REVENUE COLLECTION IN NON-EXTRACTIVE NATURAL RESOURCE SECTORS IN INDONESIA

CASE STUDY: A COMMUNITY-BASED APPROACH TO STRENGTHENING REVENUE COLLECTIONS AND ENFORCEMENT

Jean Ross, Consultant to the International Budget Partnership | October 2018
INTRODUCTION

The agriculture, forestry, plantation, and marine fisheries sectors provide livelihoods for a significant fraction of the Indonesian population, yet contribute less than one out of every ten dollars of revenue received by provincial and national governments. In many resource-rich regions, poverty rates are high and local residents receive little or no benefit from the exploitation of the country’s abundant natural wealth. With support from the International Budget Partnership and the Ford Foundation, two Indonesian civil society organizations – Perkumpulan Inisiatif (Inisiatif) and Seknas FITRA (FITRA) – with a strong background in budget analysis and advocacy set out to understand the reasons why these sectors generate so little revenue and to develop strategies for improving governance and ensuring that local communities receive an appropriate share of the benefits from economic activity in these sectors. The project was designed to take advantage of the two organizations’ complementary strengths and was motivated by the project organizers’ belief that they couldn’t effectively advocate for better services without also working to ensure that government had more money to support expanded public services.

The four sectors addressed by this project – agriculture, fisheries, forests, and plantations – accounted for 13.5 percent of the country’s gross domestic product in 2015. The contribution of these sectors to public budgets through tax and non-tax revenues, however, lags their contribution to the economy. Inisiatif and FITRA hypothesized that weak revenue collections were due to inadequate governance and corruption. Together, they believed, these factors result in “leakage” which depresses revenue collections and contributes to misuse of natural resources. The gap between the importance of each of these sectors to the Indonesian economy and the livelihoods of Indonesian families and the sectors’ revenue generating potential formed the focus for the project. This case study examines the first stage of the project, which lasted a year and included field and documentary research followed by a set of meetings designed to vet the research findings and inform and build support among coalition partners for a set of recommendations aimed at improving revenue collections and management practices.

PROJECT OVERVIEW

The project was designed to achieve two ambitious goals: 1) to contribute to an increase in state revenue collections; and 2) to increase the budget analysis and advocacy capacity of grassroots organizations. To achieve these goals, the project researched management issues in the four target – agriculture, fishery, forest, and plantation – sectors, evaluated the sectors’ revenue generating potential, and mapped stakeholders that could be engaged in advocating for improved governance. Specifically, the project sought to:

- Increase understanding of the local tax and non-tax revenue systems, identify management issues, and map relationships among actors involved in the four targeted sectors;
- Consolidate grassroots commitment and capacity to advocate for improved governance and increased revenue collections; and
- Develop a strategic plan to guide advocacy for improved governance and increased revenues.

The International Budget Partnership (IBP) provided grant support to cover costs associated with the first stage of the project and the in-kind services of a consultant, who served as a resource to the project’s organizers. The consultant, an expert in tax policy and advocacy, who also had significant background in building broad-based civil society engagement around tax issues, provided strategic guidance to the project, particularly in its early stages. Inisiatif also participated in an in-depth communications capacity building project coordinated by IBP’s Training and Technical Assistance and Networking team midway through this project. Inisiatif staff report
that the training provided through the communications training – a week long seminar involving interactive exercises – improved the
design and focus of the project’s policy briefs and helped inform the identification of audiences for the written research products.\(^1\)

### CIVIL SOCIETY CONTEXT

Indonesia has a strong history of civil society engagement on the spending side of public budgets. Engagement on revenue issues,
however, is relatively new and has largely been limited to the extractives sector, primarily oil and gas. While Indonesia is noteworthy
for the level of collaboration among civil society organizations (CSOs), with organizations working through national networks and
coalitions in a mutually supportive fashion, participation of community-based organizations – such as farmers unions, women’s
organizations, and indigenous people – is much weaker. This project sought to educate and engage these organizations as
representatives of the communities that are most directly affected by resource governance issues.

