

FOREST POLICY REFORM IN INDONESIA: HAS IT ADDRESSED THE UNDERLYING CAUSES OF DEFORESTATION AND FOREST DEGRADATION?

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INTRODUCTION

Indonesia's forests are in crisis, especially natural and indigenous forests. The country faces not only a loss of ecosystems, species, and genetic forest resources, but also the loss of their ecological functions, as well as their social, cultural and spiritual functions. The 1997 and 1998 forest fires, floods, landslides, and other well-publicized disasters are indications of a long process of deforestation and forest degradation.

Indonesia has the third largest forested area in the world, is one of the top six countries in the world for biodiversity, and yet is experiencing the highest deforestation rate. The deforestation rate in Indonesia is almost three times higher than the average rate of tropical deforestation in the world. Primary forest coverage remaining is only 37% of the total forest area that existed in 1966, a critical year for Indonesia. Before that year, Indonesia had not yet suffered from structural adjustment programs, debts, and aggressive private capital flows. These contributed critically to policies including inequitable land tenure, and incentives that lead to deforestation and forest degradation. The accompanying social, economic, cultural and spiritual exploitation caused the suffering of more than 40 million indigenous people and many local communities in Indonesia.

This paper first examines the historical context of forest loss in Indonesia. It then discusses the major underlying causes of deforestation and forest degradation in Indonesia, followed by a look at the structural problems in conserving the country's forests. It further documents some forest policy reforms, followed by an examination of whether the reforms have addressed underlying causes of deforestation and forest degradation in Indonesia.

FOREST LOSS IN INDONESIA

Until 1966, 75 per cent of Indonesia's territory, or 144 million hectares, was still covered by forest. In the beginning, the exploitation of forest resources that started the 'timber boom' in the seventies was known as the 'Forest Development Olympiad' era. In this era, Indonesia became the biggest log exporter in the world with involvement from foreign companies, made possible by the Foreign Investment Law in 1967. In 1982, when the price of oil dropped, the forestry sector became the second largest contributor to foreign exchange in the Indonesian economy after oil and gas. By 1983, 560 private companies held 65.14 million hectares of forest concessions. This exceeded the total area of production forest as designated in the Forest Land Use Allocation.

In 1980, the government restricted log exports and began promoting the development of the plywood industry. By the end of the nineties, Indonesia had become the world's biggest producer of plywood, fulfilling 75 per cent of global demand. Meanwhile, the overestimation

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of forest resources, the weak management and legal systems, and the over capacity of the plywood industry caused greater acceleration of primary forest exploitation.

Satellite photos taken in 1982 by the Indonesian government showed that forest cover had decreased to 92.4 million hectares (this was the area left after logging of Private Concessionaires (HPH) and the Timber Estates, which were developed by clearing the natural forest). Of the 92.4 million hectares, 20.6 million hectares of permanent forest were left open.

From the data above, deforestation rates from 1982 to 1993 are estimated to have reached 2.4 million hectares per year. This rate is considerably higher compared to the rate of 0.9 to 1.3 million hectares per year estimated by the Indonesian Forestry Department and UN Food and Agriculture Organization (FAO). The deforestation rate in Indonesia was also higher than the average rate for tropical forests in the world, which was only 987,000 hectares per year.³ Now, in 1999, primary forest covers only 53 million hectares or 37% of total forest area before 1966 (WALHI, 1998).

