

Inclusive Carbon Policy Brief

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Delicate Balance of Private Investment and Sustainability and Inclusivity for the Future of Social Forestry Development in Indonesia

Key Summaries

- The current state of social forestry in Indonesia **reveals rapid growth but insufficient achievement of sustainability goals** due to resource limitations.
- Social forestry, if supported by private investment, **has the potential to significantly reduce poverty in local communities**, emphasizing the importance of balanced and responsible investment.
- **Private investment** is identified as a critical factor for the success and sustainability of social forestry initiatives in Indonesia.
- **The lack and limited participation of private investment in social forestry are acknowledged**, with concerns raised about exploitation by large enterprises without adequate contributions to local communities.
- The delicate balance between **private interests and community-oriented development rights is emphasized**, necessitating transparent and accountable practices from private investors.

What is the Issue?

The Indonesian ambition to restore the balance between nature and human economic development through the Forest Land Use (FOLU) 2030 Net Sink Policy has been endorsed by the Ministry of Environment and Forestry (MoEF). One of its strategies is the advancement of social forestry. This scheme allows communities to play a larger role in utilizing land forests as natural resources for their socio-economic development and mandating them to engage in protection and conservation efforts for nature. The aim is for social forestry to contribute to emission reduction through sustainable forestry management. However, in reality, many issues and challenges are experienced by local communities in implementing this government-driven program, including social value distinctions, bureaucratic politics, tenurial conflicts, investments,

technical knowledge, and more. This complex issue requires extensive research, consensus, and modeling by diverse stakeholders. However, for this specific policy brief, the author will focus on the limited private investment issue for the future development of social forestry.

Social forestry in Indonesia is driven by government policy to address socio-economic problems at the grassroots level while still allocating smaller forest patches to communities instead of large conglomerations. The social forestry area in Indonesia is increasing rapidly, from 2.5 million hectares in 2018 to 5.3 million hectares in 2022, doubled within five years. However, it is still far from the national target of 12.7 million hectares in 2024 (for further details, see

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Figure A). However, in many situations, social forestry fails to reach its goals in achieving the sustainability agenda due to limited resources, especially capital for innovation and development. In 2022, only 50 social forestry projects were considered independent out of 9,985 community ownership (Lembaga Masyarakat Desa Hutan/LMDH) agreements in Indonesia. 4,665 are considered still under development or beginner, indicating their lack of support from investors and financial institutions for advancement, not to mention the lack of high-quality human resources and good governance (for further details, see Figure B - Antara, 2023). Therefore, it is also unavoidable to hear the news that social forestry is being used by communities for palm oil expansion, non-forestry activities, or other illegal activities as mandated by the MoEF Regulation No. 9 of 2021 (Anugrah-KLHK page, 2022).

Illegal logging and encroachment remain prevalent issues despite efforts to curb such activities. Economic pressures, including poverty and limited alternative livelihood opportunities, can drive communities to engage in unsustainable practices within forest areas, undermining the goals of social forestry. Climate change impacts further complicate the situation, affecting forest ecosystems and traditional land-use patterns. Social forestry programs must adapt to these changes and integrate climate-resilient practices to ensure their continued success, which is highly dependent on the right amount of investment that currently relies on the public budget. It should be emphasized that private investment is much needed to develop social forestry in Indonesia, considering its financial, technical, and corporate governance to maintain economic scalability and future continuity.

