

Advisory inputs on strengthening the technical capacity of Community Based Forest Enterprises (CBFE) in Indonesia



Back to Office Report

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Contents

Executive summary	3
1. Purpose of work	5
2. Background.....	5
3. Meetings in Jakarta within Ministry	6
3.1 MFP III Team.....	6
3.2 Kasawan Pengelolaan Hutan (KPH) or Forest Management Unit (FMU)	8
3.3 Badan Layanan Umum Pusat Pembiayaan Pembangunan Hutan (BLU Pusat P2H)	8
3.4 Reflections.....	8
4. Field Site 1. Batulanteh FMU, West Nusa Tenggara	8
4.1 Introduction to Batulanteh FMU.....	8
4.2 Sumbawa Forest Honey Network.....	9
4.3 Candlenut Oil Group.....	10
4.4 Stingless Bee Honey association	11
4.5 Reflections.....	12
5. Field Site 2. Central Java	13
5.1 Balai KPH, Yogyakarta	13
5.2 Kalibiru Community Eco Tourism	14
5.3 JASEMA Cooperative.....	15
5.4 APHK Association Ngudi Utomo	16
5.5 Abioso Wood working Industry and Ngudi Utomo Cooperatives, Boyolali, Central Java	17
5.6 Reflections.....	18
6. Field Site 3. Central Sulawesi.....	19
6.1 Dolago Tanggunung FMU	19
6.2 Suka Makmur, Association of forest farmers - Patchouli Oil Group.....	20
6.3 Buana Makmur – Honey Group.....	21
6.4 Rattan Group	23
6.5 Reflections.....	23
7. Field Site 4. Bululeng, Bali.....	24
7.1 Asosiasi Pengrajin Industri Kecil (APIK).....	24
8. Conclusions on role of FMU in supporting social forestry business	25
8.1 National Seminar, Jakarta, 2 June 2017	25
8.2 Four options for KPH as business incubator for social forest business	26

Executive summary

This MFP III mission to Jakarta, Sumbawa, Central Java, Central Sulawesi and Bali allowed the authors to acquire and share lessons and advice on current Indonesian advances in social forestry in comparison with international practice. Since 2015 MFP III has helped position Indonesia as the first full implementer of FLEGT Legality Licenses, facilitated the SVLK certification of 525 social forest enterprises, helped draft regulations on social forestry, facilitated social forestry licenses for more than 300,000 ha of community, village, plantation and adat forests, and installed social forestry as a major focus within forest management units (KPH) – with emphasis on entrepreneurship development market access and finance.

The emerging possibility is that Indonesia can transition from unsustainable extraction from natural forests by large industrial companies, towards production based on forest landscape restoration (FLR) by smallholder farmers. The authors observations in four main KPH attempting to catalyse social forestry business in Sumbawa, Central Java, Central Sulawesi and Bali have led to a set of structured options for the remainder of MFP III and for the design of MFP IV:

SUGGESTED OPTIONS FOR MFP III AND ANY SUCCESSOR PROGRAMME

Option 1. Broker continuing annual discussions between Ministries of Environment and Forestry, Agriculture, Cooperatives, Local Government – to encourage change of mindset towards ‘social forestry business’, building awareness of progress and challenges in social forestry and how forest landscape restoration can be advanced through coordinated efforts.

Option 2. Structure regular within-MoEF coordination meetings on social forestry business between KPH, BLU and Social Forestry to develop an agreed manual on how KPH should approach social forest business incubation and start-up financing – and encourage national and provincial social forestry legislation that enables community-only or KPH-community partnership commercial business models.

Option 3. Continue to refine the KPH business incubation model developed below through pilot testing across multiple KPH and capture the emerging model in a field manual for KPH practitioners.

Option 4. Develop guidance for KPH on preparing and submitting BLU funding proposals both for enabling investment and direct business loans necessary to develop social forestry business – so as to improve the pipeline of bankable investment proposals

Option 5. Install strong business incubation units in each KPH through dialogue with the DG Forest Management Units, the preparation of new guidance for how KPHs should develop social forestry business from the DG Social Forestry, and training programmes within the KPH association as necessary.

Option 6. Task KPH business incubation units with the development of provincial support networks – including key contacts relating to technical production issues, business service providers, finance programmes, university research departments, market information, relevant government authorities and licensing units. These networks could even be drawn into an advisory board to the KPH business unit.

Option 7. Strengthen entrepreneurial training of community groups – selecting and developing the capacity of both KPH staff and emerging entrepreneurs through a farmer field school Training of Trainers (ToT) approach to financial administration, organisation development for group business and business management.

Option 8. Programme regular business incubation follow up at KPH level to support the development of organisational governance in emerging social forestry businesses (to avoid elite capture and ensure transparency) using risk management toolkits to proactively identify and plan solutions to emerging challenges

Option 9. Maintain provincial level business forums (for KPH and other Government agencies, business service providers, finance, social forestry businesses and business associations and NGOs) - including site visits to more promising social forestry businesses to inspire upscaling of successful models.

Option 10. Encourage KPH to actively pursue community partnerships (Kemitraan) with clear exit strategies – to build trust between parties while also proactively advancing HKR, HD and community plantation and adat forms of social forestry (perhaps installing performance targets for KPH staff to drive change)

Option 11. Develop with BLU a model for group financing of delayed harvesting revolving funds – and train KPH in how to help tree growers' groups to establish and manage such groups so that standing trees can become collateral for farmer loans across the entire Indonesian archipelago. Administer exchange visits to showcase that model to social forestry groups to improve uptake.

Option 12. Develop branding and marketing of processing industries sourcing social forest products. The Indonesian SVLK certification system creates new market opportunities to redefine Indonesian forestry as a legal and socially beneficial forest restoration business, rather than illegal deforestation business. Develop IbcA marketing strategy (e.g. 'Growing Prosperity') accordingly with thought to a national 'social forestry' labelling scheme – perhaps using participatory guarantee system PGS methods.

Option 13. Emphasise a focus on formal group business development (whether as cooperatives or other group ownership structures). Group sales are an essential aspect of price negotiation – but the group needs to have a central bank account, financial management and reinvestment strategy to upgrade over time.

Option 14. Encourage group expansion to improve scale efficiencies and reduce single buyer dependence. Encourage KPH business incubation units to foster diversification and value addition.

Option 15. Explore how Indikasi Geografis labelling could be rolled out for major groups of NTFPs such as honey, oils, coffee, etc. and assist with label development and marketing for those products.

Option 16. Research value chain dynamics and organise group meetings for similar commodity groups such as rattan to explore better production options and encourage collective action and improved price negotiations.

1. Purpose of work

The MFP III programme invited the authors to participate in a mission to Indonesia (Jakarta, Sumbawa Besar, Central Java, Sulawesi and Bali) in order to:

1. Acquire and share lesson learnt of Locally Controlled Forest (LCF) business development, organisational development and risk management
2. Acquire further recommendation /advice on strengthening of capacity of selected CBFs, their associations and potential federations
3. Review related Output 2 (and 3) deliverables to be used as case studies / and in best practice management.