UNDERLYING CAUSES OF DEFORESTATION AND FOREST DEGRADATION IN INDONESIA

1. Development Paradigm Adopted by Government of Indonesia, Influenced by Structural Adjustment Loans, Bilateral and Multilateral Loans

The year 1966 was one of great political change. During this year, Suharto, who remained Indonesia's president until May 1998, started the New Order when he took control of the nation from his predecessor, Soekarno, the country's first president. In the same year, Indonesia joined the International Monetary Fund (IMF) as a member and received its first structural adjustment loan. During that time Indonesia also agreed to receive bilateral loans. To follow up these international agreements, the government of Indonesia established a law on foreign investment in 1967. A new era of forest resource management began through the establishment of the Basic Forestry Law of 1967 as a product of a new national development policy, a development paradigm based on economic growth, influenced by the agreements. The Basic Forestry Law constituted a legal instrument facilitating commercial access to, and development of, income streams from legal rights to forest resources. Article 5 of The Basic Forestry Law states that all forest areas within the boundaries of the Republic of Indonesia, including natural resources in the areas, are under the authority of the government. The Basic Forestry Law was then used as a mechanism to legitimize state claims of ownership over forest resources and to arbitrarily sanction the removal of local control from forest communities, including indigenous ones (Moniaga, 1993). Following the Basic Forestry Act, the Forest Land Use Policy (referred to as TGHK) was established under Government Regulation No. 33 in 1970 and formalized in a set of decrees by the Minister of Agriculture in 1980 and 1981. The deadline for completing the Forest Land Use Policy (TGHK) designations was 1985. Based on the Policy, permanent forest was categorized into: 1) production forest (64.3 million hectares); 2) protection forest (30.7 million hectares); 3) natural conservation area and nature preserved forest (18.8 million hectares); and 4) convertible forest (26.6 million hectares).

Until 1966 some 75 per cent (144 million ha) of Indonesia was covered with tropical rainforest. The prevalence of the prized tree species Dipterocarpaceae in Kalimantan and Sumatra made the Indonesian rainforest one of the most commercially valuable in the world. Large scale logging of timber began as a follow up to establishing the Basic Forestry Law in 1967, when all Indonesian forests were declared state property. The Basic Forestry Law also

opened up opportunities for foreign investments in logging activities. All policies enacted during that period supported the exploitation of the Indonesian rainforest as part of a national development policy, mainly to finance foreign debts. During the timber boom in the 1970s, with the help of well-connected foreign companies, Indonesia became the world's biggest raw log exporter. Timber became the second biggest earner after oil and gas in the Indonesian economy after oil prices dropped in 1982. By 1983, 560 logging concessions had been granted on 65.4 million hectares, more than the total area of Indonesia's production forests stated in the Forest Land Use Policy. Before the promulgation of the Forest Land Use Policy (TGHK) in 1985, which included forest land demarcation, it was commonly known that logging companies operated within areas that were not clearly demarcated. Over-logged areas visible today within conservation areas such as national parks and nature reserves remain as evidence of past mismanagement.

Another product of the new national development policy, the paradigm based on economic growth influenced by the international agreements of 1966 and 1967, is the Basic Mining Law established in 1970. This law supports the potential for mining in any forest area in Indonesia.

2. International and Regional Trade Pressures

Large scale logging of timber began as a follow-up to the establishment of the Basic Forestry Law in 1967 when all Indonesian forests were declared state property. The Basic Forestry Law also followed by opening logging activities up to foreign investors. During the timber boom in the 1970s, with the help of well-connected foreign companies, Indonesia became the world's biggest raw log exporter. Timber became the second biggest earner after oil and gas in the Indonesian economy in 1982 after oil prices dropped.

The timber boom in the 1970s was also supported by an increased demand for round wood in Japan and Korea. During that period, plywood companies in Japan and Korea started to seek alternative sources of raw materials after they had lost the Philippines as their main source due to over exploitation of forests in that country.

Influenced by high demand and a good price for plywood, the government changed its forest policy by introducing a ban on raw log exports in 1980 and promoting the development of the plywood industry. By the late 1980s, Indonesia was the world's largest plywood – producer, achieving a 75 per cent market share. However, overestimation of forest resources, poorly managed large-scale operations, non-compliance of concessionaires to the principles of sustainable forestry, a lack of law enforcement, over capacity in the plywood industry and meager reforestation efforts resulted in the rapid exploitation of primary forests (Hurst, 1990). After continuous short-term and profit-oriented timber exploitation, forest coverage in Indonesia had decreased to 119.3 million ha (62 %) in 1982 (RePPProt 1990) and 92.4 million ha (48.6 %) in 1983, including plantations and vast logged-over secondary forests (Bobsien and Hoffmann, 1998).

