

Indonesia to Offer Tax Perks to Companies Investing in Reforestation of Its New Capital City

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Asia-Pacific Research, February 29, 2024

[Mongabay](#) 21 February 2024

Region: [South-East Asia](#)

Theme: [Economy](#), [Environment](#)

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The Indonesian government is appealing to the private sector for investors to help transform 82,891 hectares (204,800 acres) of barren lands around the new capital of Nusantara into tropical rainforests.

Mining companies that are required to rehabilitate their concessions after their permits have expired will be able to count reforestation in the capital region toward their quota.

In addition, the government is offering significant tax deductions to companies that invest in rehabilitating degraded lands.

East Kalimantan, once covered in tropical forests and home to charismatic species and vast regions of biodiversity, is the country's most intensely mined province with 7 million hectares (17.3 million acres) of coal mining concessions.

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As the Indonesian government embarks on a massive push to reforest the area around the country's new capital city in Borneo, it is turning to the private sector in hopes that investors will help supply the labor and capital needed for the program.

In 2022, **President Joko Widodo**, popularly known as Jokowi, voiced his intention to transform 82,891 hectares (204,800 acres) of the barren lands that dominate the area where the new capital "Nusantara" will sit into lush tropical rainforests.

The Nusantara Capital City Authority (OIKN), a government agency that oversees the progress of the new city's development, said it is currently designing guidelines for how the private sector can get involved in the reforestation program.

The government is looking for outside partners to speed up the implementation of the reforestation program, as the OIKN estimates that it will take 88 years to fully rehabilitate the new capital at the current pace with government efforts alone.

Private sector participation is needed to make the new capital forest city as the president promised, OIKN forest utilization and water resource development director **Pungky Widiaryanto** told Mongabay. "This is indeed a joint work that needs all stakeholders."

There will be two categories of companies involved in the private sector rehabilitation scheme.

First is companies that are already legally obligated to rehabilitate their mining concessions once their permits have expired. Under the program, companies with reforestation obligations anywhere in Indonesia will be able to count reforestation in the capital region toward their quota.

Second is for any companies in any sector that are interested in rehabilitating degraded lands in the new capital site in exchange for significant tax benefits. Companies that undertake rehabilitation works voluntarily will be granted a tax deduction worth 200% of their outlay, Pungky said.

Pungky said the tax deduction scheme is stipulated in a [2023 government regulation](#) on businesses in the new capital, which states that any business entities that donate or contribute to the development of facilities that don't generate profit for the company in the new capital are eligible for a taxed gross income deduction of twice the amount of donation or cost incurred from the development of the facilities.

But the detailed investment scheme, which will include rehabilitation guidelines and specified areas available to be reforested by investors, is still being formulated, he said.

The regulation on the investment scheme will be issued by the head of the OIKN by May 2024, Pungky added.

Not all investors in the new capital are motivated solely by profit, Pungky told Mongabay at his office in Balikpapan, East Kalimantan in October 2023. Some, he said, are also interested in contributing to environmental protection and restoration. "In this case, there's no profit," so that's why the tax deduction will be offered.

"Let's say they [a company] want to rehabilitate 1,000 hectares [2,471 acres], which cost 100 billion rupiah [\$6.4 million]. The tax deduction will be two times 100 billion rupiah, equal to 200 billion rupiah [\$12.8 million]," Pungky said.

The government has previously implemented a similar [super tax deduction scheme for research and development](#) activities in Indonesia, with up to 300% reductions to gross revenue.

Myrna Asnawati Safitri, the deputy for environment and natural resources at the OIKN, said the Ministry of Finance is currently drafting a regulation on the tax deduction scheme

that will allow companies to contribute to the reforestation program and enjoy tax deductions in the process.

“We’re still waiting for the regulation from the Ministry of Finance. I heard the drafting will finish soon,” she told Mongabay. Once the regulation is issued, she said, they will officially announce the tax deduction scheme for those who participate in the reforestation program.

Pungky said the finance ministry regulation will complement the regulation by the OIKN head.