2. Background

In this past year, MFP III has achieved its most significant objective, the full implementation of Indonesia FLEGT License on 15 November 2016. The full implementation of Indonesia FLEGT License, concluded the long negotiation between Indonesia and the EU on the FLEGT VPA and strengthened Indonesia's position as the world's first country to issue FLEGT License for timber exports to the EU. This achievement also marks the strong collaboration across four Ministries: Ministry of Environment and Forestry, Ministry of Foreign Affairs, Ministry of Trade and Ministry of Industry. Indonesia's achievement in obtaining FLEGT License status is partly owed to a strong government effort to involve and certify SMEs. MFP III has contributed to this effort by successfully facilitated the SVLK certification of 525 SMEs in Banten, West Java, Central Java, East Java, Yogyakarta, North Sumatera, South Sulawesi, and South Kalimantan.

But beyond legality certification, MFP III has also been building a broad foundation for inclusive and legal locally controlled forestry enterprise – by (i) facilitating legal drafting of regulations on social forestry (ii) ensuring smooth process in obtaining social forestry licenses for more than 300,000 ha of community, village, plantation and adat forests (iii) installing this as a major focus within forest management units (KPH) supporting the government's priority to allocate 12.7 million hectares for social forestry, (iv) providing capacity building programmes in entrepreneurship development, (v) expanding market access through participation in IFEX and Bravacasa international furniture exhibitions, (vi) improving access to finance through support to the Centre for Forest Development Financing (BLU) in expanding their credit base. The latter has been achieved through legal drafting of new regulations that expand the Centre's scope of financing to include credit to off-farm activities and disbursement through intermediary companies or organisations.

The current situation facilitated by MFP III offers a historic opportunity for Indonesia. There is now the possibility of making a transition from unsustainable extraction from natural forests by large industrial companies, towards production based on forest landscape restoration (FLR) by smallholder farmers. Through investing in locally controlled forestry (ILCF) the government policy of 'social forestry' offers the potential to re-write the reputation of Indonesia's forest sector – from illegal logging that destroys rain forests, towards an inclusive green economy that reduces poverty while incentivising forest restoration and management. This is a seismic shift and one which merits further support through MFP IV. The transition is occurring, not only across private forests (Usaha HR) but also across all five 'types' of social forestry:

- Usaha Hutan Tanaman Rakyat - HTR (People's Plantation Forest)
- Usaha Hutan Kemasyarakatan - HKm (People's community forestry)
- Usaha Hutan Desa - HD (Village forest)
- Usaha Adat (Customary forest)
- Kemitraan (Partnership)

Ongoing challenges include the fact that many CBFEs lack the organisational development, business skills and access to technical and financial support to become robust and profitable businesses, as well as to access increasingly certified export markets. MFP is facilitating them to get those access through an ILCF approach. ILCF is a negotiated framework for striking a balance between acceptable returns, social justice and environmental sustainability. It promotes innovative partnerships that mix enabling investments (that put in capital to build sustainable and investable business organisations) with asset investments (that expect a return on capital).

In strengthening CBFE and implementing ILCF approach, MFP III has been consulting with the authors from IIED who together coordinate multi-stakeholder collaborations towards locally controlled forestry, which involve project development, training in business organisation, research, advocacy and media work and learning events. In particular, the authors coordinate the Forest Connect alliance (a knowledge network for supporters of LCF business spanning 94 countries, including Indonesia). Recently this has included research of similar situations in more than 15 countries, focusing on successful locally controlled forest business models and the development of risk management tools and financing schemes.

The authors were tasked to work as a team to deliver the following outputs, and others as necessary:

1. Field visit to two selected pilot sites (subsequently expanded to four) to acquire lesson learnt from stakeholders, including right holder communities and local government, on the implementation of CBFE and the role that MFP III and its partners.
2. Discussion with key government officials and other main stakeholders, including those that working on public financing schemes for SMFE, to both acquire and share lesson learn and ways to improve the access to finance for the major beneficiaries.
3. Run participatory training of LCF organisational development for business and risk management (time and participant tbd.)
4. Discussion with PMU team on how to acquire and deliver best practice management in the project, with aims to disseminate and share them with the key stakeholders, including the possibility to include them in IIED's tools for LCF business development and association that will be used in other places around the world.

3. Meetings in Jakarta within Ministry

3.1 MFP III Team

Meetings with the MFP III team in Jakarta allowed a quick review of progress since the previous advisory mission in January 2015. The previous mission had identified a number of possible options under Output 2 (entrepreneurship development) and Output 3 (Community access to forests). Specifically that mission had suggested the following options:

Output 2 Entrepreneurship Development

- **National research** on (i) successful business models' history, ownership and organisation structures and (ii) main impediments to group business development in Java plus 4 KPH plus solution options to overcome them (MFP team through University / IIED partnership and drawing on international experience for solution options)
- **Training in business skills development** to establish 'business incubators' - initial broader 'first tier' MA&D ToT for KPH / NGO partners including with local NGOs – see first option in Output 2 (MFP strategic partnership with FFF Sophie Grouwels / RECOFTC Martin Grijmans – bringing in Isabel Lecup and engaging Center for Forestry Education).
- **More advanced financial administration training** for KPH / NGO / business partners especially in Java and Bali (MFP / Earth Innovation Institute strategic partnership – bringing in Shoana Humphries and working with specific 'already functional' group business models for further strengthening and development and engaging Center for Forestry Education and Training)

- **Export training for cluster of more advanced business models** in Java and Bali (MFP strategic partnership with export training centre engaging key local NGO partners such as Javlec, Trees for Trees, Peac Bromo etc)
- **Training in trade promotion** (MFP – needs further discussion but what about trade fair organisation based on the theme of sustainable locally controlled forestry?)
- **Association development** - possible regional cluster meetings around functional business model to explore the potential utility of regional associations (i.e. possibility of replicating Trees 4 Trees model but owned by cooperatives / businesses and financially sustainable) (MFP team with key NGO / business partners)
- **A2F (Access to Finance) linking** - exploration of potential role of BLU (reforestation fund manager) and other A2F schemes (KUR) in supporting legal group forest businesses (MFP team with national partners)
- **Research on functional revolving loan funds** within locally controlled forest business models and how to: (i) set up and manage these (ii) capitalise these with external funds from A2F schemes (MFP team with consortium member?)
- **Business Forums** – Initial workshop with local government and stakeholder supporters for SVLK on the results of the diagnostics in each KPH (MFP team with lead agencies from diagnostics)
- **Incentives package design for legal locally controlled forestry group businesses** with local government and other stakeholders (including support for SVLK registration)
- **Operational diagnostic** - use strategic partnership with Center for Forestry Education and Training to convene Forest Governance Learning Group discussing how best to coordinate the implementation of a combined incentives packages for locally controlled forestry group businesses

