

Designing Financing Schemes to Make Forest Management Units Work in Aceh Province, Indonesia

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Abstract : Implementing Forest Management Unit (FMU) is considered as the best solution for forest management in developing countries. However, when FMU has been formed, many parties then blame the FMU and assume it is not working on. Currently, there are two main issues that make FMU not be functional i.e. institutional and financial issues. This paper is addressing financial issues to make FMUs in Aceh Province can be functional. A mixed financing scheme is proposed here, both direct and indirect financing. The direct financing scheme derived from two components i.e. public funds and businesses. Non-tax instruments of intergovernmental fiscal transfer (IFT) system and FMU's businesses are assessed. Meanwhile, indirect financing scheme is conducted by assessing public funds within villages around forest estate as about 50% of total villages in Aceh Province are located surrounding forest estate. Potential instruments under IFT system are forest and mining utilization royalties. In order to make these instruments become direct financing for FMU, interventions on allocation and distribution aspects of them are conducted. In the allocation aspect, alteration in proportion of allocation is required as the authority to manage forest has shifted from district to province. In the distribution aspect, Government of Aceh can earmark usage of the funds for FMUs. International funds for climate change also encouraged to be domesticated and then channeled through these instruments or new instrument under public finance system in Indonesia. Based on FMU's businesses both from forest products and forest services, FMU can impose non-tax fees for each forest product and service utilization. However, for doing business, the FMU need to be a Public Service Agency (PSA). With this status, FMU can directly utilize the non-tax fees without transferring them to the state treasury. FMU only need to report the fees to Ministry of Finance. Meanwhile, indirect financing scheme is conducted by empowering villages around forest estate as villages in Aceh Province is receiving average village fund of IDR 800 million per village in 2017 and the funds will continue to increase in subsequent years. These schemes should be encouraged in parallel to establish a mixed financing scheme in order to ensure sustainable financing for FMU in Aceh Province, Indonesia.

Keywords : forest management, public funds, mixed financing, village

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