

The Institutional Environment of the Palm Oil Value Chain and Its Impact on Community Development in Kapuas Hulu, Indonesia

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The aim of this study is to present the multi-scalar institutional environment that has emerged around the palm oil value chain, and to analyze how this influences community development outcomes in the Kapuas Hulu district of West Kalimantan. A common narrative presented by many environmental organizations, and indeed often reinforced in the academic literature, is one where local communities actively resist the expansion of oil palm plantations but are ultimately powerless to halt it. This narrative tends to depend on, and reinforces, a portrait of traditional communities as being dependent on subsistence food provisioning and natural resources for their livelihoods, thus making them particularly sensitive to the widespread environmental changes caused by this highly transformative—in a landscape sense—type of commercial agriculture. This research draws upon mixed method data collection techniques, including eight months of participant observation fieldwork across three villages in 2016 and 2017, group discussions, household surveys, and semi-structured interviews. Conceptually, we develop an understanding of the institutional environment as applied within global value chain theory, which we present as a complex amalgam of social structures from within the value chain (especially governance by lead firms), those external to it (including formal state institutions and NGOs), and the changing customary institutions within production landscapes. The ability of local communities to participate in the construction of this broader institutional environment, and to benefit from it, is of critical importance when assessing the impact of incorporation within the palm oil economy. This study thus helps present a more nuanced analysis of community engagement with palm oil and the processes driving contemporary agrarian change.

Keywords: institutions, institutional environment, global value chains, palm oil, swidden, agrarian change, Indonesia, Kalimantan

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I Introduction

The ongoing expansion of oil palm plantations in Indonesia has been actively challenged by various advocacy groups and foreign governments on both social and environmental grounds, whilst being strongly supported by the government of Indonesia. The negotiating space within which decisions are made regarding this expansion connects primary producers, processors, exporters, importers, product manufacturers, retailers, and final consumers within the value chain with a much broader set of societal actors, including traditional landowners, community groups, nongovernmental organizations, and governments, that are essentially external to the value chain. Collectively, these actors mutually construct a continually emergent institutional environment within which industry and community outcomes are shaped. We borrow the concept of the institutional environment as applied within global value chain (GVC) theory, and use it in this article to refer to the complex amalgam of social structures both from within the value chain (especially governance by lead firms) as well as external to it (including formal state institutions and NGOs, but also extending in our case to customary law arrangements). Despite such complex multi-scalar institutional connections, industry critics tend to highlight the negative environmental, social, and economic impacts occurring in remote rural regions as a simple consequence of exploitation by downstream corporate actors (Paganini 2018). The market dominance of powerful corporations is associated with the economic marginalization of swidden-based farming communities in Kalimantan, which are heavily dependent on natural resources for their livelihoods (Colchester *et al.* 2006). Yet, as described by J. F. McCarthy (2010), outcomes on the ground in rural communities are highly variable and include successful wealth accumulation—especially by local elites—often occurring alongside “adverse incorporation” and deepening poverty for others. Blanket claims about the industry are often made without adequate consideration of the ways many smallholders actively seek to rearrange the terms under which they engage with the palm oil economy.

This paper presents the multi-scalar institutional environment within which local communities have become enmeshed by virtue of their participation in the global value chain for palm oil. This study contributes to our knowledge of how the outcomes of community engagements with the palm oil industry are shaped by the strategies of NGOs, customary landowners, the government, and agribusiness and food processing firms. An understanding of the institutional environment thus created can also be helpful to identify points of leverage to effect change. It furthermore makes a contribution to our understanding of contemporary agrarian change as being shaped by a broad constellation of actors, including those operating at a distance through the global value chain.



Fig. 1 The Study Site of Kapuas Hulu District in West Kalimantan, Indonesia

Source: Authors, prepared using ArcGIS Software.

The aim of this study is to present the multi-scalar institutional environment that has emerged around the palm oil value chain, and to analyze how this influences community development outcomes in the Kapuas Hulu district of West Kalimantan (Fig. 1). According to understandings of value chain governance, lead firms will position themselves strategically amongst competitors to serve their own interests while also meeting consumer expectations in respect to economic, social, and environmental conditions, resulting in particular strategies to manage a globally coordinated production process (Neilson *et al.* 2018). Drawing upon eight months of fieldwork in Kapuas Hulu, this paper demonstrates the way in which the multi-scalar institutional environment presents room to maneuver for communities and individuals engaging with the palm oil sector. This study unpacks the complex interactions of agribusiness firms, the government, and NGOs with local customary arrangements. Downstream firms play a key role in governing the value chain to ensure faster and more efficient supply chain deliveries by extending their reach into local communities through the establishment of physical infrastructure such as roads and manufacturing mills, but this is also mediated by the broader institutional environment.