At the international and regional levels, there was also evidence of increasing demand for pulp and paper since the 1970s. The government of Indonesia started to see this situation as an opportunity to get foreign exchange after facing natural resource depletion. In the mid-1980s, the government started to establish policies which supported the development of pulp and paper industries. The following paragraphs discuss those policies.

3. Economic Growth Development Paradigm Despite Depleted Natural Resources

The overall macro-economic situation and the specific situation in the relevant policy fields created a high need for policy change. Since Indonesia's oil resources are forecast to be depleted soon (by about the year 2005), and the country will not only lose oil export revenues but also become an oil importer, the national development planners are aiming to boost the economic performance of other sectors. Among other promising businesses, pulp and paper, as well as agribusiness (especially tree crops), were identified as potential export revenue earners. On the other hand, in the mid 1980s there was already clear evidence in the forestry sector of an up-coming timber crisis due to over-logging. At that time, industrial plants in some parts of Sumatra were already suffering from raw material shortages, and in 1990, timber shortages emerged in Kalimantan. In the initial stage, the government tried to solve the problems by establishing a timber estates program (referred to as HTI, *Hutan Tanaman Industri*). In order to resolve the dilemma, the government seemed to settle on timber estates as a scheme for providing alternative sources of wood. For this reason, three types of timber estates were proposed: 1) HTI *pertukangan*, hardwood plantations to relieve supply shortages of construction and woodworking raw materials; 2) HTI *kayu energy*, timber estates to supply raw material for fuelwood and charcoal production; and 3) HTI *kayu serat*, timber estates to support the pulp, paper and rayon industry.

The third type of timber estate, pulp and paper plantations, received the most attention and investment by the private sector and government, since pulp and paper is the most profitable sector. Despite the originally purported goal of the government to use timber plantations to counter hardwood shortages, in practice, the thrust of the timber estate scheme is to create fast-growing tree plantations to support the development of the pulp and paper industry. In 1990, the Ministry of Forestry started granting Industrial Timber Plantation Rights (HPHTI), which allow concessionaires to plant and harvest plantation timber on so-called unproductive areas of permanent production forests. Various government ministers stated that Indonesia is aiming to become the greatest supplier of paper pulp and palm oil in the world. Thus in the 1990s, an enormous program got underway to convert Indonesia's primary forest into timber, rubber and oil palm plantations.

Another ambiguous governmental development program to increase export revenues is the development of tree-crop plantations for oil palm, coffee, cocoa and pepper. Plantation development also serves the government's long standing goal of the transmigration program to relocate people from the densely populated island of Java to the outer islands. Official incentives include low-cost financing for estates where 80 % of the land belongs to small land-holding transmigrants and 20 % to the company. Some 35 companies are developing plantations in conjunction with transmigration. However, only the big conglomerates can afford the investment costs of setting up transmigration sites.

A recent trend has emerged of Malaysian businessmen seeking land to establish new plantations in Indonesia. Some of the reasons are: a) Malaysia's rubber plantations are aging and oil-palm production is decreasing; and b) in Indonesia land can be cleared more easily owing to the lack of government control and Indonesian counterparts freely remove the remaining trees (Bobsien and Hoffmann, 1998).

By 1996, Indonesian exports of palm oil products increased 32 per cent over the previous five years, and were worth more than US\$1 billion. Government plans called for the production of 7.2 million tons of crude palm oil by the year 2000, with the plantation area increased to 2 million hectares. The Ministry of Agriculture announced that an additional 1.5 million hectares would be added in 1998 as part of a new policy to address the monetary crisis

(CIFOR, 1998). With respect to the present economic crisis, the palm oil business is very attractive, because investment needs and operation costs are in rupiahs, but export sales will return investments in dollars. The government lifted its export ban on palm oil on April 22, 1998. The integration of Forestry and Plantations into one Ministry in 1998, supporting “one-roof” authorization of the conversion of forested land into plantations, is further evidence of the government’s unambiguous plans for plantations.