### PROJECT PARTNERS

The project was carried out by two Indonesian organizations with deep experience in budget advocacy, Inisiatif and FITRA. The two
organizations also had a history of working together that provided the foundation for a collaborative effort. Inisiatif developed the
initial concept and reached out to FITRA in order to assemble the necessary resources to carry out a large project in a short period of
time. Inisiatif identified FITRA as a partner for multiple reasons: 1) the two organization had worked together successfully in the past;
2) FITRA had branches in four out of eleven provinces important to the project’s success; and 3) FITRA’s strong reputation for budget
advocacy at national level. Importantly, each brought complementary strengths to the project:

- **Inisiatif**, founded in 2005, is a membership organization with strong ties to people’s movement organizations, such as
farmers’ unions, women’s groups, and indigenous communities. At the heart of Inisiatif’s work is a commitment to building
broad-based capacity for budget advocacy through budget schools that educate community members on the budget and
budget process at the village level and serve as a channel for leadership development. Inisiatif’s network includes
community organizations in 20 of Indonesia’s 34 provinces. Inisiatif served as the project lead and one of its staff served as
the project director. Inisiatif is based in Bandung on the island of Java.

- **Seknas FITRA**, the Indonesian Forum for Budget Transparency, was founded in 1998 as a secretariat for a nationwide
network of organizations that engage in budget research and advocacy. FITRA is known for the depth of its analytic skills and
its experience in researching and tracking budgets at both the national and local levels. FITRA’s network includes
organizations in a number of the country’s 34 provinces. FITRA is based in Indonesia’s capital, Jakarta.

- Each organization contributed key staff to the project, with the project director coming from Inisiatif and the project
manager coming from FITRA. Each organization contributed two of the four sector lead researchers. The two organizations
also divided responsibility on a geographic basis, with each organization taking responsibility for areas where they were
traditionally strong.

---

\(^1\) The project was also supported by the Indonesia office of the Ford Foundation. However, for administrative reasons, the awarding of grant funds
was delayed, requiring adjustments to the original project workplan.
PROJECT DESIGN

With support from the International Budget Partnership (IBP), project organizers developed a three-step plan designed to build the knowledge base and support needed for future advocacy efforts. The first phase of the project involved:

1. Researching the policies and practices governing national and sub-national revenues in four non-extractive natural resource sectors: forestry, agriculture, plantations, and marine fisheries.
2. Mapping the actors involved in managing and advocating for better management of each of the four sectors, including their capacity and the relationships among the various individuals and institutions.
3. Engaging a wide array of stakeholders to develop a common agenda for improving sectoral governance.

The project relied on a two-pronged approach: traditional document research and a technique it called “revenue sniffing” – structured interviews with key informants – to document current revenue collections attributable to each of the four sectors and estimate the gap between actual revenue collections and the “potential” revenue contribution of each sector. In this part of the project, researchers used tax and budget documents, audits, and other publicly available information to assess whether actual revenue collections were commensurate with the level of resource exploitation in order to understand the adequacy of management systems and the prevalence of corruption.

The initial research identified general and sector-specific taxes and non-tax revenues imposed on the targeted sectors, as well as the policy and administrative frameworks for each of the various revenue sources. For each sector, this included multiple revenue sources levied by multiple levels of government, such as value added taxes (VAT), rural and urban property taxes, local ground and surface water taxes, and property transfer taxes. The research also identified sector specific non-tax revenues, such as timber royalty fees, fishing permit fees, reforestation fund contributions, and other payments.

The researchers found that there were a large number of potential revenue sources in each of the four sectors. In consultation with experts, the project narrowed the number of revenue sources examined to a manageable number of the most significant sources for each sector. The initial research also led to a shift in the geographic focus of the project. The original project design was aimed at the provincial level, since provinces are predominantly responsible for natural resource governance in Indonesia. The initial research determined that local revenues and administrative practices were more important, and the design was modified to focus on one or two local districts within each of the targeted provinces.

Using the knowledge base developed through the initial research, the next phase of the project involved substantial field work – “revenue sniffing” – conducted by trained “assessors” – members, staff, and leaders – of the two organizations. The sniffing process used detailed interview protocols tailored for each sector that were designed to enable assessors to identify evidence of tax evasion, permitting violations, or other forms of corruption and mismanagement. Assessors were charged with interviewing a range of actors including government officials, workers in each sector, and others that might have knowledge of practices affecting revenue collections, such as dock workers for the fishing sector. In the forestry sector, for example, interviews were conducted with loggers and with workers in related wood and rattan product sectors. The field interviews also sought to inform the development of recommendations for improving revenue collections and resource management.