II The Institutional Environment: The Global Value Chain and Beyond

Our understanding of the institutional environment shaping development outcomes in the palm oil economy is greatly assisted through recent conceptual developments in GVC theory. GVC analysis helps us, in the first instance, to understand how value is added through an input-output structure, by tracing production from upstream producers (such as farmers) to primary processors, exporters, importers, product manufacturers, retailers, and on to final consumers. In the contemporary global economy, these value-adding processes are often geographically dispersed across regions and countries and have their own “territoriality.” Within a value chain, moreover, there is often a dynamic relationship among different actors that governs the flow and allocation of profit and human resources throughout the chain (Hassler 2009). When examining the entire chain, it becomes clear that different groups make their own rules to regulate and allocate resources among their members and to dictate the actions of others elsewhere in the chain. Such rules of the game can be thought of as being embodied within governance structures that are often strongly dictated by the most powerful actors in the chain—those lead firms located at strategic value-adding nodes. The critical conceptual contribution of GVC analysis has thus been to highlight the ability of such firms to dictate chain governance structures.

G. Gereffi (1995) described how a (value) chain does not only possess an input-output structure, a territoriality, and a governance structure but is also contained within an “institutional framework.” He defined this as “how local, national, and international conditions and policies shape the globalization process at each stage of the chain” (Gereffi 1995, 113). Subsequent work in GVC studies, however, for instance by J. Neilson and B. Pritchard (2009), has further developed an understanding of the institutional framework of GVCs that borrows more explicitly from the work on institutions in new institutional sociology and economics such as that by D. C. North, who explained:

Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. (North 1991, 97)

In this paper we follow the clear distinction in North’s (1990) study between “institutions” and “organizations,” the former being the “rules” and the latter the “players.” We also respect North’s fundamental distinction between “institutional arrangements” as discrete arrangements between economic units and the broader “institutional environ-

ment” as the “fundamental political, social and legal ground rules that establish the basis for production, exchange and distribution” (Davis and North 1971, 6–7). According to Neilson and Pritchard (2009), it is necessary for GVC analysis to move beyond a concept of the institutional framework as something that GVCs are “framed within,” toward one that is both external and internal to chains. They argue that “The institutional environment is a pre-determining characteristic of the governance structures which subsequently emerge within the chain and which, in turn, then act upon those arrangements in continual feedback” (Neilson and Pritchard 2009, 56).

To examine palm oil dynamics in West Kalimantan, we borrow and apply this understanding of the institutional environment of a GVC as an amalgam of rules, norms, and conventions set by lead firms from within the chain along with those constructed by extra-firm actors who are essentially external to it. The approach builds on the insights generated by J. F. McCarthy *et al.* (2012), where oil palm development outcomes in Indonesia were examined by drawing together insights from GVC theory with the literature on state formation and regime interests. We have also been influenced by the earlier work on dynamic legal pluralism in political ecology by R. S. Meinzen-Dick and R. Pradhan (2002), who highlighted the ambiguity of rules and coexisting multiplicity of legal systems and institutions with respect to natural resource access and exploitation. Importantly, various local, national, and global institutions (formal and informal) intersect in a multi-scalar process to ultimately shape how natural resources are allocated and controlled (Meinzen-Dick and Pradhan 2002).

This article applies a value chain analysis to examine the complex relationships among different layers of institutions connected to the value chain. In this multi-layered institutional environment, different actors negotiate rules to determine the right to access and use resources under specific conditions (McCarthy 2006). In the case of oil palm, T. M. Li (2015) found a degradation of customary institutions when local villagers were incorporated into palm oil value chains. We extend those observations by scrutinizing how local customary institutions are constantly challenged by various institutions associated with the palm oil value chain in Kapuas Hulu. We specifically examine the changing labor and resource access arrangements influenced by palm oil value chains.

In their application of GVC theory to the global cocoa sector, N. Fold and J. Neilson (2016) argue that while firms are increasingly able to determine the rules and standards in the global value chain, they act in a dialectical relationship with extra-firm actors, including state-based actors and NGOs. While the government often supports proposals for oil palm development in Indonesia, several NGOs strongly reject oil palm development (Levang *et al.* 2016), continually recreating spaces of negotiation. Similarly, the “inextricably entwined and mutually constitutive” interests of the state and large agri-

business are highlighted by McCarthy *et al.* (2012), who demonstrate how these interests coalesce to shape development pathways.