Output 3 - Community Access to forests

- **KPH diagnostics of enterprise and support service options** – what exists, what are the main impediments to enterprise development (MFP team to develop ToRs with potential IIED involvement and scoping with local partners)
- **ID partners (NGO) for community development** – part of diagnostic by MFP team – but then building regular thematic learning platform in Output 2 at national level – with possible links to international Forest Connect network facilitated by IIED. Possible early themes: organisational development possibilities, overcoming common group business impediments, investment options for value addition etc.
- **Development of timber operations** – part of diagnostics work of MFP team to map potential structured enterprise development opportunities and follow up work by local NGO
- **Gender mainstreaming** - part of diagnostics to look at gendered options for women in timber/NTFP / cash crop development as part of analysis on how to balance short term and long term revenue flows

Progress against most of these suggested options has been strong. Currently, community groups facilitated to develop CBFM to obtain license or partnership has reached a total area of 328,145.19 hectares of social forestry. IIED worked with Indonesian partners and international ILCF practitioners to assemble a compendium of successful ILCF business models – including two from Indonesia farmer tree growers' groups. Four different organisations have provided 155 community based forest enterprise (CBFE) business capacity including ABDSI, FOKUS Foundation, SNV and PUNDI. Export of SVLK licensed timber have started in earnest. There have been meetings of CBFE from across the country – although without any agreed commercial association yet forming. But the Indonesian Bare Core Association (IbcA) has now consolidated with participation in trade fairs. BLU financing has been extended to downstream processing activities and operation through intermediaries to enhance its relevance and potential reach. Financing of CBFE revolving loans funds is under development. Business forums are to be run in several provinces in the next few months. This current mission comprises a diagnostic of FMU activities in order to assess how best to strengthen their capacity to roll out social forestry that supports CBFE. In summary, progress since the last mission has been strong, and it is now an appropriate time to review how to build on these developments with a series of further options. The authors give a very brief summary of the nature of the discussions that were held in this mission and then suggest options that MFP III might consider developing in each of the 'reflections' sections below.

3.2 Kasawan Pengelolaan Hutan (KPH) or Forest Management Unit (FMU)

Discussions were held on 22 May 2017 with the Director and staff of the Kasawan Pengelolaan Hutan (KPH) or Forest Management Unit (FMU) – hereafter referred to as the FMU – divided into production, conservation and protection FMUs at provincial level. The discussion covered progress towards meeting the target of developing 347 FMUs (including 209 production FMUs) by 2017. Challenging priorities for the FMU included: (i) developing mapping for forest use; (ii) operationalising social forestry (iii) developing performance evaluation for sustainable management within FMUs and (iv) handling permits and licensing. There is now a strong emphasis on community empowerment and economic benefit within FMUs alongside protection from illegal logging and avoiding forest fires. The progress of particular FMUs such as Yogyakarta were introduced. It was agreed that there was a need to improve the capacity for CBFE incubation within FMUs.

3.3 Badan Layanan Umum Pusat Pembiayaan Pembangunan Hutan (BLU Pusat P2H)

Discussions were held on 22 May 2017 with the Director and staff of the revolving fund for forestry business, known as Badan Layanan Umum Pusat Pembiayaan Pembangunan Hutan or BLU for short. Discussions were held about the nature of BLU as a unit in the Ministry of Environment and Forestry (MoEF) that acts as a revolving fund that is service rather than profit-oriented and is flexible in nature. The modalities for BLU include soft loans for micro and small and medium enterprises (at 6.5%) and intermediaries (at 10%) – both less than the commercial 12% - and revenue sharing arrangements which are organised under the partnership form of social forestry (Kemitraan). Critical challenges included the need for institutional strengthening of CBFE groups, the general lack of entrepreneurship that generates bankable loan proposals, and the slight orientation to date towards Non Timber Forest Products (NTFPs). The need for more proactive cooperation between the Directorates for Social Forestry, FMUs and BLU was also flagged.

3.4 Reflections

Option 1. Broker continuing annual discussions between Ministries of Environment and Forestry, Agriculture, Cooperatives, Local Government – to encourage change of mindset towards ‘social forestry business’, building awareness of progress and challenges in social forestry and how forest landscape restoration can be advanced through coordinated efforts.

Option 2. Structure regular within-MoEF coordination meetings on social forestry business between KPH, BLU and Social Forestry to develop an agreed manual on how KPH should approach social forest business incubation and start-up financing – and encourage national and provincial social forestry legislation that enables community-only or KPH-community partnership commercial business models.

Option 3. Continue to refine the KPH business incubation model developed below through pilot testing across multiple KPH and capture the emerging model in a field manual for KPH practitioners.

Option 4. Develop guidance for KPH on preparing and submitting BLU funding proposals both for enabling investment and direct business loans necessary to develop social forestry business – so as to improve the pipeline of bankable investment proposals

4. Field Site 1. Batulanteh FMU, West Nusa Tenggara

4.1 Introduction to Batulanteh FMU

The Director and staff of Batulanteh FMU were visited in the District of Sumbawa (Sumbawa island), Province of West Nusa Tenggara. The FMU began in 2008 but achieved operational budget in 2012 with a total current area of 78,000 hectares following a merger with another FMU. Batulanteh FMU is dominated by production forest (62%) and contains 59 villages and 2 subdistricts.

Figure 1. Photos of Batulanteh FMU staff, map, partnership negotiation and pilot eucalyptus oil business



The authors listened in to negotiations regarding a proposed partnership agreement for the plantation and processing of Sengon (*Albizia falcataria*). Discussions were then held regarding the FMUs facilitation of social forestry through local honey businesses (both using regular *Apis dorsata* bees and stingless *Trigona* bees), the development of candlenut oil and empon-empon (medicinal tubers) production, an expansion in coffee production and pilots to develop Eucalyptus oil production. Ecotourism options are also being explored in one production and one protection forest. At present the potential for timber production is not being actively pursued despite the presence of 5100 hectares of Teak (*Tectona grandis*), Mahogany (*Swetenia macropila*), and Gamelina (*Gmelina arboria*) for fears over illegal logging. Other prominent faster growing local timbers include Jabon (*Neolamarkia cadamba*), Rajumas (*Duabanga moluccana*), and Suren (*Toona sureni*). But the challenge at the moment is seen to be to develop markets for NTFPs and ecotourism and the capacity to meet them, not only in that particular FMU but also in the other 8 FMUs on Sumbawa Island.

4.2 Sumbawa Forest Honey Network

A visit was made to Koperasi Hutan Lestari in Batu Duland village, the largest of eight cooperatives within the Sumbawa Forest Honey Network (JMHS). Koperasi Hutan Lestari has been established since 2000 and has 65 members. Batulanteh FMU has informally supported the farmer groups of forest honey since early 2005. In 2007, JMHS was established by cooperatives and individuals to strengthen the business network and encourage the forestry businesses to run independently and sustainably.

Figure 2. Photos of the forest honey training centre, hives, products and discussions
 In total, JHMS has 1008 farmers and asset in the form of land area in Batu Dulang Village as a training center



of forest honey cultivation, a production house in Sumbawa, and other fixed assets worth 300 million Rupiah. Discussions covered the challenges for the Koperasi Hutan Lestari of illegal logging on honey tree availability, the financial arrangements and profit distribution for the cooperative, the growing market demand but resource limitations, and the impact of climate change / heavy rains which had caused a significant drop in production between 2015 (15.9 tonnes) and 2016 (4 tonnes). There was some discussion about incentives to diversify into coffee production and the organisation of the cooperative.