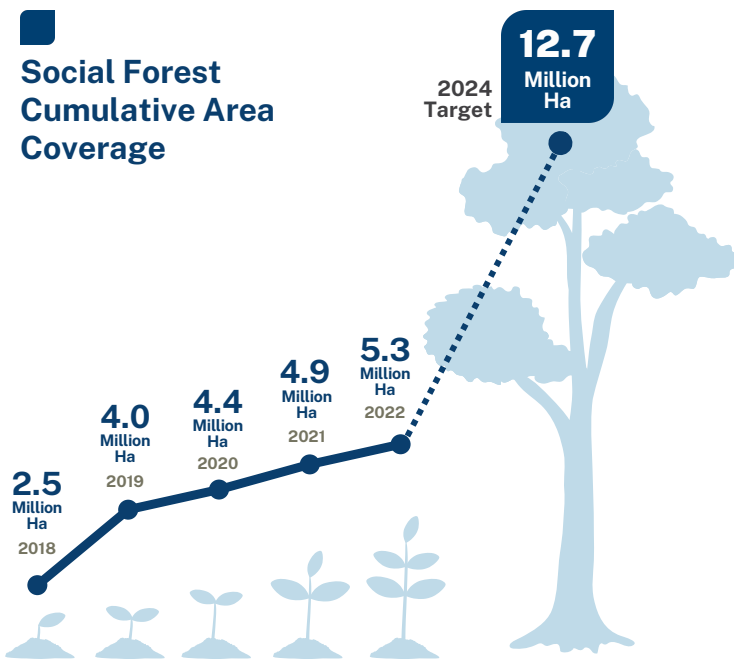


Figure 1. Social forest cumulative compared to realization target in 2024

Source: CarbonEthics, Reproduced from Antara (2023)



Figure 2. Social forestry business groups based on its level of independence

Source: ibid.

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The lack and limited participation of private investment in the social forestry sector have also been tainted by some cases of exploitation by large private enterprises acquiring social forestry land for their business, without providing appropriate contributions to the community (Hikmah-UNAIR, 2020). MoEF has mandated each social forestry project to have a companion organization (*pendamping*), mostly coming from civil society organizations (CSOs), which also face difficulties in promoting and expanding sustainable, transparent, and equitable private investment in social forestry. Minister Siti Nurbaya Bakar has mentioned that support and assistantships will always be given to communities in expectation of their future financial independence and contribution to new local economic growth centers. Social forestry significantly contributes to the future economy of local forestry communities that depend on their forested environment for their livelihoods. Hoping for a significant transformation in the future of social forestry is unrealistic without a strong balance of private investment with social value or purposes.

Why is this important?

The urgency for social forestry development is not solely driven by the current global trend of environmental protection and sustainability but also by the stark reality that approximately 49 million Indonesians (or 18% of Indonesian population) live in or near forest areas. Shockingly, nearly 25% of this population, approximately 9.8 million people, live below the national poverty line (Dewi, 2018). This distressing fact underscores the inadequacy of the rich and resourceful forest to provide sufficient livelihoods for the people, highlighting the imperative need for social forestry and its investment to address and eliminate this condition. Some literature even suggests that the development of social forestry contributes significantly to poverty reduction in local communities, ranging from 10% to 50%. This impact could be intensified with a more considerable size of private investment in the social forestry sector.



Companion (*pendampingan*) will continue to be done to facilitate the means of social forestry to be more independent and forming centres of regional economic growth

- Siti Nurbaya Bakar
Minister of Environment and Forestry of Indonesia

Photo 1. Statement from Minister of Environment and Forestry

Private investment stands out as a critical aspect of the success and sustainability of social forestry initiatives. The financial resources it brings are indispensable for establishing, expanding, and maintaining social forestry projects, covering crucial aspects such as infrastructure development, community training, and implementing sustainable forestry practices. Moreover, private investors often introduce innovation and advanced technologies to the sector, enhancing operational efficiency and resource management. This is especially true for carbon markets, which require in-depth knowledge of carbon project management, sustainable forest management, and the legal-policy intricacies of carbon trading and negotiation. Private investment catalyses market access, enabling social forestry projects to connect with broader markets for their sustainable products and activities. The collaboration between public and private sectors shares

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financial risks and aligns economic interests with environmental and social goals, fostering long-term sustainability (Degnet et al., 2018).

Social forestry requires the flexibility and efficiency inherent in private-sector operations to complement government-driven initiatives and progress more effectively. Private investors' focus on returns on investment can align with a commitment to the long-term success of social forestry projects, ensuring that economic interests are intertwined with environmental and social objectives. This collaboration not only diversifies funding sources but also fosters resilience, allowing social forestry projects to adapt swiftly to changing circumstances and maximise their positive impact on both the environment and local communities. According to the Indonesian government's report "*The State of Indonesia Forest 2022*" the majority of the funding for forestry management, 55%, will come from the private sector through its investment, grants, loans, private equity, and corporate social responsibility (CSR), for instance, what happened in Lembaga Pengelola Hutan Desa (LPHD) Batu Ampar, Kabupaten Kubu Raya,

which received a lot of support from forestry companies nearby. It justifies the urgency for social forestry going with private that has yet to be fully recognized by the public. The United Nations Environment Programme (UNEP) reported that globally, we need to triple investment in nature-based solutions, which currently heavily relies on public funding, comprising nearly 86%, necessitating an expansion to at least 50%, comparable to climate finance (UNEP, 2021).