The project targeted 11 of Indonesia’s 34 provinces based on the presence of a civil society network or people’s organization; the presence of state-owned enterprises in the area; the importance of the targeted sectors to the provincial economy; and geographic diversity to ensure a representation of the country’s five largest islands. Based on these criteria the project targeted North Sumatera, Lampung, West Java, Central Java, East Java, West Kalimantan, East Kalimantan, West Nusa Tenggara, South Sulawesi, Central Sulawesi, and Maluku. The research team was large, consisting of 22 people: five trainers/researchers/instrument writers, two facilitators, and 15 assessors (two each from five provinces, one from Lampung, and four from East Java).
Each sector was assessed in two phases. A two-phase approach was chosen to enable testing of the survey instruments. A draft assessment tool was tested in one province by a team consisting of one researcher from Inisiatif or FITRA and one local research assistant. The testing process determined that the initial assessment tools were too long and too complex for use in the field, particularly by assessors that lacked experience in budget analysis. Researchers also noted that successful interviews required a “warm up” period to build trust between the assessor and the subject of the interview. In response, project staff revised and simplified the assessment tools prior to their use in the remaining provinces. The test phase proved to be an important component of the project design. The revised interview tools were then used to complete research in the remaining seven provinces.

Research findings were presented in a set of written work products:

- An overview policy brief summarizing the findings for all four sectors and presenting general recommendations for improving governance and revenue collections;
- Short, individual policy briefs summarizing the research findings for each of the four sectors; and
- In-depth research reports for each of the four sectors providing an overview of the sector, as well as a detailed discussion of the field and document research findings.

After completing the initial research, Inisiatif and FITRA hosted a national dissemination meeting to present the research findings. Most of the 37 attendees represented relevant government ministries or civil society organizations with an interest in the four focus sectors. In this session, the project positioned itself as a friend of government, providing sound research and well-thought out recommendations that could help public officials collect much-needed revenue and improve management of Indonesia’s vast natural resources. Response from participating officials was overwhelmingly positive, with attendees agreeing with the project’s conclusions regarding the poor quality of data and need for regulatory reform.

Shortly afterwards, a three-day “consolidation” meeting was held to solicit feedback on the research findings from partner organizations, promote a common understanding of the problems in each sector, and develop strategies for reform. Participants included civil society organizations and people’s movements, such as organizations of fishermen, that Inisiatif and FITRA hope to engage in future advocacy efforts. Most of this meeting was spent in sector-focused workgroups to allow participants to compare their own experiences and perspectives with the research findings and debate strategies for improving governance, preserving community rights, and increasing revenue collections. Detailed minutes from this meeting, including a summary of the research presentations, were compiled and disseminated to meeting attendees.

**KEY FINDINGS AND OUTCOMES**

The research findings were largely consistent across the four focus sectors. Each of the sectors suffered from a general lack of transparency and accountability. Permit and licensing processes were complicated, which created opportunities for corruption and made it difficult for legitimate businesses to operate. Revenue administration was weak, leading to poor compliance and opening the door to corruption. Affected communities understood that they often did not benefit from the exploitation of natural resources, but lacked knowledge of how to respond in a manner that could achieve results. The lack of comprehensive and consistent data contributed to inadequate oversight and poor compliance. The problems with existing data affected both public officials, that lack the tools needed to do their jobs, and civil society, that lacked information needed to understand issues affecting key sectors of the economy and public budgets and advocates for improved governance.

Researchers also learned that while some local government officials were the source of problems, other officials, particularly at the national level, could be strong allies. The Ministry of Finance, for example, responded positively to the research findings and has asked to actively participate in the next phase of project. Their interest in, and support for, the project has helped to build the reputation of Inisiatif and FITRA and build relationships that can help advance their broader advocacy agendas.
Lastly, the project provided Inisiatif with an opportunity to establish itself as a thought leader and as a source of in-depth research. While Inisiatif was well-regarded for its efforts to build citizen participation in the budget process, particularly through village-based budget schools, the organization sought to build their skills in budget analysis and strengthen their reputation for research. The scope and scale of this project enabled them to do so and elevated the organization’s leadership profile within civil society and with government officials.