Some measures of the IMF package directly concern the palm oil sector. For example, Point 39 requires Indonesia to remove “all formal and informal barriers to investment in palm oil plantation” - a requirement which is clearly detrimental to environmental concerns, because it will highly increase additional pressure from international investors to convert forest land. Point 50 of the IMF catalogue requires the government to “reduce land conversion targets to environmentally sustainable levels by the end of 1998” - a requirement contradictory to the first one. The ill-fated timing was not able to prevent the major forest fires of 1998.

STRUCTURAL PROBLEMS FOREST CONSERVATION

1. Governance System

As mentioned in many publications, the government of Indonesia faces difficulties initiating appropriate forest policy reforms due to a governance system that is centralized and colored by extremely strong business relationships between high-ranking government officials and wealthy private entrepreneurs. This situation resulted in inappropriate institutional arrangements and structural corruption.

The centralization of natural resource management has led to the loss of community control and public participation. This is exemplified by many cases that show that there has been an absence of local community participation in forest management. Local people were considered to be the enemies of the forests and an authoritarian order was adopted for forest management. Inadequate representation of local interests in the formulation of forest policy leads to the under-valuation of forest services and non-timber products, a lack of local support for forest protection and increasingly open conflict over forest use, resulting in prohibitively high management costs.

Inappropriate institutional arrangements and the failure of institutions also played an important role in deforestation. One of the problems in institutional arrangements is widespread political control over the awarding of timber concessions, felling cycles, permissible forest damage due to logging and silvicultural treatment of logged areas. The ineffective institutions lead to a lack of law enforcement, coordination and control. In line with bad policies, the ineffective institutions and centralization of natural resource management accelerated the rate of deforestation and forest degradation.

2. Land and Resource Tenure

The acceleration of deforestation and forest degradation over the past 30 years is strongly related to the state ownership of resources. Historically, most tropical forests were communal or tribal domains to which members had customary rights of access and use. During the past 32 years, over 80 per cent of Indonesia’s forests were brought under government ownership, and forest legislation was introduced to give special legal status to particular areas in the forests, often without consideration of customary rights and local traditions.

Presently, the government most often awards concessions to logging companies on truly concessionary terms and fails to adequately enforce harvesting and replanting regulations. Logging companies, operating under short-term concession agreements without assurance of renewal, adopt cut and run strategies, since they have no incentive to preserve the long-term productivity of their concessions.

As a result of the governments' inability to uphold their ownership and enforce related forest laws, poor forest management prevails. This also leads to a pervasive climate of lawlessness, uncertainty, and insecurity of tenure for all parties, especially for indigenous peoples and local communities. The hard-pressed individuals and communities have lost their customary rights to forest resources without commensurate alternatives. Their traditional knowledge of sustainable forest management as well as their access to livelihood have been destroyed. The governments often do not recognise the need to find alternative means of meeting the legitimate requirements of the tribal minorities. Government policies towards the forest peoples in Asia are almost without exception directed towards the goal of integration – the gradual dismantling of cultural differences and the incorporation of the forest peoples into the society of the national majority. These policies often result in even more frustrating situations for communities.

3. Timber Centered Forestry Paradigm

The timber centered forestry paradigm strongly influences forestry education, which in the end produces narrow-minded foresters. It becomes a serious problem since these foresters have critical roles due to their positions as policy makers, bureaucrats, professionals, managers, and even trainers. In addition, inadequate knowledge of field conditions on the part of senior forest managers and policy makers, reinforced by the division of forestry departments into field and office personnel, makes site-specific silvicultural treatment difficult.

