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Firefighters in Sematang Borang on the outskirts of Palembang, South Sumatra, on Oct 15. Despite stronger enforcement, peatland fires in Indonesia recur because starting them is lucrative. A more lasting solution requires changing the economics of land use so that keeping forests standing becomes more financially rewarding, say the writers. PHOTO: ST FILE

An ASEAN Haze Fund could discourage deforestation

Penalties alone cannot stop the forest fires causing the haze.

Tan-Soo Jie-Sheng and Christy Desta Pratama

Clean air and clear skies have returned to Singapore and parts of South-east Asia, thanks to timely rainfall and intensive firefighting efforts by thousands of people across several Indonesian provinces.

Over the past few weeks, smoke from burning peatlands across Sumatra and Kalimantan had sent air quality plummeting across Singapore and Malaysia. Estimates of the area burned across Indonesia range from 200,000ha to 600,000ha, while Singapore and parts of Malaysia saw unhealthy air quality levels.

Following high-level talks in Jakarta last week, a newly agreed joint task force will aim to crack down on corporate accountability and cross-border financial flows.

In Singapore on Oct 28, Senior Minister K. Shanmugam met and warned leaders from 10 companies currently under investigation for links to the fires. Speaking to reporters, the minister said Singapore cannot allow corporate structures or third-party arrangements to stand in the way of establishing the facts.

Together, these diplomatic and regulatory measures underscore the challenge of unmasking who is actually profiting from the fires. While the finger is traditionally pointed at large plantation companies, the reality is more complicated.

Intact tropical rainforests, with their high moisture content, are naturally resistant to fires, but activities such as land clearing and peatland drainage can create conditions in which fires can start and spread.

There are networks of investors, land brokers, intermediaries, farmers and local communities that profit from converting forests into agricultural land. In some cases, those physically starting the fires are several steps removed from the commercial interests ultimately benefiting from them.

Despite stronger enforcement, the fires recur because starting them is lucrative. A more lasting solution requires changing the economics of land use so that keeping forests standing becomes more financially rewarding.

MAKE IT CHEAPER NOT TO BURN

Burning is often the cheapest way to clear vegetation. Fire-free land preparation requires machinery, fuel and additional labour, all of which are costly. A study of small-holder land preparation in Indonesia found that fire-free clearing costs between 41% and 182% more than burning. Compounding this problem, research in Riau found that burnt land sold for 29% more than land cleared by slashing. Therefore, even farmers who understand the harm caused by burning may find these cost differences difficult to resist. Lowering the cost of fire-free clearing changes the calculation directly.

India offers one example. To discourage crop-residue burning, the government subsidises up to 50% of machinery costs for individual farmers and 80% for groups establishing equipment-rental centres. This makes fire-free alternatives more affordable.

Indonesia could adopt similar arrangements through village machinery cooperatives, subsidised fire-free land preparation and affordable equipment rental, particularly when existing agricultural land is being replanted. Affordable alternatives should accompany tighter restrictions. The Indonesian government recently announced plans to remove a legal provision allowing limited land burning under local customary practices, including the burning of up to 2ha. But removing this exception without providing viable alternatives could disproportionately burden poorer farmers and undermine compliance.

There may also be opportunities to turn vegetation that would otherwise be burned into commercially valuable products. Agricultural residues could be processed into compost, biochar or biomass briquettes, generating additional income while reducing waste. However, the economics must be carefully assessed. Collecting and transporting bulky biomass can be expensive, while processing requires reliable markets and sufficient scale.

More importantly, subsidies must not inadvertently encourage further deforestation. Financial support should be restricted to legitimate activities on existing agricultural land, rather than making forest conversion cheaper.

INCREASING THE VALUE OF STANDING FORESTS

A standing forest is worth more to society than a plantation is. Forests store carbon, regulate water flows and protect biodiversity. Yet, these benefits rarely translate into financial returns for local communities, which can earn good money by converting forests into agricultural land. We therefore need to make forest conservation economically attractive. One way to do this is by developing commercially viable forest-based businesses.

Indonesia already has small but promising examples. In Danau Sentarum, West Kalimantan, forest honey is being explored as a source of sustainable livelihood. In the same province, Forestwise, a company selling *tengkawang* (illipe nuts), received approximately US$120,000 (S$153,000) in financing. Its sales rose by 325% in 2024, while incomes among its 804 partner farmers reportedly increased by up to 2.25 times. On peatland in the Meranti Islands in Riau, farmers grow sago, rubber and areca nut; block canals to keep the peat wet; and manage land under a village forest scheme.

The lesson is that communities that conserve forests need not forgo economic opportunities. With appropriate resource rights, market access and institutional support, they can have a financial stake in keeping forests intact. However, these alternatives will not automatically compete with the profitability of oil palm. In Sintang district, the authorities legally recognised 2,113ha of customary forest across 19 villages, yet communities have struggled to develop viable businesses that generate income without clearing forests.

Communities need financing, processing facilities, transport and reliable buyers. Developing forest livelihoods therefore requires investment in entire value chains, rather than simply encouraging villagers to harvest more forest products.

Carbon markets offer another potential source of revenue. The Katingan Mentaya Project in Central Kalimantan uses carbon finance to support peatland conservation, restoration and community livelihood programmes. Carbon credits also raise questions about how additional revenue can be generated, how it is distributed and whether it will be permanent. Secure land rights, credible monitoring and fair benefit-sharing are essential if such programmes are to change behaviour.

But conservation payments are not a panacea. An experiment involving 275 villages in West Kalimantan found that financial rewards for remaining fire-free did not significantly reduce fires. One challenge was that the incentives could not compete with the potential value of land for oil palm cultivation.

To give communities sound reasons to protect their forests, one would have to combine commercially viable forest enterprises with conservation payments.

WHAT SINGAPORE CAN DO

One might ask why Singapore should help finance forest conservation and fire-free agricultural practices in another country. Shouldn't the responsibility of preventing fires lie primarily with Indonesia and the companies operating there? It's a fair point. But transboundary haze creates a regional economic problem. The costs of preventing fires are borne largely by those managing the land, while the benefits extend across national borders.

Economists estimated that the 2015 haze episode cost Singapore approximately $1.83 billion through health impacts, productivity losses and disruptions to economic activity. With Singapore having a direct stake in preventing Indonesian forest fires, it is worth considering whether investing in prevention would offset these losses.

The timing is right. Malaysia recently proposed a Sustainable Haze Fund. As Singapore prepares to chair ASEAN in 2027, it has an opportunity to turn these longstanding discussions into concrete action.

To be effective, funding should reach Indonesian beneficiaries before the dry season, rather than arriving only after the smoke appears. Such financing could be used to reduce the costs of fire-free agriculture while developing profitable alternatives to forest conversion. Crucially, the funding should not become a mechanism to subsidise the legal obligations of corporations, but should instead help communities overcome the genuine barriers they face.

Singapore's growing interest in international carbon markets provides another reason to support these initiatives. In July 2026, Singapore and Indonesia signed a memorandum of understanding on carbon credit cooperation. A regional fund could help develop high-integrity forest and peatland conservation projects by financing substantial upfront costs, including measurement, verification and community engagement.

This could help Indonesia finance conservation, while Singapore benefits from reduced haze and greater access to credible carbon credits.

Penalties and enforcement remain necessary, but we now have to consider how to make it more attractive for Indonesian communities to eschew burning and keep their forests standing.

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