SECTORAL FINDINGS

Forestry Sector. Indonesia’s tropical rain forest is the third largest in the world, after Brazil and the Democratic Republic of the Congo. However, Indonesia suffers from the highest rate of forest destruction in the world due to illegal logging, forest fires, and expansion of palm oil plantations and mining activities. Despite its scale, the forestry sector contributes less than one percent of Indonesia’s gross domestic product (GDP) and a similar percentage of the country’s revenues.

The researchers attribute low revenue collections and other management problems to a long, complex, expensive, and opaque licensing process that is conducive to corruption. This convoluted structure also created challenges for businesses that sought to comply with tax, environmental, and other laws. Oversight responsibility is divided among multiple authorities and levels of governments and the lack of clarity created incentives and opportunities for corruption. Key revenue sources are collected online through a self-assessed system that is prone to manipulation. Specific findings included a lack of a clear regulatory framework; weak enforcement against perpetrators of illegal logging and forest burning; and rampant tax avoidance. In some instances, firms avoided taxes by engaging in unpermitted logging. Researchers also found identified problems with firms using “gratuities” to influence local officials to expedite and simplify permitting processes. Researchers also found that forestry firms engaged in aggressive tax avoidance by exploiting weaknesses in corporate tax laws through such as inappropriate transfer pricing, use of controlled foreign corporations, and thin capitalization. Because of the scale of the forest sector, the magnitude of lost revenues is large. The researchers estimate that $12 to $16 billion (US) in revenues are lost annually due to tax avoidance.

Plantation Sector. The plantation sector has dominated the Indonesian economy since colonial times. Indonesia is the world’s largest palm oil producer and ranks second and fourth in copra and coffee production, respectively. While plantation activities contribute a sizeable fraction of the country’s GDP, the sector’s contribution to state revenues is minimal and, in fact, declining as a share of total revenue. Moreover, plantation operations frequently come into conflict with local communities as a result of illegal evictions, illegal logging, and the prevalence of corrupt activities.

The researchers found that large palm oil companies evade regulation and taxation by splitting up ownership among multiple parcels that are registered in the name of subsistence farmers. By dividing formal ownership in this way, plantation operators avoid value added and income taxes, as well as permit fees. They become, in the words of researchers, “invisible to the tax collector.” The plantation sector is also responsible for depressed forestry revenues due to illegal logging to expand production. After preliminary research found that the sector consists of over 100 commodities, each with distinct issues, the project chose to focus the remainder of its research on palm oil production, which accounts for the largest share of plantation activities.

Fisheries Sector. Nearly 650,000 Indonesians work in the fisheries sector. This research examined the revenue generating potential and governance of capture fisheries, the harvesting of wild rather than farmed, fish. While the sector currently contributes less than one percent of all state revenues, production is anticipated to rise, and fisheries are an important part of the local economy in many communities in this island nation. The government has recently implemented a number of measures to crack down on illegal fishing practices. However, problems remain. Researchers identified the potential to significantly increase revenue collections through better management practices, but also found that regulation was challenging due to the presence of multiple middlemen and the fact that many transactions – such as the transfer of fish from small to large boats for export – occurred on the open ocean, away from the eyes of government officials.
One source of revenue leakage is rooted in the regulations that determine the amount of Pendapatan Negara Bukan Pajak (PNBP, a non-tax revenue) owed by large fishing ships. PNBP payments are based on the size of the ship, rather than the amount of fish caught. Researchers found that most ship owners under-report the size of their vessel, reducing the amount of PNBP owed. Underreporting escaped detection, researchers hypothesized, due either to collusion between owners and public officials or due to lack of adequate inspection. Researchers also found evidence of corrupt practices, such as the necessity of bribes to expedite complicated and opaque permitting procedures and dishonest fish auctions, where amounts or the value of fish sold were manipulated with the difference pocketed by corrupt officials that victimized small scale fishermen. Improved governance, researchers conclude, has the potential to be a “win-win” by increasing state revenue collections and improving the well-being of the fishermen who depend on the sector for their livelihoods.