In Kapuas Hulu, we find community and household attitudes toward oil palm are far from homogenous, are difficult to predict, and appear to be highly contingent. This is suggested elsewhere, for example, in the diverse outcomes reported in Jambi, Sumatra (McCarthy 2010), and West Kalimantan (Potter 2011), where local community engagements as relatively independent landholders and highly dependent contract farmers were respectively reported. In the palm oil economy, local communities are seen to pursue quite diverse livelihood portfolios (Elmhirst *et al.* 2016), which clearly affects disparate development outcomes, and these outcomes frequently reflect a shifting set of local cultural institutions. This study examines how particular institutions, within and external to the global value chain and operating across multiple scales, coalesce in an institutional environment to shape different modes of oil palm community engagement with impacts on processes of agrarian change.

III Research Methods

This research uses a case study approach, and fieldwork was conducted across three villages in Kapuas Hulu District, West Kalimantan, as shown in Fig. 1. Each village was selected based on particular geographies, ethnic composition, and modes of engagement with oil palm development. Village A and Village B (both located proximate to the Malaysian border) were chosen partly due to their relatively recent incorporation within the palm oil economy, which occurred from around 2012 and was driven partly by territorial competition at the national scale with Malaysia. On the other hand, oil palm development in Village C commenced in the early 2000s and was promoted by local government elites as a means to replace the swidden practices that they considered an unproductive use of land resources. The development model in Village C included a significant smallholder production base, and it attracted migrants to either work directly on their own smallholdings or to work as plantation labor (Leonald and Rowland 2016).

A key reason for the inclusion of both Village A and Village B in the study was the reported dominance of ethnic Malays in the former and Iban Dayaks in the latter. Household livelihood surveys were conducted on a sample of 40 households within each of the three villages (120 household responses in total), where households were invited to participate based on a random selection from listings provided by administrative village heads. Table 1 shows the approximate ethnic composition of the villages based on this survey, which confirmed information provided by earlier interviews.

Table 1 Ethnic Composition of Each Village

Village	Ethnicities
Village A	Malay (50%), Iban (30%), Others (Javanese, Sundanese, Arab, Padang, Dayak Ahe) (20%)
Village B	Dayak Iban (62.5%), Malay (22.5%), Others (Javanese, Batak, Chinese, Dayak Suruk) (15%)
Village C	Javanese (42.5%), Dayak Sebaruk (27.5%), Malay (15%), Others (15%)

Table 2 List of Semi-structured Interview Informants

Village heads	Traders	Government staff in agricultural agencies, environmental agencies, forestry department, and land agency
Swidden farmers	Palm oil cooperative representatives	Roundtable on Sustainable Palm Oil representatives
Oil palm laborers	Firm land acquisition staff	Industry representatives (Gabungan Pengusaha kelapa Sawit Indonesia, Indonesian Palm Oil Association)
Oil palm farmers	Local NGO representatives	Subdistrict heads (Camat)
Customary leaders	International donors	
Migrant residents	Conservation NGOs	
Local business owners		

Qualitative data collection techniques were undertaken in 2016 and 2017, comprising participant observation, semi-structured interviews, and group discussions. Participant observation is a way of collecting information about social activities within a particular society using both verbal and non-verbal clues (Schmuck 1997). It was conducted in Kapuas Hulu to trace local attitudes toward farming systems and livelihoods linked to oil palm, and lasted a total of six months, with two months in each of the three villages. Semi-structured interviews sought to capture various institutional forms of oil palm development and perceptions toward oil palm development. The selection of informants was based on their ability to communicate their ideas and experiences relevant to the research investigation (Dunn 2005). In both village and local urban centres, a total of 40 interviews with a variety of informants and stakeholders were undertaken, as presented in Table 2. Interview topics within the village environments included local demographic change, perceptions of the introduction of oil palm in their villages, and changes in land access, labor arrangements, and livelihood strategies. Group discussions were organized to obtain responses regarding palm oil development in local areas and were used to observe the interpersonal dynamics between different individuals. Discussions were either organized explicitly by the researcher (as in Village B) or involved attending regular village meetings (as in Village A and Village C).

