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Institutional Reforms in Providing Rewards for Environmental Services

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Abstract

This study examines institutional reforms in providing rewards for environmental services, drawn from three different sites of RUPES (Rewarding Upland Poor for Environmental Services They Provide) in Indonesia. A combination of desk analysis and field observations to all three RUPES sites were used in the study, applying a purposive participatory rural appraisal to collect new information in the sites and to verify some information on the institutional mechanisms already available. Based on classes of institutions, societies of watershed services in Sumber Jaya of Lampung Province have adopted the norms and conventions based on the (economic) values of migrant, frontier and forest-pioneer character. Institutions supporting biodiversity services in Bungo of Jambi Province were developed based on the norms and conventions that a right to use the land is generally attainable through forest frontiers, initial planting of cash crops such as rubber and cinnamon. A revival of sophisticated *nagari* system in carbon sequestration sites of Singkarak of West Sumatra Province significantly redefines the land-use system, where the right to use land is governed through locally defined conventions within local decision-making institutions. However, the estimated transaction cost to implement the reward transfer is US\$ 55 per household, a relatively high cost for a household with average annual income of US\$ 100 or less. The component consists of costs of initiation or searching information (70%), costs of coordination or organising the group (27%), and cost of monitoring or enforcement on the group existence (3%). This also implies a non-efficient economic organisation of the society in the sites as well as non-clear institutional arrangements or policy structures at regional and national level. Therefore, roles of intermediaries such as NGO (national and international) are extremely important to reduce transaction costs, especially to ensure ordered relations and conflict resolutions, to improve trusts, shared responsibility and lifescape co-management to achieve sustainable resource management. Elements for institutional reforms to formulate rewards for the poor providing environmental services should focus on: clear, transparent, and integrated social forestry development; participatory conservation of biological diversity; and public-private partnership for water-resource management to implement catchments rehabilitation for clean development mechanism.

Keywords: Environmental services, institutional reforms