4.3 Candlenut Oil Group

The “Sumber Alam” candle nut group has 10 members from the Batudulan village. They collect, package and sell candle nut to local traders, restaurant owners and outlets in nearby towns. The group was established to explore the commercial potential of the candle nut, which grows in abundance in the village community forest but until recently has not been thought of as a business (only the 10 group members out of 110 families are doing this). The group has access to the community forest of the village (1,000 ha) and each member manages 2 hectares of community forest land, which according to the group is more than enough. Additional supply is bought from other village members, who also collect candle nut but sell it raw to the Sumber Alam members who carries out primary processing and package the product into bags of 125 g and 1 kg, which they sell for 4,000 and 30,000 rupiah respectively.

Figure 3. Photos of candlenut trees, processing, oil and nut products and group discussions



One of the members of Sumber Alam, Ahonk Sahabudin, have started making candle nut oil. He learnt how to extract the oil from the internet and worked with the FMU field staff to develop a label to sell bottles of 85 ml. His main customers are beauty salons but he also sells the product from his social media accounts. Ahonk has identified 20 supermarkets in the area who are interested in buying 500 bottles of candle nut oil per month. In order to tap into this new market Ahonk will need to register the business and get certified by the food and health agency. The certification is expensive and he will need to find the working capital needed to increase his production fivefold. Both are risks he is willing to take. Ahonk feels that business management training would help the candle nut oil group develop their business. The FMU do not yet have the capacity to provide this but training of field staff could provide this to the level of the local entrepreneurs in the village. It could also help facilitate the registration and certification process and explore different options for increasing working capital, either through a BLU loan or internally through group savings.

4.4 Stingless Bee Honey association

The Stingless Bee Honey Association “Musti Jaya” (which means “must be successful”) was established in 2014 by a group of 10 members. Since then the membership has grown to 20 and they have appointed a chairman, a treasurer and a secretary. They collect a membership fee of 1000 IDR/month from the members and currently have savings capital of 2.5 million IDR. However, this is mainly intended for meeting costs and they have not made any plans for investment or building up working capital reserves. The association has in total 400 hives spread across the members, producing 100 bottles every 3 months, which they sell for 55,000 IDR each. The initial target they set for themselves was 1000 hives by 2018 but the chairman feels confident that they will at least be able to scale up to 700 this year. The main market for the honey is Sumbawa where they have 2 regular buyers who buys whatever they can offer. There is potential for scaling up in particular if they go through they health and hygiene certification required to sell to supermarkets. They have been offered support for this, but have not yet seen the need to do it. Currently they are selling all the stock they have without

any difficulty. Although this would seem like a missed opportunity for the association if they want to develop the business further and potentially access additional support from project funding.

Figure 4. Photos of the Stingless Bees association hives and final product “Black Honey”



The discussions mainly focused on some of the main challenges encountered by the group to scale up production. Access to their most valuable resource, the bees and in particular the queen bee, is hampered by competition from so called “honey hunters” who trap and sell the queen bee at 100,000 IDR a piece. The solution to this problem would be to learn how to divide one productive hive and multiply production that way. But this will require additional technical training and expertise from outside of the FMU. Additional efforts such as planting more flowers and ensuring hives are not attacked by other predatory species could also help ensure production in existing hives are not lost. Overall technical, business and financial management training would help Musti Jaya develop their business for what seems to be a promising market not just for honey but also other derivative products.

4.5 Reflections

Option 5. Install strong business incubation units in each KPH through dialogue with the DG Forest Management Units, the preparation of new guidance for how KPHs should develop social forestry business from the DG Social Forestry, and training programmes within the KPH association as necessary.

Option 6. Task KPH business incubation units with the development of provincial support networks – including key contacts relating to technical production issues, business service providers, finance programmes, university research departments, market information, relevant government authorities and licensing units. These networks could even be drawn into an advisory board to the KPH business unit.

Option 7. Strengthen entrepreneurial training of community groups – selecting and developing the capacity of both KPH staff and emerging entrepreneurs through a farmer field school Training of Trainers (ToT) approach to financial administration, organisation development for group business and business management.

Option 8. Programme regular business incubation follow up at KPH level to support the development of organisational governance in emerging social forestry businesses (to avoid elite capture and ensure transparency) using risk management toolkits to proactively identify and plan solutions to emerging challenges

Option 9. Maintain provincial level business forums (for KPH and other Government agencies, business service providers, finance, social forestry businesses and business associations and NGOs) - including site visits to more promising social forestry businesses to inspire upscaling of successful models.

5. Field Site 2. Central Java

5.1 Balai KPH, Yogyakarta

The Balai FMU manages 18,715 ha of land. This particular FMU have focused on the development of different partnerships with local communities and private sector in the areas of NTFP production (eucalyptus oil mainly), timber production and eco-tourism services. In Central Java a provincial decree was put in place to allow the FMU's develop income generating activities and act as a business. And this has facilitated the acceleration of the partnership model of social forestry. The most successful example is the eco-tourism partnership enterprise based on the same idea as the Kali Biru model described below. Discussions focused on how to move towards a model of social forestry that is built on entrepreneurship that provides development for local people. The director of the Balai FMU pointed out that although access to finance is often described as a main barrier for enterprises to develop he felt a much more important barrier lie in cultural barriers and attitudes that can sometime stifle creativity and innovation from taking place. And that these are key drivers for changing forestry and farming activities towards new products, services and basically being more sensitive to emerging trends and markets. One of the main challenges he face is in increasing the business capacity of his staff to help support this process.

Figure 5. Meetings at the Balai KPH and their eco-tourism partnership model



5.2 Kalibiru Community Eco Tourism

Mandiri is a community forest management unit in Kulon Progo, Yogyakarta. The community forest has 29 hectares and was initially established for harvesting purposes, which later changed to conservation creating the potential for an eco-tourism enterprise. The Kali Biru eco-tourism enterprise was established with the help of a number of important partnerships. The main selling point for the Kali Biru eco-tourism enterprise is photo opportunities at various viewpoints spread across the site where visitors can pose in front of beautiful landscapes, or jump into mid-air attached with safety harnesses and ropes. The enterprise was established with the help of some important partnerships and support. The local government provided the initial investment and an experienced eco-tourism entrepreneur offered his initial help in developing the idea. From the University of Yogyakarta a group of rock climbers offered their expertise and installed basic rock climbing spots, hanging bridges, and safety equipment at the viewpoints. The business had an important breakthrough in 2014 and since then it has been booming with 1,000 tourists visiting daily and up to 5,000 tourists per day during public holidays. It is considered to be one of the most successful community eco-tourism enterprises in Indonesia. The model is now being replicated by other and CBFMs in central Java.

The success of Kali Biru has enabled the management team to employ 90 members from the community (permanent staff) and set up a revolving fund which staff can lend from to meet personal needs. The business does not have any cash flow issues due the high number of regular visitors paying cash. Discussions with the management team revealed that the main challenge that the business is facing is related to infrastructure, an investment they are not sure how to handle at the moment. What once was a community forest sitting on top of a hill has become a multi-million Rupiah attraction that requires roads and parking facilities. The narrow roads leading up to the entrance can become perilous during busy weekends and they have a safety truck on stand-by.