However, it is also important to note the transparency and accountability of private investment in achieving the ultimate goals of social forestry, namely the prosperity and economic sustainability of local communities. The Indonesian government is concerned about potential infringements and the over-dominance of private investment in social forestry, given the prevalent reality that private investment often prioritises profit-seeking over community development. Social impact enterprises could play a pivotal role in mitigating this concern by redirecting private investment towards sustainable and inclusive social forestry projects. Therefore, achieving an intricate balance between private interests and community-oriented development rights should be considered from the beginning of the investment.

Private investment should serve as a complementary and progressive force for the future development of social forestry in Indonesia, providing opportunities for more traditional and local communities to escape poverty while maintaining control over their forest and natural resources. Anticipating potential risks associated with uncontrolled and unchecked private investment should not solely be the responsibility of the government, especially the Directorate of Social Forestry and Environmental Partnership. It should also involve all stakeholders, including civil society organizations, companions (*pendamping*), scholars, research institutes, youths, and other relevant organizations, contributing collectively to the success and improvement of Indonesia's social forestry.

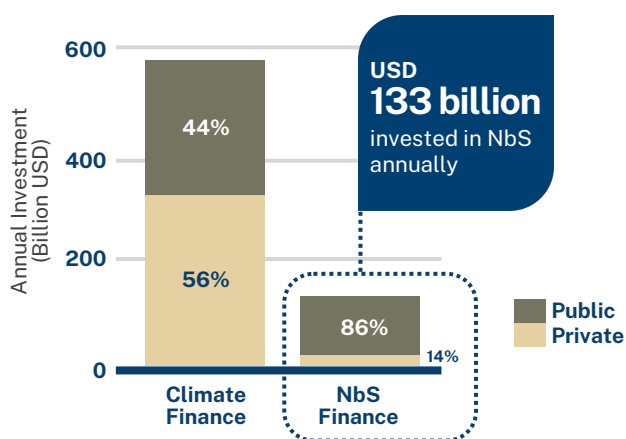


Figure 3. Climate finance relative to finance for NbS

Source: CarbonEthics, Reproduced from UNEP

<https://www.unep.org/resources/state-finance-nature-2021>

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■ What can we recommend for the policymakers and other stakeholders?

We have identified plenty of issues that we need to address as investment blockers on social forestry in Indonesia. Addressing these issues is a crucial component for the future development and sustainability of social forestry that the Indonesian government has promoted in the last decade. Therefore, we need more strategic and holistic approaches to ensuring the balance of public and private interest in the long run with the following recommendations.

Enhance Regulatory Framework and Incentives: Improve and streamline the regulatory framework governing private investment in social forestry. Introduce incentives such as tax breaks, subsidies, or other financial advantages to encourage private investors to participate actively in sustainable and inclusive social forestry projects. Clarity and predictability in regulations will attract more investors and contribute to the overall success of social forestry initiatives. – identify social forestry criteria that is suitable for the carbon project scheme

Promote Social Impact Enterprises: Encourage the growth of social impact enterprises focused on social and environmental objectives. These enterprises can act as intermediaries between private investors and social forestry projects, ensuring that investments align with community development goals. Establishing a supportive ecosystem for such enterprises, including financial support and capacity-building programs, will enhance their ability to channel private investment effectively.

Strengthen Community Engagement and Empowerment: Prioritize community engagement and empowerment throughout the investment process. Implement mechanisms that ensure local communities have a voice in decision-making and benefit directly from social forestry projects. This may involve establishing community trusts, partnerships, or

cooperatives that enable communities to participate actively in project planning, implementation, and monitoring. Empowered communities are more likely to attract responsible and community-focused private investors.

Facilitate Multi-Stakeholder Collaboration: Foster collaboration among various stakeholders, including government agencies, civil society organizations, academia, private sector entities, and local communities. Establish dialogue, information exchange, and coordination platforms to create a conducive environment for private investment in social forestry. By involving all relevant parties, potential risks can be identified and addressed collectively, leading to more sustainable and effective social forestry initiatives.

These recommendations aim to create an enabling environment that attracts responsible private investment, aligns with community development objectives, and ensures the long-term success of social forestry projects in Indonesia.

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About CarbonEthics

CarbonEthics is an organization that aims to restore the climate balance through natural climate solutions with pioneers in blue carbon rehabilitation.

When you conserve with **CarbonEthics**, you are not only creating positive environmental change, but you are also advancing social impact by directly enhancing the livelihoods of local community partners and thriving biodiversity.