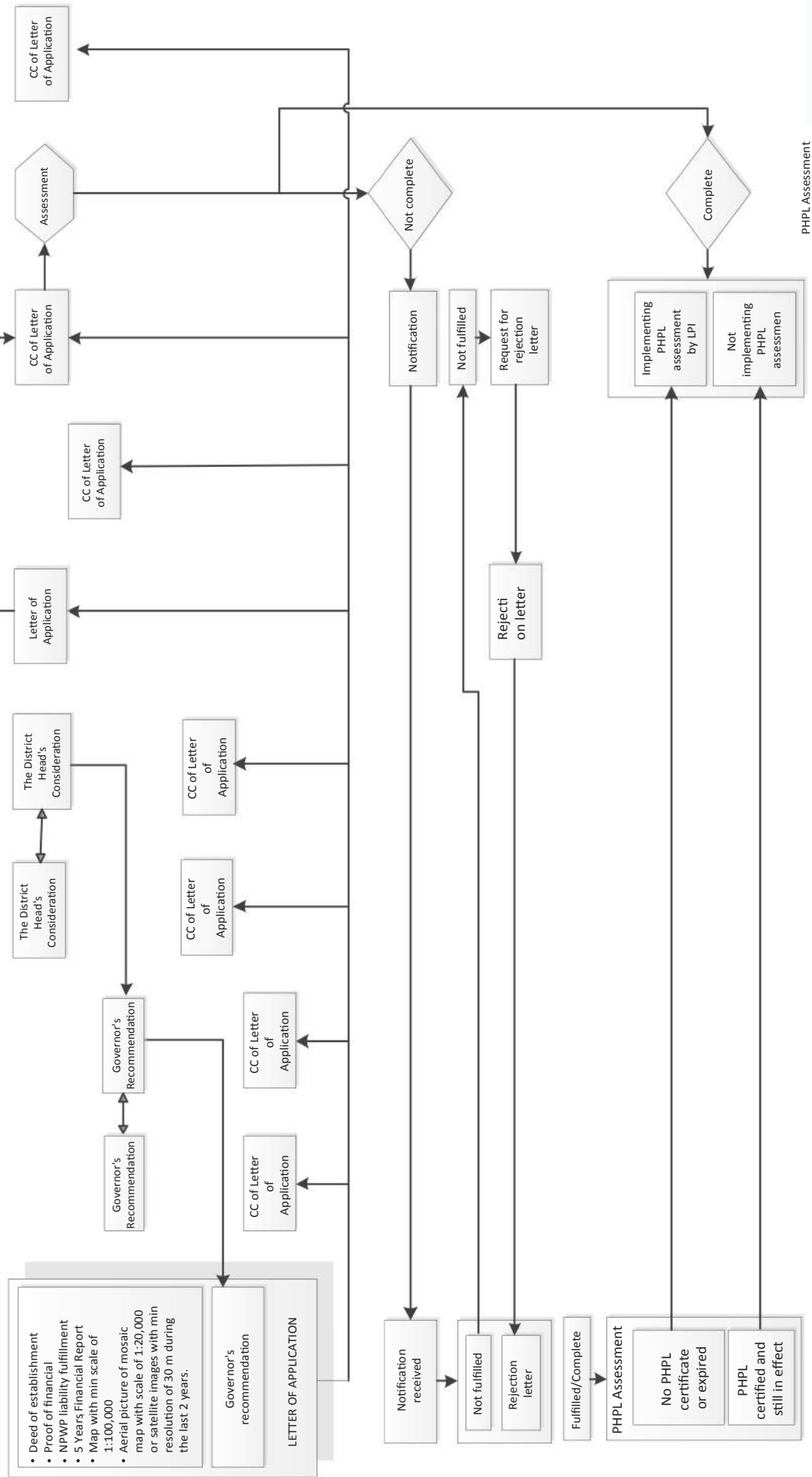
## **Annex 5:**

Scheme of IUPHHK HA/HT/RE Extension based on Regulation  
of the Minister of Forestry No. P.52/2008 jo P.29/2009