IV The Multi-scalar Institutional Environment in Kapuas Hulu

The following analysis is based on a three-fold assessment of the institutional environ-

ment, which we present in terms of: (i) governance structures resulting from lead firm strategies within the global value chain; (ii) institutions constructed by extra-firm actors who are essentially external to the value chain (including the government and NGOs); and (iii) informal customary institutions peculiar to place-based sites of production. While we recognize that these three forms are, in a sense, arbitrary in that they are actually mutually constituted, we present them separately here for analytical purposes. It is, however, our intention that they be considered as collectively coalescing to construct a broader multi-scalar institutional environment that in turn shapes the nature of palm oil–community engagements.

Governance Structures within the Palm Oil Value Chain

Indonesia produces significant volumes of several agricultural commodities for the global market, including palm oil, rubber, coffee, and cocoa, such that the activities of global lead firms in these sectors often exert a powerful influence on sites of production. For example, chocolate manufacturing firms have been generally reluctant to get directly involved in farm-level cocoa production due to the relatively low cost-capability ratio for that activity (Neilson *et al.* 2018). While chocolate firms would struggle to manage labor more efficiently than smallholder farmers, their influence on agricultural production is exerted (at a distance) through various commitments to sustainability programs and certification schemes (Neilson *et al.* 2018). Moreover, chocolate firms have also outsourced primary processing of cocoa beans to specialist grinding firms rather than absorbing these costs themselves, and it is these firms that frequently implement farm-level development programs. The economics of palm oil, however, are different. The end users of palm oil are more diverse across a number of consumer products, such that ultimate lead firms (generally branded food manufacturers) are unlikely to be involved in agricultural production. They do, however, rely on large agribusiness firms as suppliers of palm oil products, and these firms (unlike cocoa processors) are intimately involved in agricultural production themselves.

The cost calculations of oil palm plantations are far more dependent on capital (manifest particularly in access to land and fertilizers) than cocoa plantations, which have lower capital-labor ratios (Budidarsono *et al.* 2012). Therefore, being a competitive oil palm producer in Indonesia, and a strategic supplier to global lead firms, generally depends on obtaining access to large areas of land, with reliable access to finance and a disciplined labor force. For such potential investors with the necessary connections to political decision makers, Kapuas Hulu seemed to provide the right combination of factors.

The combination of financial and political capital possessed by agribusiness firms in the palm oil sector is disproportionate to that possessed by local communities as the

customary landowners, whose rights over land are highly variable and determined by an assortment of both formal and informal institutions. As a result, the terms of community engagement with these firms are overwhelmingly shaped by firm-specific priorities. In Village A and Village B, PT Buana Tunas Sejahtera (PT BTS)¹⁾ made a contractual agreement with the community where local community members were enrolled as laborers, and where the firm was in direct control of production. In that negotiation, the firm acquired a 30-year Hak Guna Usaha (leasing concession right, HGU) from the government over customary land after obtaining written consent from representatives of the community. In return, the firm was to pay 20 percent dividends from its profit to the original landowners (KOPSA MGB and BTS 2010). According to community representatives, this contract reflected an attempt by the firm to formally limit the activities of smallholder farmers while ensuring access to labor.

The processes through which agribusiness firms are able to access land to begin with are critical and complicated (Hasudungan and Neilson 2020). First, agribusiness firms routinely construct a discourse around poor smallholder agricultural capacity and productivity in order to accumulate land and assert control over resources. To convince the government of the superiority of large-scale plantations over local agricultural systems, investors present local swidden cultivations as backward and unproductive (Potter 2011). This provides a conducive environment for the subsequent lease negotiations between firms and the state at the district and national levels. To then ensure optimal land access, agribusiness firms seek ways to negotiate contractual agreements that allow them greater direct control of upstream production sites. This means that agribusiness firms need to engage in active negotiations and bargaining with actors outside the value chain, including government and local communities, the latter primarily as gatekeepers of land but whose members often later participate directly in the value chain as either fruit suppliers or laborers.