While the OIKN hasn’t officially announced the tax deduction scheme, some companies have shown interest in doing voluntary rehabilitation work, Myrna said.

Furthermore, three companies that are legally obligated to rehabilitate their mining have voiced their intention to restore 2,300 hectares (5,683 acres) of watershed areas in the new capital, Pungky said.

Ahmad Saini, an activist at the Mining Advocacy Network (Jatam), an independent watchdog, pointed out that these represent a tiny percentage of areas that have been destroyed by mining activities in the region, calling the 2,300 hectares “so miniscule.”

East Kalimantan was once covered in vast tropical forests home to a wide range of biodiversity, including charismatic species of hornbills and orangutans that exist only on the island.

Today, it is the most intensively mined province in Indonesia.

There are 7 million hectares (17.3 million acres) of coal mining concessions in East Kalimantan, 55% of the province’s 12.7 million hectares (31.4 million acres) of area.

The rapid expansion of coal mining has driven forest degradation and deforestation in the region, with a total of 3.5 million hectares (8.6 million acres) of forest lost since 2001, according to data from [Global Forest Watch](#). This leads to emissions of 2.48 gigatons of CO2 equivalent.

The Ministry of Environment and Forestry [has identified](#) more than 154,000 hectares (380,500 acres) of mining pits in East Kalimantan province, where the new capital sits, with 29,000 hectares (71,660 acres) of them falling within the boundaries of the new capital area — nearly half the size of the current capital of Jakarta.

In addition to blighting the landscape, these pits fill with water, creating a significant safety hazard. Since 2011, 40 people, mostly children, have drowned in such pits in Indonesia.



An active mine pit at the PT Singlurus Pratama coal mine in East Kalimantan, Indonesia. Image by David Woodbury.

Legal Obligation

While companies are required to restore their mining areas to their original state once they have finished operating in the area, many of them fail to do so due to a series of loopholes and blind spots in the country's regulatory framework.

As of 2019, the most recent year for which data is available, only 282 of 4,726 companies with mining licenses in Indonesia, or just 6%, had deposited reclamation and post-mining funds with the government, both of which are mandatory,

These funds are to ensure that abandoned holes are filled in and trees planted after mining operations conclude.

Even when companies do deposit the money, there's little transparency about how much they've paid and how much is subsequently used for reclamation activities.

And when they do carry out rehabilitation work, some observers are skeptical that they could restore the mining concessions to the original condition.

This is because most coal extraction in Indonesia is done with open-pit mining, one of the most destructive mining methods, as it uses heavy equipment and explosives to destroy vegetation, topsoil and rock to extract the ore deposits.

This process leaves behind vast and barren pits and produces a large amount of waste that dramatically changes the landscape, rendering it inhospitable for wildlife and native vegetation.

"How could you rehabilitate [a land] that has been greatly devastated? There's no more fertile soil," Saini of Jatam said. In land that has been destroyed by mining, "Not even a

banana tree can grow.”

David Woodbury, a forest researcher from Yale University’s School of the Environment who has studied the rehabilitation of mining sites in East Kalimantan, noted that restoration is particularly complex here due to soil in the region already having relatively low levels of nutrients. Mining further degrades the soil, breaking up the natural layering that builds up stability while also contributing to soil acidity. With such substantial changes to the soil ecosystem, abandoned mining sites are inhospitable for many plants, Woodbury said. “Improving these conditions demands substantial inputs of costly fertilizer and lime to mitigate the harsh soil environment,” he said.

With the feasibility of rehabilitating mining concessions back to their original state questioned, Saini warned of the possibility of the new capital’s reforestation program being used a greenwashing attempt.

“It’s just a branding [attempt] that this is a green [program] with companies wanting to rehabilitate lands [in the new capital], even when it’s their legal responsibility [to do so],” he said.

Rehabilitation Mandate Watered Down

Saini also said companies’ legal obligations to restore their concessions to the original state has been watered down by a [2014 regulation](#) issued by the Ministry of Energy and Mineral Resources.