**Agricultural Sector.** Indonesia’s agricultural sector employs nearly 40 million workers. Most are small-scale farmers, with an average farm size of just under 9,000 square meters (0.9 hectare). The sector is regulated by the government, however, only farms that employ 10 or more workers or that are larger than 25 hectares are required to register. Agriculture accounts a small share of provincial revenues, despite the prominence of the sector in local economies. The disparity was largely attributable to the large number of small farmers and landless workers in the sector and the prevalence of small farms that were not subject to registration or taxation. However, the researchers also found that many large landowners failed to register and obtain a tax identify number and were essentially “invisible” to the state revenue collectors and regulators.

The most significant problem disclosed by the research was the high rate of conversion of small farms to other land uses. This creates a challenging dilemma: local government officials stand to increase revenues from the conversion of untaxed agricultural land to residential or commercial uses that would be subject to tax. However, increasing the tax on small scale farmers threatens their viability and livelihoods and increase pressure to convert agricultural land to other uses. Unlicensed wells also reduced groundwater tax collections and led to inadequate supervision of water use. Researchers concluded that there was minimal potential for increasing revenues generated by the agricultural sector and that government should, instead, focus on helping small scale farmers increase their earnings by improving production and supporting the infrastructure needed to move crops to market.

**TURNING REVENUE SNIFFERS INTO ADVOCATES**

“The first target of this training activity is for the participants to understand the importance of citizen participation and their role in the governance of plantation and forestry sectors, as well as having the motivation to participate in improving governance to be more just. If the participants understand the role of citizen involvement in the advocacy of state revenue, it is hoped that they will participate actively in this training. In addition, if the idea of state revenue advocacy is internalized, it is expected that participants will be motivated to follow up on the results of these trainings in their daily activities and will be actively involved in advocating for improved governance of state revenues from natural resources, especially in the forestry and plantation sectors. The next target is to have participants understand the issues around state revenue from the forestry and plantation sectors. If the participants understand the country’s revenue and its various issues, the participants can be more strategic in their advocacy.

The third target is to have participants understand the ‘business process’ in the forestry and plantation sectors. What is meant by ‘business process’ are the stages and steps needed for an entrepreneur to enter and be active in the forestry and plantation sector. This lengthy and complex business process leads to two opposite effects. The first is that it makes it difficult for entrepreneurs to enter the sector, the core being procedures and licensing, as a form of control over sectoral actors. But on the other hand, complicated and lengthy procedures also provide an opportunity for corrupt state officials to violate rules to bypass procedures...The complexity of this business process also provides an opportunity for sectoral actors to cheat because there is no control and
The field interviews provided rich information and insights that went beyond what could be learned from traditional, document-based research. Perhaps more importantly, the revenue sniffing process was also key to the project’s advocacy strategy. The project’s approach was guided by a theory of change that assumed that researchers (“assessors”) would use the knowledge gained to become effective advocates for reform. The training provided to assessors, as well as support provided when they were in the field and after completion of the research component of the project, was designed to develop leaders who could speak from the knowledge gained through their research during the advocacy phase of the project. Thus, the role of assessors was two-fold, first to engage in field and document review needed for the research phase of the project; and second, to provide a foundation for future advocacy efforts. While Inisiatif remains committed to this approach, both roles proved to be challenging as will be discussed below.

LESSONS LEARNED

“This research is basically looking into other people’s purses. And this is definitely inconvenient for them.”

- Ari Nurman, Project Director

While both Inisiatif and FITRA brought a strong background in spending-side budget analysis to the project, this effort was the first by each organization to address the revenue side of public budgets.

The basic analytic approach – review of public documents, budgets, laws, and data sources – largely drew on the same skills used in budget analysis. The project differed from traditional budget analysis in its focus on potentially sensitive subject matter – corruption – and its reliance on key informant interviews. The focus on non-extractive natural resources also distinguished this project from prior efforts in Indonesia and other resource-rich countries. The scale, scope, and innovative focus of the project generated a number of “lessons learned” that can help inform efforts to replicate this work in other places or in related sectors.