Community consent emerges as a key milestone in ensuring access to land, but since negotiating with all the landholders is costly, time-consuming, and uncertain, firms inevitably choose to pursue contract negotiations mediated through a more limited number of customary elites (Li 2015). Our fieldwork in multiethnic Village A, where a Dayak leader occupied the position of village head, found that the allure of promised future prosperity was an important factor in eliciting consent. One firm's representatives took village leaders to the firm's other plantation in Riau, on the east coast of Sumatra, where

1) We were unable to confirm with certainty the ownership status of PT BTS. However, a subsidiary of Sinar Mas Group reported (in 2018) that PT BTS was a third-party supplier to Sinar Mas, and that it was owned by the Chinese-listed Evershine Group Holdings Limited (Golden Agri-Resources 2020a).

the visitors were exposed to apparently high levels of material prosperity, which they associated with corporate control of oil palm production. In this case, however, it led to later disappointment:

About 30 village leaders were invited to a comparative study in Riau. They were shown the development in the firm's concession, and in return we gave the land to them. Yet those promises were misleading. What they promised was different from the current reality. (Respondent J, Iban, 2016)

Through these field trips and other activities, the firm expected key leaders in the village to convince others to agree to land transfers, and these leaders were often recruited for this specific purpose. As negotiations progressed in this case, the firm sought to directly influence internal community dynamics and increasingly relied on existing institutions of patronage through which customary leaders would provide material and social support to their "clients" in return for obedience and recognition of their superior social standing. Through the successful recruitment of such local patrons as supporters of the firm, the likelihood of acquiescence from other community members was greatly increased, resulting in more secure access to the natural resources available on community lands.

In these contested land deals, some customary Dayak elites rejected the contractual conditions while others became strong advocates in favor of the offered agreements, leading to sometimes-serious intra-community conflict. One Dayak community member sold access rights to large tracts of land with the expectation that his children would be given supervisor-level jobs within the firm. The upstream influence of agribusiness firms within communities divided aspirations in ways that sometimes led to horizontal conflict and violence. Another Dayak man revealed how he had been verbally abused as a result of his father-in-law opposing the firm contracts, the terms and conditions of which he felt were unclear. In another instance, it was recounted that a man who supported the firm ended up in a duel (using a machete-like weapon known as *mandau*) with another man who opposed it. Such conflicts also led to imprisonment, such as a case in Village B, when an Iban man contested his neighbor's recently placed boundary markers for land sold to the firm, leading him to physically threaten a firm representative with his *mandau*. The Iban man, whose frustration at his inability to assert his rights was palpable, was later sentenced to jail:

My older brother was convicted by the law because of that conflict over the land (boundary). He couldn't find a legal solution to that issue, so he brought his *mandau*, and the firm representative claimed he was attempting to kill him. He was prosecuted in Putussibau. (Respondent N, Village C, 2016)

Lead firms in a global value chain, moreover, position themselves strategically amongst

competitors to meet consumers' expectations in respect to various quality, economic, social, and environmental requirements (Neilson *et al.* 2018). This is often associated with a stronger buyer-driven governance structure within the chain. Gereffi (1994) emphasized how lead firms enact such governance within a chain, not necessarily through the direct ownership of upstream firms but through decentralized production settings, outsourcing, and indirect control. Large agri-food firms, such as Sinarmas Group (which owns Golden Agri Resources, GAR) and Indofood, operate as lead firms in the palm oil value chain. Both these Indonesian-owned conglomerates, for example, are manufacturers of diversified consumer products including cooking oil, while also engaging upstream with plantation production.

For the most part, these lead firms enact relatively strict supply chain traceability programs on third-party suppliers. On the GAR website,²⁾ the firm provides detailed information regarding third-party suppliers and its attempts to manage them. For example, a GAR internal monitoring team found indications of 2018 clearing of high-conservation-value forest in West Kalimantan by PT BTS (a GAR third-party supplier), which was subsequently deemed to be non-compliant with GAR's grievance process.³⁾ An alternative model is evident in Kapuas Hulu, where PT Riau Agrotama Plantation is a subsidiary of Indofood Agri, a major agribusiness conglomerate with a reported 247,630 hectares of oil palm across Indonesia in 2017 along with 26 palm oil mills and five refineries (IndoAgri 2016). Both Indofood Agri and Sinar Mas Agro Resources and Technology are important suppliers for the domestic market, for which they manufacture consumer products, while also exporting to various markets across Asia-Pacific and Europe.

Specific norms around corporate social responsibility have emerged within the palm oil sector that in themselves constitute institutional forms (that is, accepted patterns of behavior). Lead firms enact interventions along the value chain primarily in an attempt to ensure long-term stability over palm oil supplies, which often involves upstream commitments to stimulate local development surrounding the mills (SMART 2016). To meet their supply needs (and consumer expectations), lead firms have funded the building of mills, roads, schools, and facilities around Kapuas Hulu. Indofood Agri has initiated social investments through its Solidarity Programme (IndoAgri 2016), which delivers improved community health and education facilities in an explicit attempt to improve relationships with the local community of Village C. Such social infrastructure development has been replicated in Village A and Village B by other agribusiness firms to fulfill their corporate interests to integrate more productive and capable potential laborers in their supply chain. Indeed, relatively high rates of satisfaction with education and health infrastructure were

2) Golden Agri-Resources (2020b).