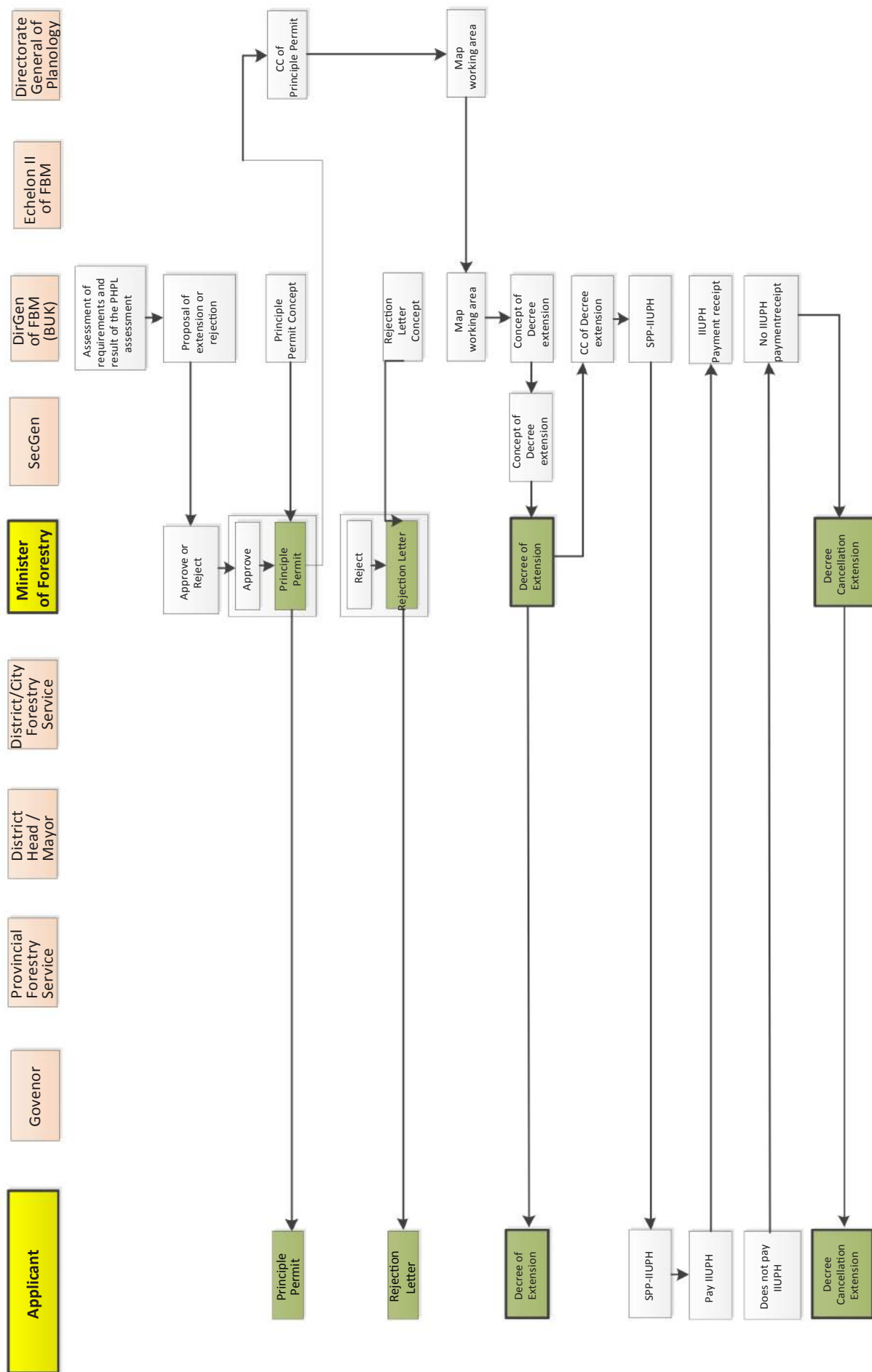
Applicant	Governor	Provincial Forestry Service	District Head / Mayor	District/City Forestry Service	Minister of Forestry	SecGen	DirGen of FBM (BUK)	Echelon II of FBM	Directorate General of Planology
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PHPL Assessment

CONTINUATION.....

# CONTINUATION







## **Annex 6:**

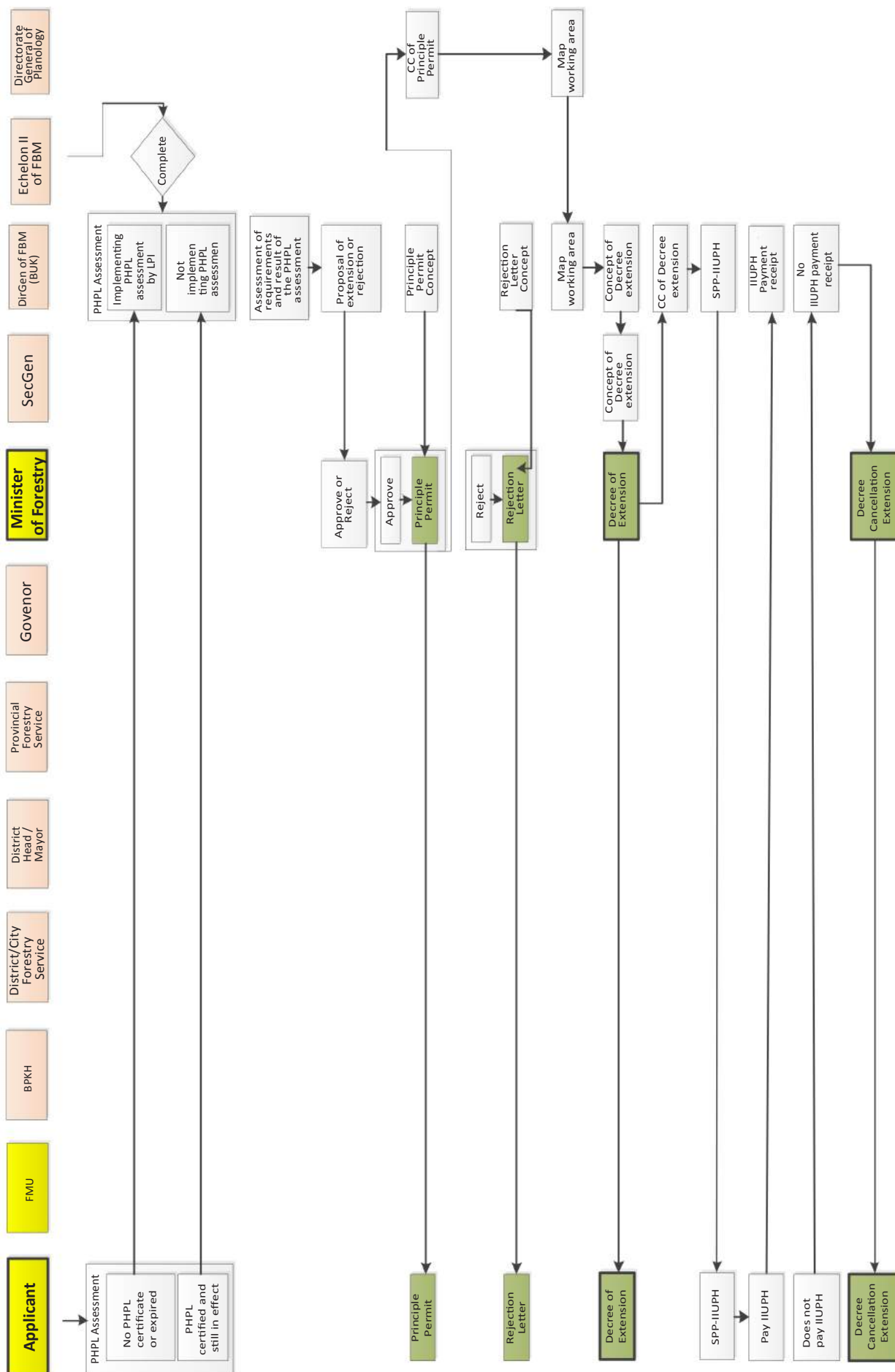
**Scheme of IUPHHK HA/HT/RE Extensions  
by Functioning of FMUs**