Recent assessments on forest value are generally based on timber production alone, and therefore do not reflect the full value of forests. The common omissions are the value of non-timber products such as rattan, resin, fruits, latex, medicines, and the value of environmental/social services, including watershed protection, soil conservation, gene conservation, climate regulation and tourism. Forest management is focused almost exclusively on timber production, often to the detriment of other forest products and services.

4. Cross-sectoral Policies

The relative profitability of forest investments depends not only on forest policies and forest investment incentives, but also, critically, on non-forest policies and incentives. Many non-forest policies, such as agricultural, industrial, housing and resettlement, mining, and other policies have induced excessive conversion of tropical forest lands into other uses that are not always more productive or sustainable.

Inadequate institutional arrangements also create conflicts between government agencies (e.g. agriculture versus forestry) that often result in irrational land use policies and uncertainty over forest tenure. As already mentioned, Indonesia's forests are divided into several uses, one of which is convertible forest that can be allocated for many purposes. Therefore, without proper coordination among government departments there have been conflicts of interest among them in managing the conversion forest.

REFORM OF FOREST POLICIES

1. Policy Changes Driven by IMF Loan Agreements

The following is a list of ten of the policy changes imposed through the IMF loan agreement that have a bearing on Indonesia's forests (Sunderlin, 1998).

- (1) *Remove restrictions on foreign investment in palm oil plantations.* This was implemented in early 1998.
- (2) *Remove the ban on palm oil product exports and replace it with an export tax of 40%.* Implemented on April 22, this policy was to have been reviewed regularly for a possible reduction of the tax rate to 10% by the end of December 1999. However, the export tax on palm oil products has been raised to 60% in an effort to guarantee adequate domestic supply.
- (3) *Reduce land conversion targets to environmentally sustainable levels and implement a system of performance bonds for forest concessions.* This policy was to be implemented by December 31, 1998.
- (4) *Reduce export taxes on logs and rattan to a maximum of 30% ad valorem.* Implemented on April 15, 1998 with an aim to reduce export taxes to 20% by the end of December 1998, 15% by the end of December 1999, and 10% by the end of December 2000.
- (5) *Create new resource rent taxes on timber resources.* This regulation came into effect on May 5, 1998. It replaces the tax known as the forest products fee. The level of the tax has been set at 6% of timber sales.
- (6) *Increase timber stumpage fees charged to forest concessions, implement an auction system to allocate new concessions, and allow transferability of forestry concessions and de-link their ownership from processing for new concessions.* These policies (with one exception) were implemented on June 30, 1998. The introduction of an auction system has been delayed. (See below under "Forest Management after the Suharto Era.")
- (7) *Eliminate the Indonesian Plywood Association (APKINDO)'s monopoly over plywood exports.* Implemented March 30, 1998.
- (8) *Transfer control over all government-owned commercial forestry companies from the Ministry of Forestry to the Ministry of Finance.* Implemented in early 1998.
- (9) *Incorporate the reforestation fund into the national budget, use money in the fund only for reforestation purposes, and charge reforestation fees in rupiahs rather than dollars.* Implemented in early 1998. (Previously, the fund was managed as an off-budget account by the Ministry of Forestry, and occasionally used for non-forest related purposes.)
- (10) *Increase the proportion of the market value of land and buildings assessable for tax purposes to 40% for plantations and forest property.* Implemented March 31, 1998.

The combined effect of policies (1) and (2) concerning oil palm will be to greatly stimulate interest in, and capability for, the establishment of new oil palm plantations. As indicated earlier, this is one of the principal threats to forest cover resulting from the economic crisis. It is noteworthy that policies (1) and (3) are potentially in contradiction with one another. Rapid and widespread development of oil palm plantations potentially undermines the goal of reducing land conversion targets to environmentally sustainable levels.

Policies (4), (5), (6) are the "conventional wisdom" of policy reform long embraced and promoted by the World Bank in Indonesia and other developing countries. Implementation of these policies may lead to modest improvement in the management and forest conservation

practices of some concessionaires. However, it is difficult to imagine how these reforms will modify in any meaningful way the incentives that currently promote over-harvesting and that maintain past patterns of destructive logging practices.