The regulation gives companies the option to establish areas for residential, agriculture, tourism and water sources in former mining sites instead of rehabilitating them back into forests.

“So the concept of reclamation [of mining sites] has been skewed,” Saini said.

Environment and Forestry Minister Siti Nurbaya Bakar said the 2,415 mining pits in the new capital could be transformed not only to rainforest that serves as wildlife corridor, but also to agritourism spots and water sources.

“The former mining pits that are flooded should be able to be used as water sources for the new capital,” she [said](#) during a parliamentary hearing in March 2022.

However, it’s going to be a challenge to turn the mining pits into water sources since the water there has high levels of acidity, with pH levels between 2.6 and 3, according to Siti.

A pH of less than 7 indicates acidity, with U.S. Environmental Protection Agency guidelines stating that the pH of tap water should be between 6.5 and 8.5.

With the definition of mining site rehabilitation widened to not only reforesting these sites, but also establishing areas for residential, agriculture, tourism and water sources, it’s important to clarify what the government means when it says mining companies have carried out rehabilitation work in the new capital.

“The definition of ‘rehabilitated’ warrants clarification,” Woodbury said.



A vehicle passes the industrial forest concession of PT Itci Hutani Manunggal (IHM) in Penajam Paser Utama district, East Kalimantan. Parts of PT IHM's pulpwood concession overlaps with the site of the new capital city. Image courtesy of Trend Asia/Melvinas Priananda.

Resistance

While some companies have participated in the reforestation program in the new capital, others have shown resistance.

Pungky of the OIKN said pulpwood producer PT International Timber Corporation Indonesia Hutani Manunggal (ITCI HM) is among them.

The company is a subsidiary of Asia Pacific Resources International Holdings Ltd., Indonesia's second-biggest pulp and paper company owned by billionaire Sukanto Tanoto. It currently manages a pulpwood plantation at the site of the new capital that overlaps with a 5,644-hectare (13,950-acre) lot where the government plans to build its new office complex.

ITCI HM had agreed to release parts of its concessions that overlapped with the new capital city, even though its permit is still valid until 2030. However, the company continued operating as usual as of February 2024, Pungky said.

"The company is still harvesting and cultivating [its pulpwood plantation]. They're not willing [to let go of their concession] yet," he said.

As a result, the authority can't enter the concession and rehabilitate it.

The continued operation of ITCI HM has also prevented the three mining companies that planned to rehabilitate 2,300 hectares of area from doing so, as the area set to be rehabilitated overlapped with ITCI HM's active concession, Pungky said.

ITCI HM's permit has actually been revised, with parts of the concession that overlap with the new capital area taken out of the boundary in the permit.

Therefore, the company should've asked permission from the OIKN if it wanted to continue operating the plantation within the new capital area, Pungky said.

But ITCI HM decided to continue engaging with the Ministry of Environment and Forestry, instead of the OIKN, and the ministry allowed the firm to continue operating the plantation, he added.

This highlights a lack of unity among policymakers that could hamper a program this ambitious.

Mongabay reached out to ITCI HM, its parent company, the Royal Golden Eagle group, and the environment ministry for comment, but they didn't provide one, as of the publication of this story.

Pungky said the OIKN hadn't reached an agreement with ITCI HM and the environment ministry on how to best proceed and thus will send a letter to remind the company that it is operating on land whose control has been handed over to the authority and to urge the company to stop operating.

There are also other lands earmarked to be rehabilitated that are still cultivated by local communities for palm oil, he said.

Mulawarman University vice president Sukartiningsih said the participation of all stakeholders, including the private sector, is important to ensure the success of the reforestation program, considering that it is estimated to cost a lot of money.

"The rehabilitation of watershed areas that involves companies greatly helps the government," she told Mongabay. "That's why we need to monitor [rehabilitation by the private sector] so that it is right on target."

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Featured image: Jokowi visiting the location of Indonesia's new capital Nusantara with the Governor of East Kalimantan in 2019. Image by BPMI President's Secretariat/Muchlis Jr via Wikimedia Commons (Public domain).

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