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## Forest Management Unit (FMU) Mainstreaming

# CONTINUATION







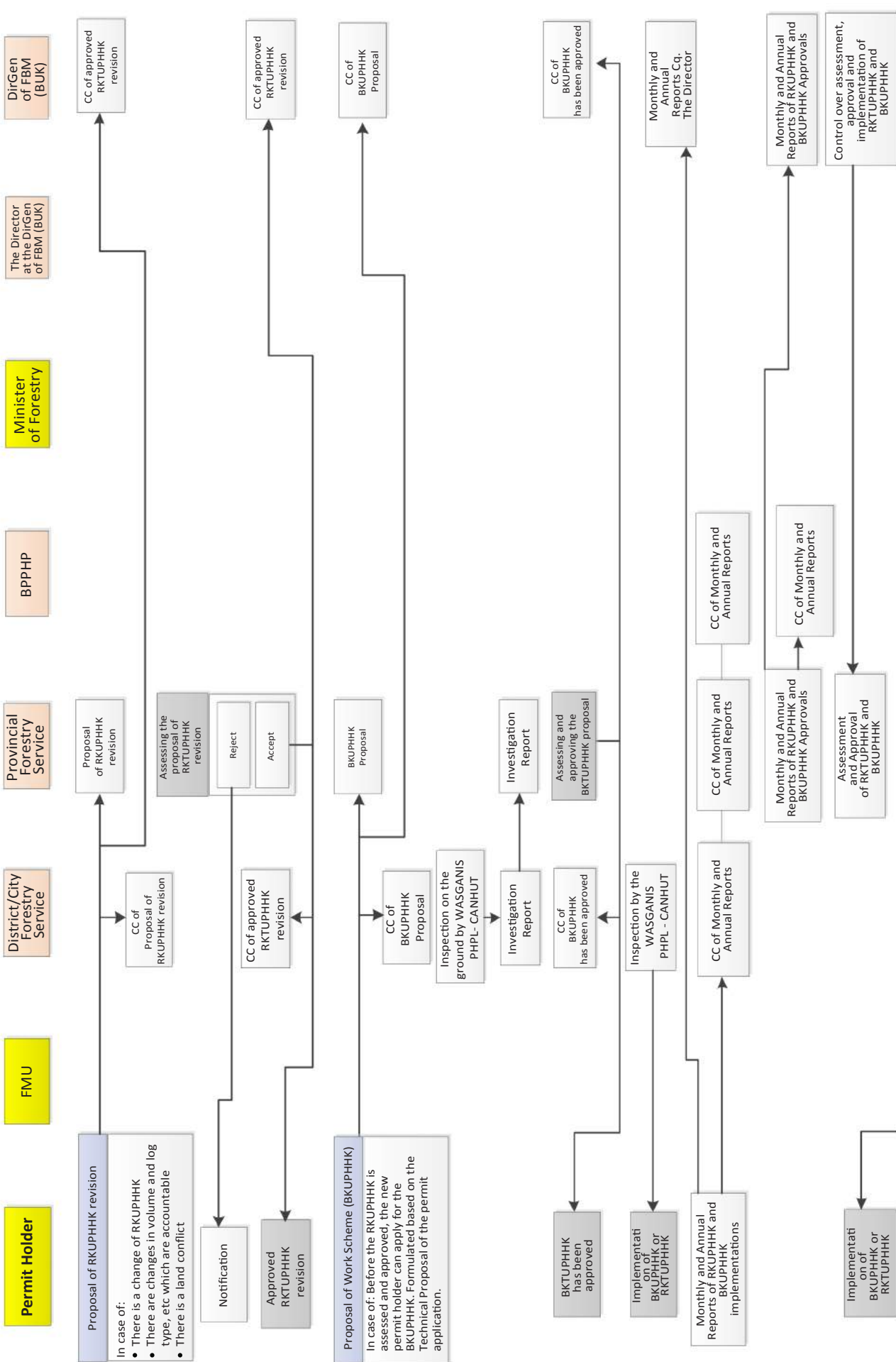
## **Annex 7:**

Work Plan of IUPHHK HAR and RE based on Regulation  
of the Minister of Forestry No. P.56/2009 jo P.24/2011