Figure 6. The Kali Biru eco-tourism enterprise site and management committee



5.3 JASEMA Cooperative

JASEMA cooperative was established in 2012 by Ibu (Mrs) Rubikem in Yogyakarta. The initial objective of the cooperative was to stop the depletion of local forest resources and the early harvesting of timber. They came up with the idea of establishing a revolving fund accessible only to those who had trees on their land that they could use as collateral. The members began by replanting their village with teak, sengon and mahogany. And established the foundation for a “delay harvesting” fund where members would pay IDR140,000 to join the cooperative along with an inventory of their tree collateral. The scheme allows farmers to access credit when they most need it (e.g personal and family needs) instead of having to cut trees on their land before they reach maturity and their proper value. In total the fund has 78 million IDR accessed by 554 members. In 2015 the profit of the fund was 9 million IDR in 2016 12 million IDR. The current interest rate is 12%. The majority (60%) of JASEMA’s members are women.

Figure 7. The Jasema cooperative



The discussions with JASEMA revealed that the most valuable tree collateral members can have is the Jack fruit tree. The reason is simple. Income can be earned from the fruit whilst the tree grows and eventually can be harvested and sold to furniture makers and woodcraft industries. However, the Jack fruit tree is not recognised for support by the BLU or the FMU as it is classified as an agriculture crop. Whether belonging to either sector planting Jack fruit makes perfect sense in terms of encouraging agroforestry systems not to mention financial risk management. One of the main challenges JASEMA face is how to scale up their revolving fund and provide services to more members. Currently they are only able to lend to about 10% of their members each year and the demand is greater than their current fund capacity.

A loan from the BLU could help JASEMA increase the size of the revolving fund by using the favourable BLU rate at 6.5% and improve their profit margin. This investment would help the cooperative overcome some of its current resource constraints. However, at the moment these favourable rates are only accessible to individuals and cooperatives are treated as companies for which the rate is 10%. The type of delay cutting scheme offered by JASEMA provides farmers with a real incentive to plant and maintain forest resources, whilst meeting their household needs such as paying for school or hospital fees. Supporting such initiatives through more flexible BLU conditions for group enterprises such as cooperatives and associations is likely to generate wider social and environmental positive impacts.

5.4 APHK Association Ngudi Utomo

The Ngudi Utomo private forests cooperative was established in 2014 with a total member of 753 farmers accessing an area of 367 hectares private forest and farm land. The cooperative members are engaged in a number of agriculture as well as forestry activities but the main economic activity they do together is organising the harvesting and sale of timber. In 2014 the cooperative initiated the process of SVLK certification. This was completed in 2015. The certification has enabled Ngudi Utomo to sell its wood directly to industry under better terms and conditions than they did before when relying on traders. They have one main buyer, Abioso, to which they sell two trucks of timber a week. Abioso supports the cooperative by providing it with seedlings, trainings in harvesting and maintenance techniques, and it pays a fair price for the wood. Abioso has even gone further by investing in a small sawmill to allow the cooperative to process logs into sawn timber, and add value to their product. For Abioso, sourcing its raw material from cooperatives such as Ngudi Utomo is an advantage, because the quality and legality of the raw material is ensured, which also has an impact on the price.

Figure 8. The APHK Ngudi Utomo tree nursery and private forest



5.5 Abioso Wood working Industry and Ngudi Utomo Cooperatives, Boyolali, Central Java

Abioso is one of the leading woodworking industry in Central Java, based in Boyolali. It has been in operation since 2005 and obtained an SVLK certificate in 2012. The company started its production as a small sawmill and since 2009 has expanded to produce veneer production. Today the company employs 1,100 workers in which 50% are women. Abioso produces 40–60 containers per month and 50% of this production is targeted for exports (mainly Asian markets such as China and India). This amounts to roughly 9000 m³ produced every month. The raw material (round logs) are entirely supplied from community forest and private forest areas, and most if it is Sengon. In order to ensure its supply is also SVLK certified, Abioso has set up a number of partnerships with local traders and tree farmers groups and cooperatives such as Ngudi Utomo. NGO's such as Javlek have also played an important role in facilitating these relationships through its work with local cooperatives supporting them through the SVLK certification process.

Figure 9. Abioso new products (veneer doors) and industry



Discussions with the owner of Abioso focused on the current market situation and some of the challenges as well as potential opportunities. In recent years increased competition from the domestic plywood industry has led to a gradual decline in demand and price. This is affecting the entire supply chain. In order to address the issue Abioso is looking into different strategies for diversifying their products, markets and regulating the supply in the market (to address the current surplus). The company is developing new designs for different plywood and veneer products such as doors and furniture. The owner recently attended a trade fair in Europe with the aim to identify new buyers in Europe. The European market is new to Abioso but Indonesia's recent FLEGT licence achievement could help open up this market for companies like Abioso. In particular if they market their products as legal and socially beneficial community forest wood. Finally, in an attempt to regulate the market where over supply from industry is pressing down the prices, Abioso has established a Light wood association, involving members of industries supplying plywood and veneer products in Central Java. The objective of the association is to establish a bench mark for pricing (to avoid a race to the bottom) whilst identifying new market opportunities for light wood products. This is likely to also have an overall positive effect on the downstream actors in the value chain, such as cooperatives, who are the main suppliers of the industry.

From our discussions it became clear that Abioso represent a “lead firm” in that it has an interest in creating market opportunities, transferring technical knowhow, and paying fair prices to local forest producers. Supporting initiatives such as the Light wood Association could have positive spill over effects for local cooperatives and tree farmers groups.

5.6 Reflections

Option 10. Encourage KPH to actively pursue community partnerships (Kemitraan) with clear exit strategies – to build trust between parties while also proactively advancing HKR, HD and community

plantation and adat forms of social forestry (perhaps installing performance targets for KPH staff to drive change)

Option 11. Develop with BLU a model for group financing of delayed harvesting revolving funds – and train KPH in how to help tree growers groups to establish and manage such groups so that standing trees can become collateral for farmer loans across the entire Indonesian archipelago. Administer exchange visits to showcase that model to social forestry groups to improve uptake.

Option 12. Develop branding and marketing of processing industries sourcing social forest products. The Indonesian SVLK certification system creates new market opportunities to redefine Indonesian forestry as a legal and socially beneficial forest restoration business, rather than illegal deforestation business. Develop IbcA marketing strategy (e.g. 'Growing Prosperity') accordingly with thought to a national 'social forestry' labelling scheme – perhaps using participatory guarantee system PGS methods.

6. Field Site 3. Central Sulawesi

6.1 Dolago Tanggunung FMU

About 60% of Sulawesi is classified as forest land. The Dolago Tanggunung FMU was established in 2012 as a provincial FMU, originally with a total area of 144,349 hectares spread across 4 districts in the Central Sulawesi Province. Today the area has increased to 240,000 hectares managed by a total of 60 staff (of which 18 are volunteers). The strategic plan for the FMU area for the coming years includes: timber plantation (6,000 hectares) and restoration of former concession lands (13,000 hectares), NTFP production (12,000 hectares) and development of community empowerment areas under the social forestry programme (23,000 hectares). Currently there are 24 groups with social forestry permits divided between plantation forests (3), community forests (18), village forests (2) and partnership forests (2).