- **The scope of the project.** The project was large and complicated. Researching four sectors across 11 provinces simultaneously was challenging. In particular, it was difficult for the project leads to supervise and provide support to multiple research teams in the field at the same time. In retrospect, the project organizers say they would have started with one or two sectors, rather than four. This would have enabled them to apply lessons learned in one sector to work on other sectors. It also would have allowed for greater focus in the assessor training workshops. In order to narrow the choice of sectors, the project organizers recommend developing a set of criteria such as the number of people employed and the economic contribution of the sector, as well as more subjective criteria, such as rumors of potential corruption. Based on their experience in the first phase of the project, the next phase of the project was narrowed to two strategically important sectors – forestry and plantations – in four provinces providing a more manageable and realistic target.

- **The experience level of assessors.** A number of the assessors came from people’s organizations and had little background in budget analysis. The diversity of backgrounds – some assessors were college educated, others only graduated from secondary school; some were experienced budget activists, while others were just beginners – made it difficult to target the training workshops at an appropriate level. A second round of training conducted after the completion of the initial research project was redesigned to provide additional background on budgets, the importance of citizen participation in the budget process, and the potential for generating additional revenues from natural resource sectors. The revised training program also included two days of field work where participants were asked to use the assessment tool to conduct actual interviews; estimate the potential revenue that could be generated from a forest managed by the state forestry company; identify potential sources of revenue “leakage” through corruption; and select actors for interview based on a mapping of social networks. Participants in the most...
recent training were also chosen based on a strong background in forestry issues – the focus of the training – and a history of engagement around forest management issues. Focusing the training on a single sector and selecting participants with similar backgrounds allowed the training to be tailored to meet participants’ specific needs. Lastly, project manager Nurman also observed that the most successful assessors had a history of activism in the sector, good social networks, and enough time and/or financial resources to take on the duties of a field researcher.

- **The importance of local knowledge.** The original project design relied on researchers drawn from the two national organizations. As the project progressed, it became clear that familiarity with the local context, the ability to fit in, and the knowledge of local dialects and languages would be critical to the project’s success. This affected the selection of assessors and also led to the selection of assessors with more limited experience in budget activism. Assessors also needed a degree of “street savvy.” The sensitive nature of the research – sniffing out possible corruption – generated suspicion and in several instances, assessors were subject to police surveillance. Local officials rumored to be involved with potentially questionable activities largely kept their distance from the field researchers. In some cases, however, officials confronted the researchers. Assessors from local people’s movement organizations were generally better able to respond to potentially dangerous situations and were more adept at cultivating key informants than outsiders who were not from the area. While engaging local community members required additional training in budget basics, project organizers note that it was easier and more successful to train local community members on the budget than to train NGO staff to be good assessors.

- **Evolution of the project design.** The initial research design focused on the role of provincial governance and revenue collections. Through the initial test of the assessment tool, the project organizers discovered that local revenues and local regulations were more important and that the primary role of resource management at the provincial level was to aggregate data and decisions made locally. In response to this discovery, the organizers focused data collection on one or two districts within each province. The number of districts studied was limited due to the project’s human and financial resource constraints. The scope and focus of the project changed during the field research and as the researchers learned more about how things actually worked on the ground. For example, research on the forestry sector identified conversion of forest lands to plantations as a significant issue that had revenue implications. The evolution of the project design underscores the need for flexibility and the importance of learning and adapting during a lengthy research project.

- **Some questions were too difficult to answer.** The project’s initial research design was extremely ambitious. As the project progressed, researchers learned that some questions they’d hoped to answer were beyond the scope of civil society. Researchers repeatedly found, for example, conflicts in data that couldn’t be reconciled. They also discovered that one of the primary questions they’d set out to answer – how much revenue was lost due to “leakage” – was beyond their ability to accurately answer. They did learn, however, that they could identify evidence of potential corruption that they could report to state investigators for follow up. In the words of project lead Nurman, “However, we wouldn’t and shouldn’t take over the job of the tax officer, or police, or investigator or attorney... Our aim is to help the state to increase revenue by 1) providing information of the actual potential of state revenue in natural resource exploitation and 2) finding early evidences of corruption, tax avoidance and evasion practices on natural resource exploitation.”