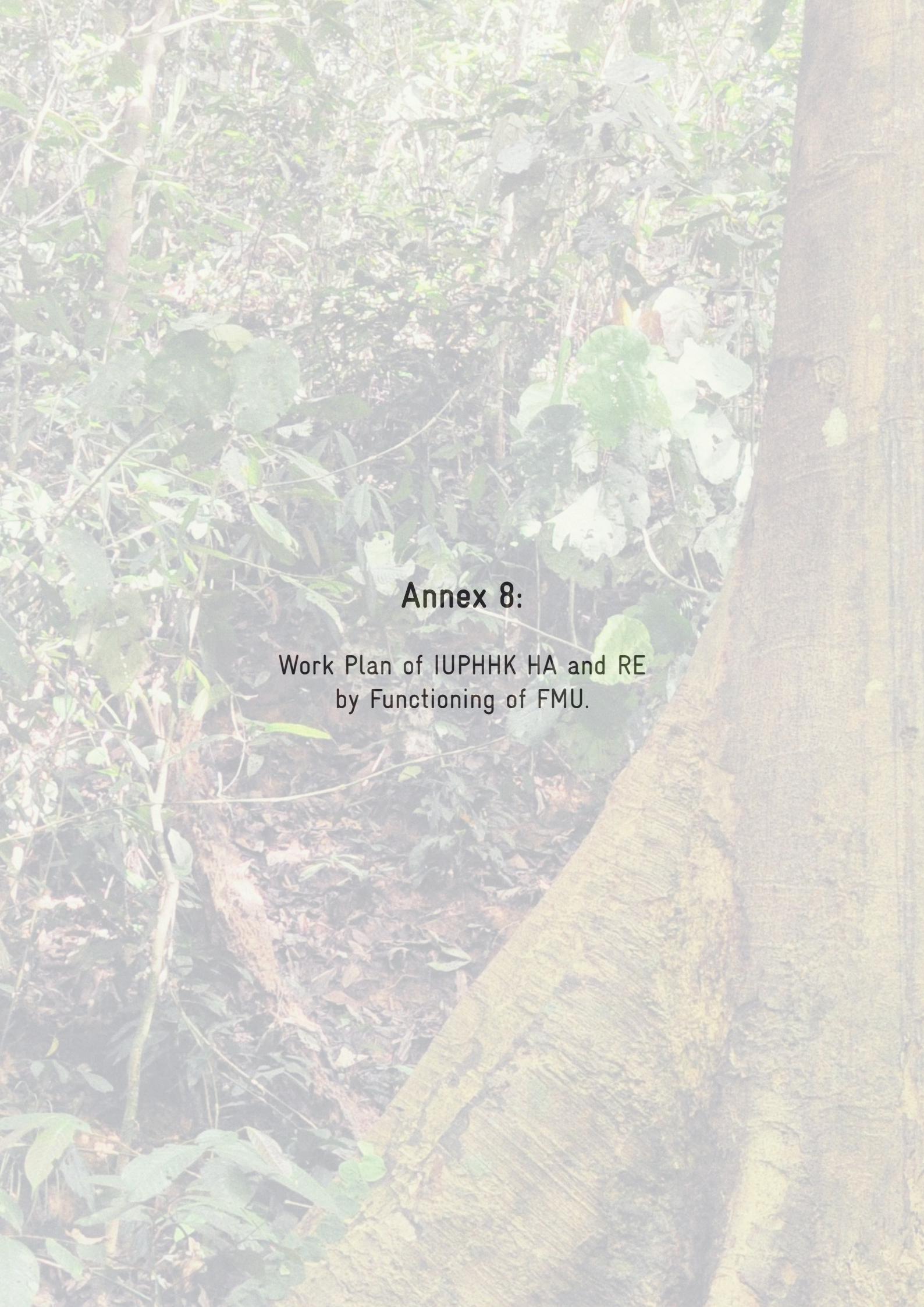


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## Forest Management Unit (FMU) Mainstreaming







## **Annex 8:**

Work Plan of IUPHHK HA and RE  
by Functioning of FMU.