2. Forest Management after the Suharto Era

Since Suharto stepped down as President in May 1998, a tide of policy reform swept all levels and sectors of the Indonesian economy. One key theme of the reform movement has been to dismantle the practice of "collusion, corruption, and nepotism" that characterized the Suharto era (commonly abbreviated as "KKN" for "*kolusi, korupsi* and *nepotisme*.")

Muslimin Nasution, the new Minister of Forestry and Estate Crops under President B.J. Habibie, issued a series of policies and declared intentions, most of which are in the spirit of the *anti-KKN* reform movement. Among these policies and intentions are the following:

- Timber concession permits that have been obtained through collusion, corruption, or nepotism will be cancelled and management of the concession will be transferred to a cooperative.
- The implementation of an auction system for the allocation of new concessions (required under the terms of the IMF agreement) will be delayed in order to create a bidding mechanism whereby concentration of ownership by large timber companies and damaging silvicultural practices will be avoided.
- The maximum size of timber concession management units will be 39,000 ha. At present, the range of concession management unit areas is between 22,000 and 560,000 ha. (There are nine holding companies that have a total area of concessions in the range of 1.3 million ha to 3.5 million ha.)
- No new forest concessions will be awarded, in order to prevent further deterioration of the country's forests. The areas auctioned will be limited to forests where an existing concession permit has been revoked by the government.
- The Minister will seek the return of 23 billion rupiahs transferred from the Reforestation Fund in 1996 to the state-owned aircraft manufacturer PT Industri Pesawat Terbang Nusantara (IPTN).
- The government will investigate past use of the Fund to finance the businesses of the Suharto family and their associates. Other than financing IPTN, among other uses, the Fund was also used to provide 250 billion rupiahs to Bob Hasan, a close friend of Suharto to establish a pulp and paper mill. 80 billion rupiahs went to Ari Sigit Hardjojudanto (Suharto's grandson) for fertilizer manufacturing, and 527 billion rupiahs went to establish the controversial one million ha project in Kalimantan. According to Harsono, Director General of Reforestation and Land Rehabilitation, only 10 per cent of the Reforestation Fund was used for reforestation.
- In late August 1998, Minister Nasution cancelled permission given previously to the Salim Group to establish a 100,000 ha oil palm plantation in a biodiversity-rich forest in East Kalimantan. The area will be reclassified as a conservation forest instead.
- Minister Nasution has acknowledged that some areas of production forest, and possibly even protection forest, might have to be used for agriculture in Java given the large number of people who have become unemployed because of the economic crisis.

In addition to the above policies, the Ministry of Forestry and Estate Crops has begun a process of thoroughly reviewing and reforming existing forestry laws and policies. The Ministry is giving stronger emphasis to community-based forest management than was the case under previous administrations.

3. Draft New Forestry Law: Non-transparent Process, No Substantial Reforms

As part of the general reform agenda and in order to comply with IMF/World Bank conditions, the government of Indonesia submitted the draft of new forestry law to the Parliament in the middle of March 1999 without conducting an open, transparent, and participatory process. The process of drafting the new Forestry Law raised heavy criticism from civil society groups, yet the government of Indonesia appears to be ignoring these voices.

The Reform Committee established by the Minister of Forestry and Plantations (known as Komite Reformasi Pembangunan Kehutanan dan Perkebunan/KRPKP) produced a draft in mid-1998 which included some recognition of the rights of Indigenous Peoples over forest lands and resources. Basic ideas proposed by the Reform Committee (KRPKP) are not properly considered in the draft produced by another committee comprised of Ministry officials and produced behind closed doors.