Within the FMU area there are a number of different products produced by local communities. Including NTFP's such as rattan and honey but also spices and herbs for essential oils (e.g. nutmeg and patchouli). Farmers plant a number of different tree species for fruit (e.g. Durian) as well as timber (teak, jabon and sengon). And agricultural crops such as cocoa and coffee. These are grown in agroforestry landscapes. The FMU management team have identified rattan and honey as key products to focus on. Sulawesi is the largest producer of rattan in Indonesia, but local producers receive a minor share of the value. Developing the right capacity in the FMU to support the development of social forestry enterprises of all these different forest and agriculture products is a key priority for the Dolago Tanggunung FMU.

Figure 10. The Dolago Tanggunung FMU



The discussions focused on different ways of supporting local farmers in developing their enterprises and overcoming challenges. The FMU management team identified five main areas of priority and where they in particular wanted support. These were:

1. Improving the enabling environment by approving provincial regulation (currently in draft) giving the FMU the mandate to develop income generating activities (e.g the partnerships model).
2. Increased guidance on the post licensing process – what next?
3. Developing a system of market information for different products in the FMU area.
4. Developing business development skills through trainings for both their own FMU staff as well as that of local forest and farm producer groups.
5. Strengthening technical skills of FMU staff to e.g. to diversify production of NTFPs

As part of the meeting the authors presented some examples from different parts of the world how forest management units engage in business incubation support activities as well as risk management to help strengthen businesses. This helped engage with local examples such as local elite capture of the rattan value chain, or how to identify different products and market opportunities to help diversify production for a range of timber and NTFP's produced locally.

6.2 Suka Makmur, Association of forest farmers - Patchouli Oil Group

The Suka Makmur Association of forest farmers was established in 2010, originally as a tree growers group but today their main focus is on patchouli oil. The group is unregistered and has 20 members with access to their own private forests. Members pay IDR 10,000 per month in membership fees which is saved for emergency loan purposes (2% interest). So far the group has managed to save IDR 53 million. The group plants, harvest, sun dries and processes patchouli leaves into oil. Every week they sell 1.5 tonnes of patchouli oil to one buyer who buys in bulk, before further processing it and selling it to the Jakarta market. They are leasing the processing equipment from their main buyer, who sets the

price. One of the members have taken out a loan of IDR 150 million with the Bank of Indonesia (at 7% interest) to invest in his own processing facilities. This has enabled him to find other buyers and broaden his market. He is now buying from the group members, as well as other Patchouli groups (5 other groups) in the area. Based on our conversation it was clear that he had done his own market research and knows where the main markets are, and what quality requirement he needs to for fill to access different segments. This individual's enterprise provides an example of what opportunities exist in particular if the group were to work together in sharing costs, making the necessary investments to buy equipment and investigating new markets and buyers.

Figure 11. Suka Makmur, Association of forest farmers - Patchouli Oil Group



Discussions with the group revealed that there are only a few activities on which they collaborate. They produce and sell individually but share the same buyer and therefore also the same processing facilities. This arrangement allows the buyer to dictate the terms of their business engagement. Despite there being a clear difference in price and control compared to the individual member's enterprise, the others in the group have so far not taken any steps towards developing their patchouli business further. The individual entrepreneur knows exactly how much he can expect to earn from his product and is not worried about repaying his loan. The group already has a third of the capital required to invest in their own processing equipment and furnace, but are reluctant to take a loan despite the favourable interest rates. Greater awareness of the market and where they could collaborate more as a group, to add value and reduce the dependence on a single buyer, could help overcoming some of their main barriers.

6.3 Buana Makmur – Honey Group

The Buana Makmur Honey group started in the 1980s originally as a family business, that later expanded to include members from the neighbourhood. Today the group has 25 members with aspirations to register as a cooperative. Already they have set up a bank account in the name of the group to demonstrate their ambitions for formalising the cooperative. The group has 150 boxes and sell

7-10 bottles of 500g every 2 months for IDR 150,000/bottle. Their main market is local and so far demand is good and they see prospects for scaling up. There are 5 other honey groups in the area of 130 farmers and so there are prospects for increasing their scale if collaborating with other groups.

Figure 12. Buana Makmur – Honey Group



In our discussions with the Buana Makmur members it was clear that the group has a vision for a group enterprise in their village. They have come up with a plan for increasing the working capital of the group through membership fees and want to use the money to invest in new boxes, marketing (developing labels) to scale up their production and sales. In terms of support from the FMU office they are expecting continuous assistance in technical advice for improving their production and beehives. But they also want support in accessing marketing information and doing marketing themselves.

6.4 Rattan Group

The rattan group is an informal group of 25 members. They harvest 25 tonnes of rattan per month which they sell at IDR 1,500 per kg. They sell individually all to one buyer, a local police man who is also a rattan trader. The group initially got together because they all shared one thing in common, they produce rattan, and so the motivation behind the group formation was more social rather than economic. However, the group is becoming increasingly aware of the unfair terms of their arrangement with their only buyer. They now want to organise themselves better to improve their negotiation of the price for their product. However, they lack basic information about the market, how they could improve the value of their product, or how organise effectively.

Figure 13. Rattan Group



In our discussions with the rattan group it became clear that access to raw material is not a problem but that they need basic support and trainings to organise themselves better as group. Not just for business purposes but also to overcome the elite capture that exists in the rattan value chain and for which it will be difficult for the group to overcome on their own. The Dolago Tanggunung FMU are also well aware of the situation and are looking at ways of supporting the group. One way that we discussed during our meetings were to develop some basic processing capacities at the local level so that groups such as this one can add value to the rattan and surpass the local trader. This could help avoid potential conflict and would allow the groups to improve their income from the product.

6.5 Reflections

Option 13. Emphasise a focus on formal group business development (whether as cooperatives or other group ownership structures). Group sales are an essential aspect of price negotiation – but the group needs to have a central bank account, financial management and reinvestment strategy to upgrade over time.

Option 14. Encourage group expansion to improve scale efficiencies and reduce single buyer dependence. Encourage KPH business incubation units to foster diversification and value addition.

Option 15. Explore how Indikasi Geografis labelling could be rolled out for major groups of NTFPs such as honey, oils, coffee, etc. and assist with label development and marketing for those products.

Option 16. Research value chain dynamics and organise group meetings for similar commodity groups such as rattan to explore better production options and encourage collective action and improved price negotiations.

7. Field Site 4. Bululeng, Bali

7.1 Asosiasi Pengrajin Industri Kecil (APIK)

APIK is an association of small and medium crafts industries in Bululeng district, Bali. The association has 392 members, of which roughly two thirds are from community forest permit holders and one third are from small scale industries. This includes 7 village forests with a total area of 3,041 hectares, managed by village enterprises which was especially created for forest management. It was formed in 2006 with the objective to improve collaboration between local forest owners and crafts industries. At the time the market for wood products and raw material was concentrated in Denpasar. Local forest owners in Bululeng were finding it difficult to negotiate the price of their product in Denpasar, but at the same time they found it difficult to sell locally. Meanwhile local craftsmen found it difficult to find raw material. APIK was created to link the two and improving market access.