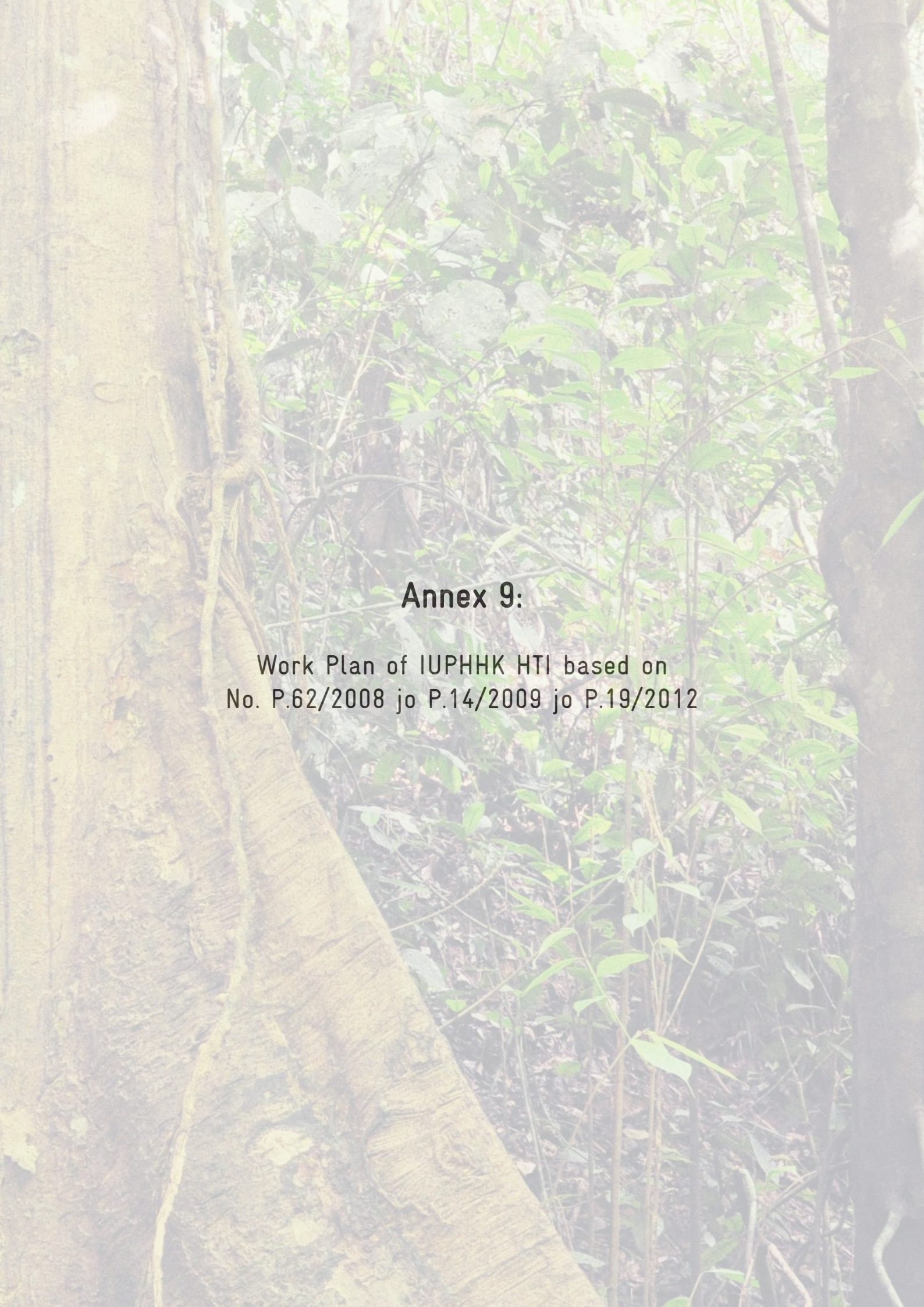




FMU	Permit Holder	District/City Forestry Service	Provincial Forestry Service	BPPHP	DirGen of FBM (BUK)
Proposal of RKUPHHK	Composition of RKUPHHK proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal
Assessing and approving the RKUPHHK proposal	The approved RKUPHHK	CC of approved RKUPHHK	CC of approved RKUPHHK	CC of approved RKUPHHK	CC of approved RKUPHHK
Proposal of RKUPHHK revision	Proposal of RKUPHHK revision In matter of: • Change of area addition or subtraction • Change of felling cycle/diameter limit • Biophysical change in accordance with laws & regs • Proposed size of area • Silviculture technique change, etc which is accountable • Land conflict	Approved RKUPHHK revision	Approved RKUPHHK revision	CC of approved RKUPHHK revision	CC of approved RKUPHHK revision
Assessing and approving the RKUPHHK revision	Composition of RKUPHHK proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal	CC of RKUPHHK Proposal
RKTUPHHK Proposal					
Inspection on the ground by WASGANIS PHPL - CANHUT					
Investigation Report					
Assessing and proving RKTUPHHK Proposal	Approved RKTUPHHK	Approved CC of RKTUPHHK	Approved CC of RKTUPHHK	Approved CC of RKTUPHHK	Approved CC of RKTUPHHK
RKTUPHHK Report self approval	In case of IUPHHK-HA obtained PHPL certificate in good category, RKTUPHHK is self approved	RKTUPHHK Report self approval	RKTUPHHK Report self approval	RKTUPHHK Report self approval	RKTUPHHK Report self approval
Proposal of RKUPHHK revision	Proposal of RKUPHHK revision In case of: • There is a change of RKUPHHK • There are conflict in volume & log type etc which are accountable • There is a land conflict	Approved RKUPHHK revision	Approved RKUPHHK revision	CC of approved RKUPHHK revision	CC of approved RKUPHHK revision
Assessing the Proposal of RKUPHHK revision					
Reject	Notification				
Accept		Approved RKUPHHK revision	Approved RKUPHHK revision	CC of approved RKUPHHK revision	CC of approved RKUPHHK revision
BKUPHHK Proposal	Proposal of Work Scheme (BKUPHHK) In case of: Before the RKUPHHK is assessed and approved, the new permit holder can apply for the BKUPHHK. Formulated based on the Technical Proposal of the permit application.	Approved BKUPHHK	Approved CC of BKUPHHK	Approved CC of BKUPHHK	Approved CC of BKUPHHK
Inspection on the ground by WASGANIS PHPL - CANHUT					
Police Investigation Report					
Assessing and approving the BKUPHHK proposal	Approved BKUPHHK	Approved CC of BKUPHHK	Approved CC of BKUPHHK	Approved CC of BKUPHHK	Approved CC of BKUPHHK
Inspection on the ground by WASGANIS PHPL - CANHUT	Implementation of BKUPHHK or RKTUPHHK				
Monthly and Annual Reports of RKTUPHHK and BKUPHHK implementation	Monthly and Annual Reports of RKTUPHHK and BKUPHHK implementation	CC of Monthly and Annual Reports	CC of Monthly and Annual Reports	CC of Monthly and Annual Reports	CC of Monthly and Annual Reports
3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK and BKUPHHK agreements	3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK, and BKUPHHK agreements	3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK, and BKUPHHK agreements	3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK, and BKUPHHK agreements	3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK, and BKUPHHK agreements	3- Monthly and Annual Reports of RKUPHHK, RKTUPHHK, and BKUPHHK agreements
Assessment and approval of RKUPHHK, RKTUPHHK, and BKUPHHK	Implementation of RKTUPHHK, RKTUPHHK or BKUPHHK				Control over assessment approval and implementation of RKTUPHHK and BKUPHHK







## **Annex 9:**

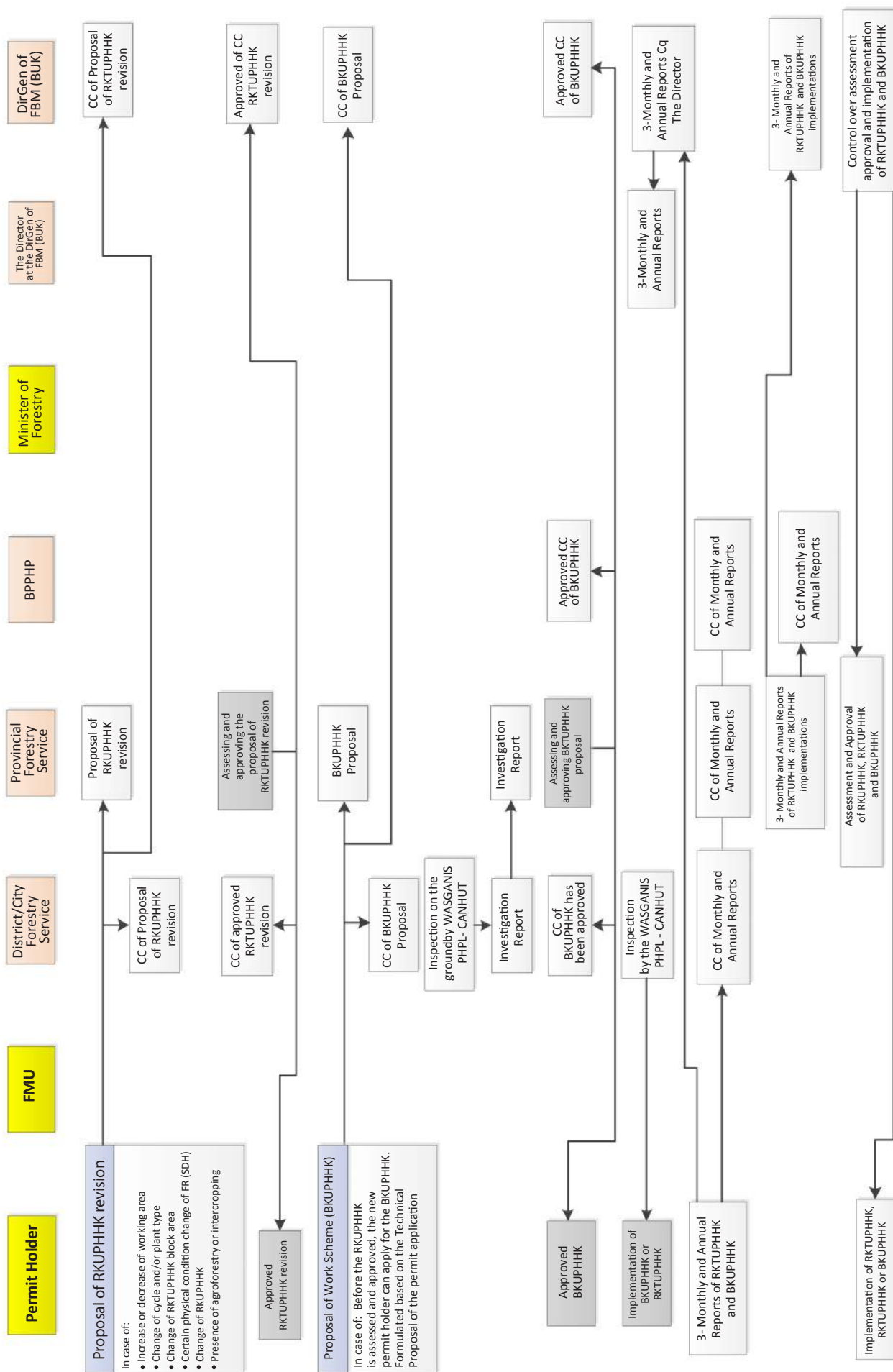
Work Plan of IUPHHK HTI based on  
No. P.62/2008 jo P.14/2009 jo P.19/2012