- **Everything thing takes longer than you think.** The initial project timeline proved overly ambitious. Nearly every step in the project – from the time needed to conduct an interview to the time needed to write a research report – took longer than expected. Many of the delays were caused by the factors described above, such as the need to provide additional budget training to assessors that lacked experience with budget. Delays in the early part of the project – such as the need to substantially revise the interview tool – compounded as the project progressed and required a number of activities to be shortened – such as the time researchers spent in the field – and led to a delay in the production of final reports. In retrospect, the additional time led to improved results. The project leads note, for example, that the lessons learned during the test of the
Draft research tools enabled them to be more realistic with their assessment of what could be accomplished during a given period of field research.

**CONCLUSION**

For Inisiatif and FITRA, the project was largely a success. The two organizations’ history of collaboration established the trust needed to modify the project as it progressed and respond to unanticipated challenges. This wasn’t always easy, but proved critical to success. As problems or foreseen issues arose, the project team learned to “slow down a little, discuss, and learn.” Working together, the project developed a compelling body of evidence documenting systematic problems that prevent the full realization of state revenues from four key sectors in the Indonesian economy, recommended solutions for improving revenue generation and governance, and engaged key stakeholders to increase awareness of the importance of these issues. They were less successful in achieving one of the initial goals of the project: estimating the magnitude of revenue lost to corruption and weak governance. As the research progressed, the team leaders learned that this initial goal was beyond their capacity as civil society researchers and, instead, stepped back and established new goals that reflected what was possible given the scope of the project. The project team also deferred development of advocacy plans, choosing instead to offer a second round of training and extend research in the forestry and plantation sectors with an eye to increasing the number of assessors that could help carry future advocacy efforts forward.

The team also learned important lessons regarding project design and the skills and characteristics that make for a successful researcher. One of the key takeaways from the project is that building engagement takes time and turning assessors into advocates can be a challenge and takes ongoing communication, training, and motivation:

“Our biggest challenge is convincing people and upgrading their capacity up to the level that allows them to be involved in this project. The revenue from natural resources is a new issue for the budget movement. We need some time to convince people to pay attention to the issue and get involved. Now, the wheel starts rolling...slowly, but moving forward. Although as we are moving forward, we might expect more obstacles ahead...Yet, we are optimistic. We are mobilizing more potential advocates, improving the instruments, etc. In short, we are now preparing our new ‘wave’ of advocacy in the revenue side of non-extractive sectors.”

Inisiatif will continue this work with a narrower sector and geographic focus. They have begun another round of training for assessors and are incorporating the results of the research and an emphasis on revenues in their budget schools in order to build the capacity of local partners. While their direct work will focus on the plantation and forestry sectors, they plan to support local partners that want to work on the other two sectors – fisheries and agriculture – due to the importance of those sectors in local economies. Another round of data collection and analysis will follow the training. The project team will also develop plans to guide advocacy for improved governance. While the national Ministry of Finance has responded positively, most of the problems disclosed by the research involve violations of local laws that are outside of the Ministry’s span of authority and other ministries have been slow to respond. In order to advance needed reforms, the project team plans to engage Indonesia’s anti-corruption commission in hopes that it will address violations of law that lead to reduced revenue collections.

This project offers persuasive evidence in three important areas.

First, the four sectors studied make important contributions to many countries’ economies and provide livelihoods for a large fraction of the world’s population. Yet, there is little to no research and even less originating in civil society that examines the issues related to revenue collections in non-extractive natural resource sectors and related governance issues affecting local communities.

Second, researchers and public finance experts highlight the role of corruption and weak administration in depressing revenue collections and undermining the public’s confidence that tax dollars will be effectively and equitably raised and spent. Yet, there is little to no research on the impact of corruption and poor governance on the daily lives of citizens from a civil society perspective.
This project makes an important contribution by documenting the impact of these factors at a granular level and offering recommendations to boost revenue collections and improve governance that are responsive to the interests of the communities that depend on the studied sectors for their livelihoods and well-being.

Lastly, and perhaps most importantly, this project demonstrates the power of collaboration. One organization, Inisiatif, conceptualized this project but also understood that its magnitude and the skills required to carry it out were beyond what it could manage independently. Insightfully, they reached out to a partner organization, FITRA, that brought both additional capacity and expertise in a joint effort that was able to successfully address challenges as they arose and bring the project to completion.

For these reasons, as well as others, this project demonstrates how civil society can work to improve governance and help ensure that governments have the resources they need to support public services and develop policies that advance the well-being of citizens and communities.