3) Golden Agri-Resources (2020a).

reported by respondents to our household survey, as presented in Fig. 2 and Fig. 3, even if satisfaction with education facilities was somewhat lower in the more established oil palm plantation of Village C.

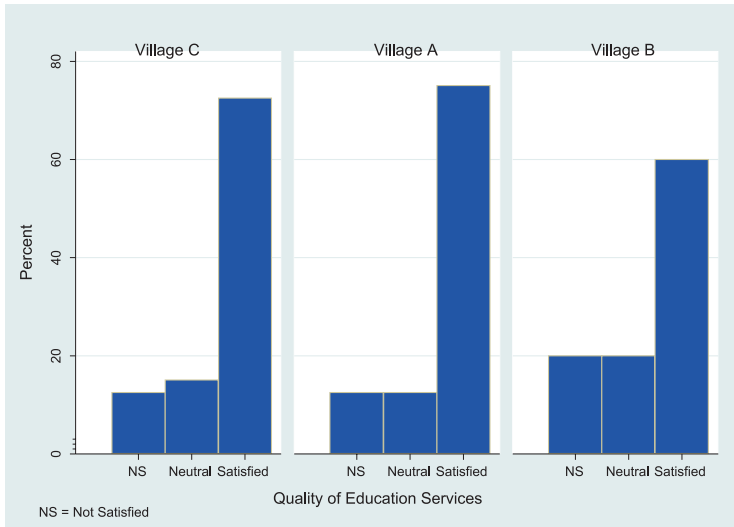


Fig. 2 Satisfaction with Education Services in Oil Palm Villages
 Source: Authors' survey, 2016.

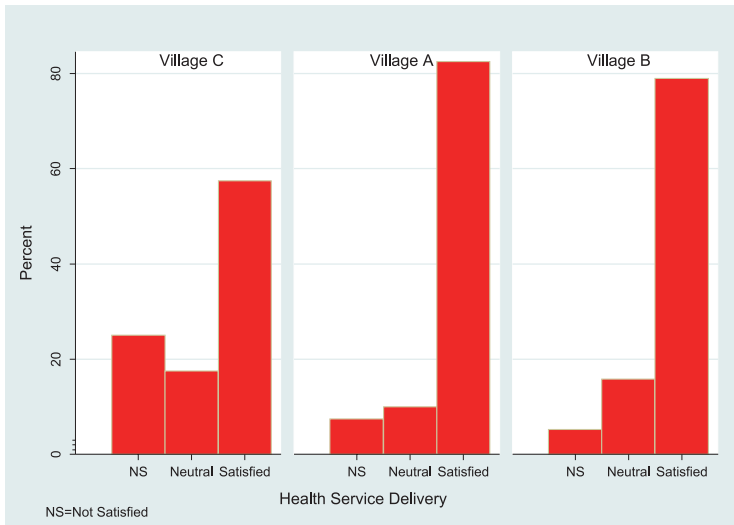


Fig. 3 Satisfaction with Health Services in Oil Palm Villages
 Source: Authors' survey, 2016.

While an expanding corporate infrastructure program primarily serves strategic business interests, rural households with adequate capability assets can leverage this to configure diversified livelihood strategies where they effectively engage with multiple value chains simultaneously (Bolwig *et al.* 2010). For instance, with improved access to education and health care, some members of the local community are able to access better jobs on the plantations and elsewhere. In an interview with a younger, high-school-educated Dayak man, he explained that the ability to write, read, and understand basic numerical calculations allowed him to work as a field supervisor on a plantation and improve his overall economic situation.

Indeed, many community members have successfully upgraded their positions within the value chain to occupy more lucrative positions as collectors or middlemen, where they use the improved infrastructure to supply mills in Sintang, a processing hub farther down the Kapuas River. They act as local market conduits from smallholders to downstream value chain actors, and use their economic position to coordinate and increase smallholder production. These chains continue to be effectively governed by lead firms, which create limiting institutions for participation, including through price and standard settings, although collectors also retain a degree of autonomy.