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Forest Management Unit (FMU) Mainstreaming







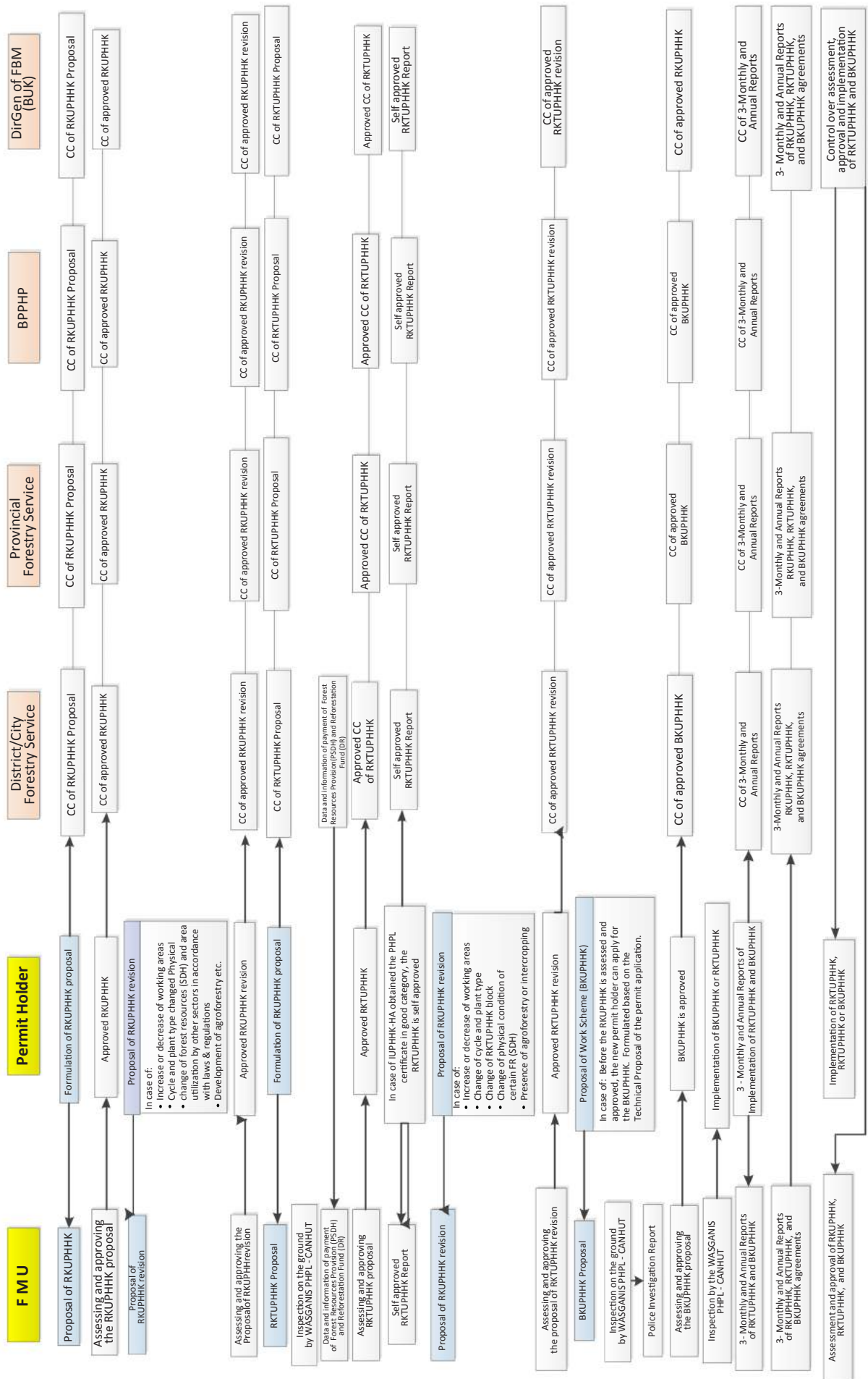
## **Annex 10:**

Work Plan of IUPHHK HTI  
by Functioning of FMU.