In 2014 APIK became the first association in Indonesia to achieve SVLK certification. All the members businesses are registered with a tax number. The community forest area has a management plan with a GPS inventory of all the trees ready for harvest and their location. These are logging into a website and app developed by the MFP3 project and local NGO Satin to help track production and marketing. Currently the members produce about 2,500 m³ of mainly sengon, teak, and mahogany per month. The idea is to use the database as a tool for demonstrating the contribution of the association such as production, tax income, and job creation. Until recently they also had a sawmill that was operating for 10 years, but when the lease ran out they have not yet managed to find a replacement site.

Discussions with APIK members focused on some of the challenges members face in accessing the market. Since the initial SVLK certification the association have been engaging with both regional and national authorities to develop a public procurement policy for SVLK certified wood. Despite showing early commitments to go through the certification process they have not found that their market access has improved and at the end of 2016 were struggling to pay for the SVLK surveillance. In the end they lost the certification which came as a big blow.

Figure 14. APIK association members and their enterprises



It also became clear that overall the association is struggling to compete with their main competitors in Java, who can produce the same product but at twice as cheap. And this seems to be at the heart of their problem. Although export costs from Bali does increase costs the association had not yet managed to figure out how it could reduce its operating costs, or how they might need to adjust their product or offer. Despite feeling that they had no market opportunities they had not yet examined what options could exist in Denpasar or for export which could be done through a basic market survey. One of the main strengths of APIK is its strong commitment from the members, despite the challenges with losing the SVLK certificate. However, producing SVLK wood and certified products are how the association wants to market itself, but this falls apart without the ability to keep up the certification. From visiting some of the enterprises it also seems like they would benefit from support in developing new and more modern designs to appeal to a wider market. Trainings in how to manage a group enterprise, market analysis and development, and support in developing new designs could help APIK overcome some of its challenges and build on the progress already made.

8. Conclusions on role of FMU in supporting social forestry business

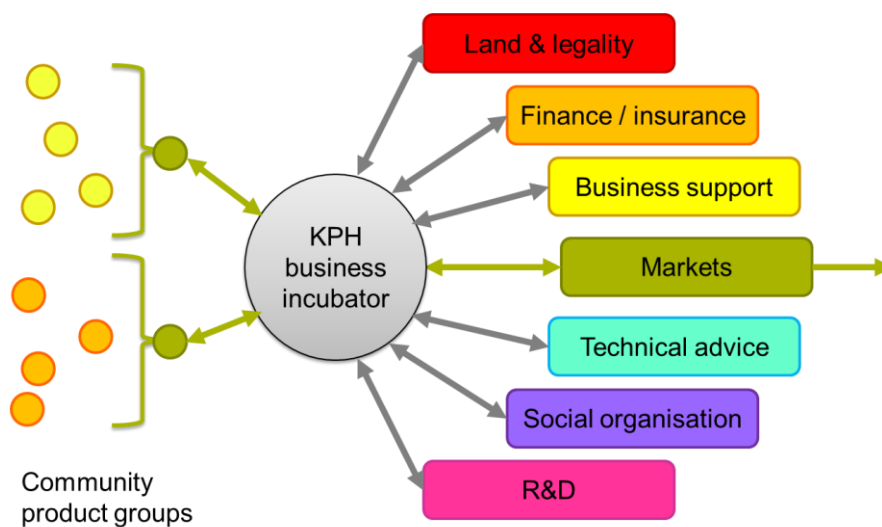
8.1 National Seminar, Jakarta, 2 June 2017

On 2nd June 2017, findings of the mission were presented from 9-11.30 at a seminar in the Ministry of Environment and Forestry in Jakarta entitled 'Sustainable forests, prosperous people – how the KPH

can scale up social forestry'. Approximately 70 members of various Ministries, donors and NGO groups participated in the seminar and subsequent plenary discussion. The seminar was divided into four sessions: Why does social forestry matter? How are other countries doing social forestry? How is social forestry advancing in Indonesia? How can KPHs scale up social forestry?

Based on the observations from the field visits and meetings with FMU staff in Sumbawa, Central Java, Central Sulawesi and Bali is the need for continuous support to the FMU's to develop core staff skills to support business development of local groups. The FMU's are ideally located to provide the type of regular support, trainings and risk management needed to ensure the development of successful examples of social forestry enterprise. During the seminar the authors advanced a series of options for developing the multiple Forest Management Units as business incubators for social forestry business. This basic framework is that KPH units play a key role in facilitating the grouping of forest farmers into business groups – connecting them to the market. They can also link those business groups to land tenure processes (e.g. land reform), finance agencies (e.g. BLU), business support organisations (e.g. NGOs such as Javlec, Telepak etc), technical advisors (e.g. Universities), specialisits in social organisation (e.g. Ministry of Ccooperatives) and research and development practitioners.

Figure 15. Possible role of KPH as business incubators.