Civil society groups are highly concerned with the need to adopt the new paradigm of community-based forest resource management using an ecosystem-based approach which considers the tenure rights of Indigenous Peoples and local communities to forest lands and resources. They have written to the World Bank, expressing deep concerns about the indirect and direct effects of the IMF/World Bank loans on the future forest resources of Indonesia, and on Indigenous Peoples and local communities living in and around forest areas. It is understandable that conditions attached to loans can be used to promote environmental protection. However, the conditions for the forest sector under the first Policy Review Support Loan (PRSL1) and those proposed for its replacement (PRSL2) and Sectoral Adjustment Loan (SAL) will preserve the structural underlying causes of deforestation and forest degradation, as well as socio-cultural destruction. Indigenous Peoples and local communities will continue to be marginalized as their rights to forest lands and resources will be structurally ignored.

Only a few civil society groups were officially invited to deliver comments on the draft before it was submitted to Parliament. Yet, their proposal to adopt a new paradigm on forest resource management appears to have been fruitless. The final draft of the new forestry law submitted to the Parliament was produced from a tightly closed process which did not even follow the mechanism arranged by Presidential Decree No. 188 of 1998 on Procedure to Prepare Drafting Process of Law.

Besides failures in the process of drafting the new forestry law, civil society is highly concerned about the substance of the draft of forestry law which reveals two problems: 1) a strong paradigm of state control of forest lands and state domination of forest management roles; and 2) a paradigm centering on timber management.

Centralization of state roles is contradictory with the principles of democracy, decentralization and devolution in forest resource management. The state control and domination paradigm shown from centralization of state roles in forest management authorization ignores the existence of customary lands occupied and managed by Indigenous Peoples, and excludes the involvement of local communities and the public in all processes of forest management.

Under this paradigm, the Draft shows inconsistency with the demands of Indigenous Peoples and local communities for the recognition of their land and tenure rights. This is contradictory with the spirit of Article 18 of the 1945 Constitution. Along with this line, the Draft does not recognize traditional knowledge, practices and innovations belonging to Indigenous Peoples and local communities. It also does not consider principles of Prior Informed Consent from Indigenous Peoples and local communities in all related activities

including forest planning, management, and resource extraction. From this perspective, the draft ignores article 8 j and 10 c of Law No. 4 on Ratification of the Convention on Biological Diversity enacted in 1994.

The timber management-centered paradigm is consistent with long, painful experiences in Indonesia where it has caused deforestation and forest degradation. The Draft does not consider the actual situations where wood industries face serious raw material shortages due to decreasing capacity of the forests. Moreover, the Draft does not consider socio-economic problems that will be caused by future deforestation and forest degradation. Along this line, the Draft is contradictory with the needs to develop bioregional planning based on watersheds and a biodiversity conservation approach.

The draft is even far behind in the latest developments in forestry knowledge, which have already started to integrate the socio-cultural dimension and structural ecosystem approach.

In terms of law enforcement, the Draft does not provide mechanisms for dispute resolution and corporate accountability.

Considering these points, civil society groups have called for the government of Indonesia to take the following measures forthwith:

- (1) Stop pressing the Parliament to pass a new Forestry Law.
- (2) Begin a new process of redrafting appropriate legislation which recognizes, respects and protects the rights of Indigenous Peoples and local communities, and considers forest resource and forest ecosystem management approaches. This new process should include measures to be comprehensive, open, transparent, accountable and include a consultation process.

Civil society groups also urged the World Bank to press the government of Indonesia for full compliance with the conditions of PRSL 1 before any negotiations on PRSL 2 and other loans continue. It is important that the World Bank look carefully at the **process**, the **content** and **quality** of each government action, particularly new regulations and legislation. The World Bank should ensure that the changes toward honoring the conditions are structural and fundamental ones, not merely lip service and cosmetic.

CONCLUSION

This paper has described how Indonesia's forest policy reforms have not addressed the underlying causes of deforestation and forest degradation. The reform of forest policies should be followed by economic reforms, institutional reforms (including decentralization and devolution), and the development of capacity-building of governmental institutions at the national and local levels.

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