## Annex 10: WORK PLAN OF IUPHK HTI BY FUNCTIONING OF FMU.









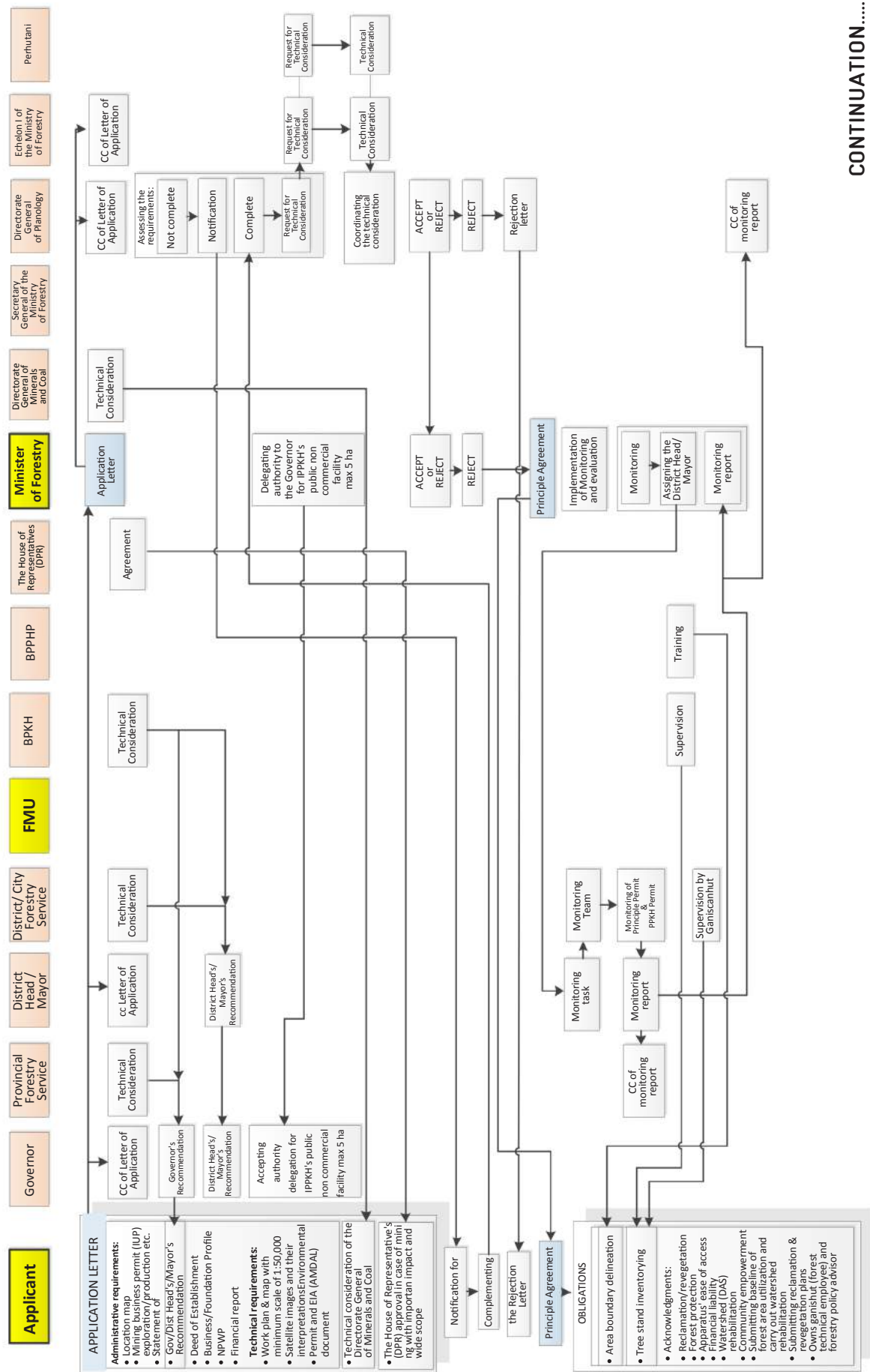
## **Annex 11:**

Guidance of Lease and Use of Forest Area based on Regulation  
of the Minister of Forestry P.18/2011 jo P.38/2012 jo P.14/2013