The characteristics of oil palm fruit have a powerful effect on the value chain structure and the relations between actors. Fresh fruit bunches generally need to be processed within 48 hours to maintain oil quality, and prices paid are severely discounted or rejected outright if delivery is delayed. A relatively capital-intensive processing mill will thus often be surrounded by a hinterland of producers who are virtually tied to it with few alternative marketing options, with resulting highly uneven power relations between the two sets of actors. It can also have the effect of empowering transport operators who provide a critical service linking them together. During the period of fieldwork in 2017, when general market prices for oil palm fruit in West Kalimantan were around IDR 1,600 per kilo, local middlemen in Village C would pay as little as IDR 1,300 per kilo due to these local dynamics.

We observe how contractual deals for large-scale oil palm plantations can affect social relations among customary leaders as a result of firm-specific strategies to assert control over supplies. Despite that disruption, the palm oil value chain functions in other ways to facilitate local participation in this value chain and in other economic activities. Previous research has emphasized that smallholding oil palm plantations can indeed be a way for local villagers to adopt commodity production largely on their own terms (Cramb and Sujang 2013; Potter 2015). In our study, the business capabilities of some individuals were enhanced as a result of their exposure to corporate sustainability programs initiated by downstream value chain actors, especially improved social and physical infrastructure,

enabling them to engage in new small business opportunities.

Extra-firm Actors and the Institutional Environment of the Palm Oil Value Chain

The palm oil value chain consists of various direct economic actors, including smallholder growers, collectors, agribusiness firms, processors, exporters, product manufacturers, supermarkets, and financial organizations. These actors and their value-adding activities constitute the fundamental input-output structure of the chain, with a buyer-driven governance structure dictated by the needs of lead firms that manifests itself in the various institutions described in the previous subsection. These economic actors are then embedded within a broader set of institutions shaped by various external stakeholders, many of whom have a major impact on oil palm cultivation at the local level (the “institutional framework” in Gereffi’s 1995 formulation). In Kapuas Hulu, the Indonesian government, operating at various scales, is clearly an important driver of this broader institutional framework and acts to either promote or inhibit the spatial expansion of plantations. Meanwhile, various environmental and conservation interests, including international NGOs, have performed a further critical role in bringing public attention to the damaging environmental impacts of the palm oil industry, and their actions, agendas, and interests are reshaping the way smallholders engage with the palm oil sector and their ability to develop their own livelihood trajectories.

J. Ribot (1998) emphasized how state institutions shape access to resources, which in turn influences profit distribution along a value chain. In Kapuas Hulu, there are various state actors—including the local government, national and provincial land agencies, financial regulators, and conservation agencies—that shape the contours of industry expansion. Principal amongst these state actors’ roles is allocation of land access to preferred economic actors, where Badan Pertanahan Nasional (National Land Agency, BPN), agricultural authorities (through Permentan No. 98/2013, for example), and the local government are all pivotal. National and local authorities facilitate the expansion of oil palm cultivation through improving labor supply (including through *transmigrasi* schemes) and by providing subsidies, loans, agricultural extension services, and infrastructure development.

Plantation expansion has been a key pillar of state policies through which to promote agricultural modernization in border areas such as Kapuas Hulu, further encouraging large-scale appropriation of land resources (Hasudungan and Neilson 2020). These state interventions are mediated through local government agencies such as Badan Perencanaan Pembangunan Daerah (Regional Development Planning Board, BAPPEDA), which also oversees the spatial planning process. In Kapuas Hulu, agribusiness firms actively negotiated with local authorities, such as BAPPEDA, to acquire land for oil palm

development, due to such authorities' influence over local land use decisions.

BPN is the only state institution legally allowed to issue HGUs in Indonesia, although if the lease area is below 1,000 hectares, authority falls upon the provincial land agency. Prior to gaining concession rights, firms are legally required to negotiate with local communities about their proposal to establish a plantation. In these situations, state agents often view swidden cultivation negatively while embracing and supporting the need to develop modern, large-scale plantations. A frequent problem is that state agents overlook the informal, customary rights of swidden cultivators. Certain representatives of the state were quite explicit about their attitudes toward customary rights, which were seen to be subservient to state claims over land:

Here [West Kalimantan], customary rights do not exist. These would require satisfying formal requirements, such as the presence of local customary and collective rights. In fact, these cannot be observed—they are just able to claim access to sacred forests to collect local resources. The firm was granted the [legal] concession based on the prior legal status of that being state land. (Interview with a staff member of the West Kalimantan Provincial Land Agency, Pontianak, 2016)

Furthermore, to discourage swidden farmers' control over their swidden territory, the state imposed various rules to restrict their farming practices, such as demarcating the land as state land where legal sanctions could be imposed on any parties carrying out swidden burning. In Village C, environmental policies were being pursued on such "state land," with many Dayaks now reluctant to undertake swidden planting. Such policies tend to create a regulatory dichotomy between state land and freehold land, which implicitly suggests an absence of informal rights or customary tenure. This false dichotomy has contributed to multiple conflicts, competing claims, and ultimately the ability of firm interests to access land at relatively low cost.