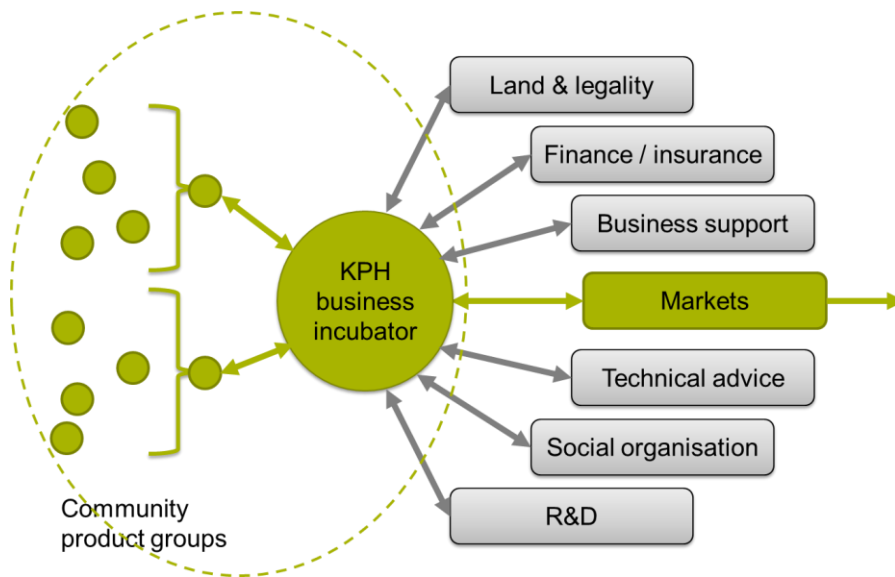


8.2 Four options for KPH as business incubator for social forest business

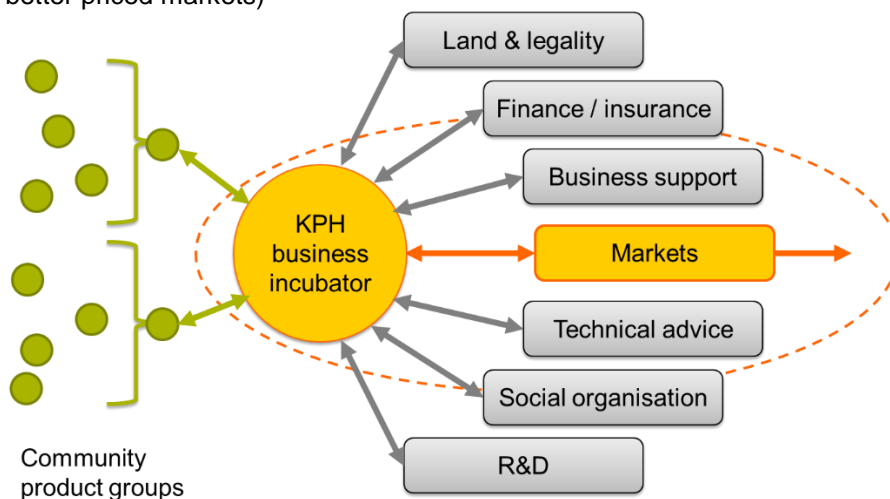
Four options were then presented as to how KPH could perform such business incubation:

- Option 1. Joint venture with community
- Option 2. Buyer from community
- Option 3. Service provider
- Option 4. Service broker

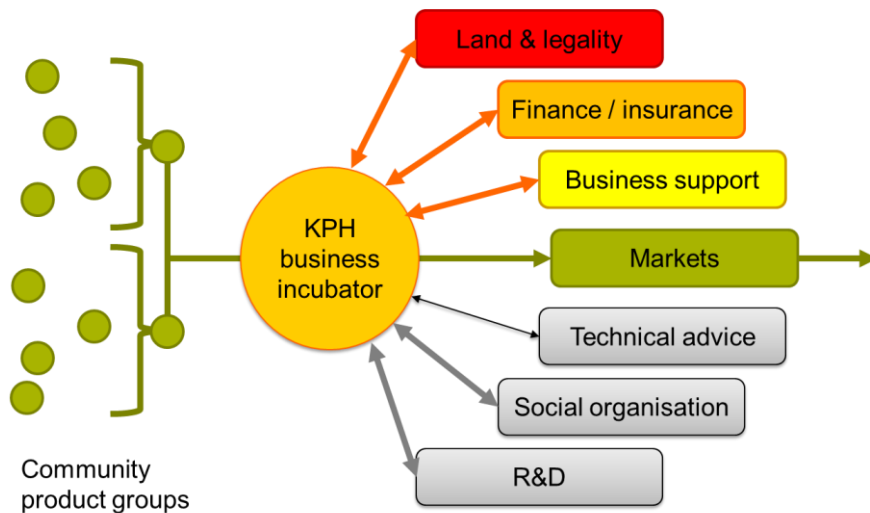
The first option (KPH as a joint venture with communities) has the advantage of creating a mutual incentive for successful business. Both KPH and the community (and any private sector partner) would share any profits and so have a mutual advantage in seeing the business successful. This model is already being developed by various KPH due to the minimal requirement for formal social forestry licenses (a signed agreement is all that is required). In most of these joint ventures there would need to be a clear exit strategy for the KPH and private sector partners once the business is established to avoid any risk of capture of the business by those partners to the detriment of communities.



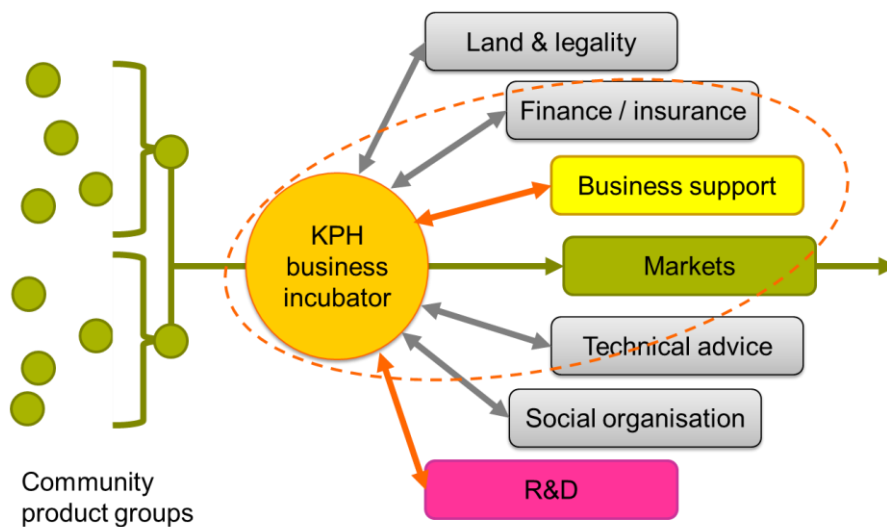
A second option would be for KPH to act as a trader, buying product from communities to sell to the market. This could potentially improve the prices received by communities but would introduce a conflict of interest for the KPH as its own revenues would be directly reduced by increasing community revenues. For that reason, this option is not advised unless there are agreed prices and a time bound duration while an alternative option is developed (e.g. added value processing in search of alternative better priced markets)



A third option would be for the KPH to act as a services provider of costed services (potentially including finance and insurance). This model which has been developed within the Chinese forest trade centres would offer social forestry businesses a one stop shop for land registration, credit and insurance, perhaps even business advice. There are question marks however over how many of those services the KPH can realistically provide given current apportioning of roles within MoEF (e.g. the finance mechanisms falling within BLU not the KPH).



A fourth option would be for the KPH to broker service provision to social forest businesses through a network of support agencies such as to land tenure processes (e.g. land reform), finance agencies (e.g. BLU), business support organisations (e.g. NGOs such as Javlec, Telepak etc), technical advisors (e.g. Business and trade associations), specialists in social organisation (e.g. Ministry of Cooperatives) and research and development practitioners (e.g. Universities). The cost recovery for such work would ultimately have to come through the levying of some tax. The disadvantage is that the KPH unit would not develop the business expertise which might be needed to support social forestry business in the long term.



Realistically, the KPH might have to adopt more than one of these options and possibly start with some combination of 1,2 and 3 (with an emphasis on 3). As capacity develops within the KPH unit it could move towards a dual combination of 1 and 3. What is strongly recommended is that the basic desirability of KPH as business incubators should be written into appropriate instructions to KPH managers. The exact modalities for each KPH unit could evolve over time, with 'best practice' being developed and documented as experience is built up across the KPH association.

There is also the additional question of how KPH business incubation services might also play into other smallholder business development – in terms of agricultural business, and indeed plantation crops such as smallholder oil palm. Much existing research documents best practice for smallholder palm oil development¹. It might be that an enhanced KPH unit could also engage 'zero deforestation' businesses in the plantation agriculture sector if these sorts of evidence were woven into any MFP IV.

¹ Vermeulen and Goad (2006) Towards better practice in smallholder palm oil production. IIED: <http://pubs.iied.org/13533IIED/>