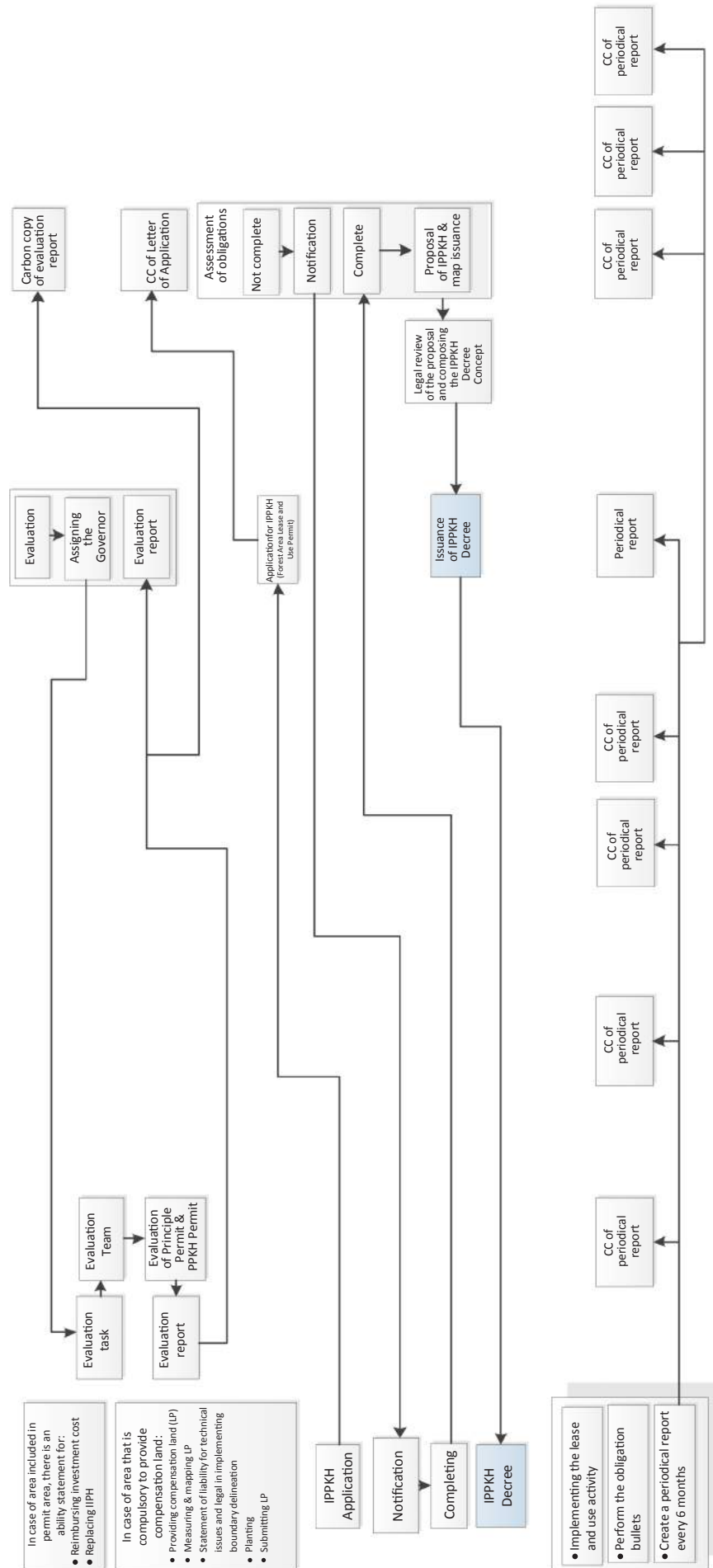




# Annex 11: GUIDANCE OF LEASE AND USE OF FOREST AREA BASED ON REGULATION OF THE MINISTER OF FORESTRY NO. P.18/2011 jo P.38/2012 jo P.14/2013



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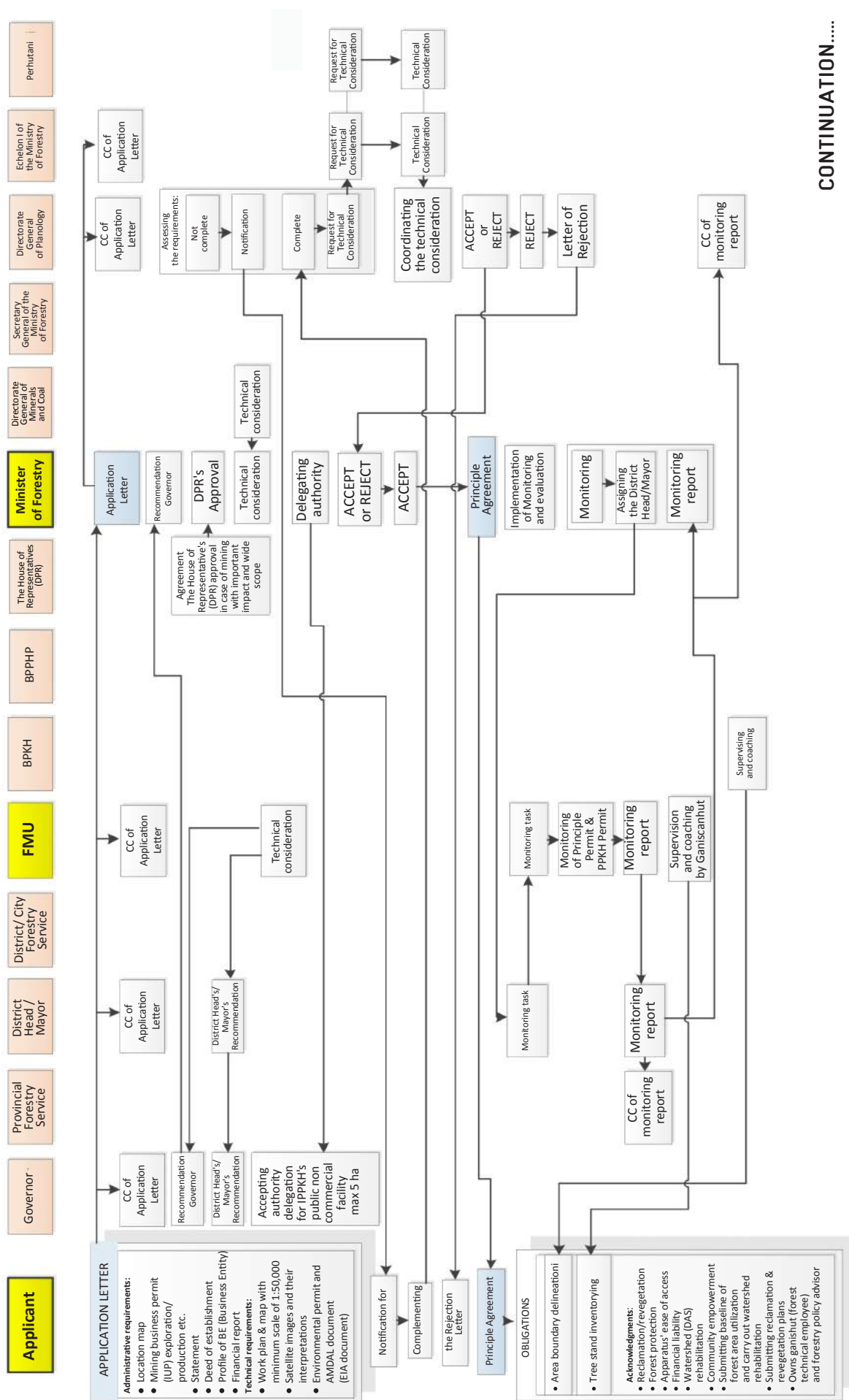


## **Annex 12:**

**Guidance of Lease and Use of Forest Area  
by Functioning of FMU**



## Annex 12: GUIDANCE OF LEASE AND USE OF FOREST AREA BY FUNCTIONING OF FMU



CONTINUATION.....

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