In 2015 a presidential decree⁴ established an independent authority, directly under the high-profile coordinating minister for economic affairs and known as Badan Pengelola Dana Perkebunan Kelapa Sawit (Palm Oil Fund Management Agency, BPDPKS), to essentially channel loans and other support to the palm oil sector. It was an extension of a previous program to provide micro-credit to smallholders. BPDPKS is financed from an industry levy imposed on palm oil exports, and in return it provides subsidized loans through state-owned banks and other support for research and development and replanting. Despite government claims that the fund would support smallholder farmers (Dara Aziliya 2016), in the Kapuas Hulu case study sites at least, funds were channelled primarily into "plasma plots" that had long been under the indirect control of large firms rather

4) Peraturan Presiden (Perpres) No. 61 of 2015.

than independent smallholders. Plasma plots refer to smallholdings surrounding a larger “nuclear” estate that are compelled to sell their produce to the estate. Most of the actors provided with financial assistance were finance organizations, such as local banks and credit unions, that channelled the funds to farmers for accessing fertilizers, herbicides, and motorcycles (for transporting fruit).

Agricultural assistance is provided also through the Directorate General of Estate Crops, which in 2016 provided the local community in Village B with planting material and fertilizers through sporadic projects. The local agricultural development office is also a conduit for the distribution of subsidized fertilizer, formally intended for use on local food crops.⁵⁾ This subsidized fertilizer is widely used for oil palm, even if it is accessed through food crop farmer groups. A government program to issue “fertilizer cards” in 2018 to prevent such misallocation largely failed, and subsidized fertilizer scarcity is an ongoing problem in Kapuas Hulu, leading to hoarding and illegal sales by traders. Swidden farmers are generally ineligible to access subsidized fertilizers.

In contrast, nongovernmental organizations link oil palm expansion with the loss of biodiversity, soil erosion, greenhouse gas emissions, and the pollution of soils and waterways (Levang *et al.* 2016). These NGOs, furthermore, expand their focus to highlight negative social impacts in order to generate broader public opposition. In Silat Hilir, agribusiness firms were accused by one international NGO of exploiting child labor and paying low salaries while destroying rain forests and orangutan habitats (Greenpeace 2017). This public opposition has included criticism of financial institutions for unethical investments in the palm oil sector. For instance, Chain Reaction Research (2017) highlighted the critical role played by banks in financing oil palm expansion, claiming that NGO pressure on financiers had resulted in the latter’s adoption of more stringent environmental and social policies.

Environmental organizations thereby also actively reconstruct the institutional environment of the chain at various scales. At the local level, NGOs have worked with some villagers to oppose oil palm and successfully reshape local opposition toward its expansion (Acciaoli and Dewi 2016). In Village B the influence of NGOs was exerted through engagements between village activists and NGO staff, where the latter actively urged local villagers to reject oil palm expansion. Community members in one village received pamphlets from a Jakarta-based NGO about the negative impacts of palm oil, which identified the lack of employment and dispossession resulting from palm oil development:

5) Regulation of the Ministry of Agriculture of the Republic of Indonesia No.47/Permentan/SR.310/12/2017 Regarding the Allocation and Maximum Retail Price of Subsidised Fertiliser for the Agricultural Sector in 2018.

Oil palm plantations destroy local livelihoods. The local community has been cultivating food crops for hundreds of years. Rotation and swidden cultivation in particular has allowed for the regrowing of forests. Palm oil development erased that subsistence food and other agroforestry incomes such as rattan, resin rubber, and pepper. (Local pamphlet from an NGO, NN, Embaloh Hulu, Kapuas Hulu, 2016)

Such NGOs tend to present villagers as having lived in harmony with the environment as ecologically “noble savages” prior to the introduction of oil palm, and as being powerless to resist the changes enacted upon their livelihoods (as described also by Levang *et al.* 2016). In Kapuas Hulu an influential NGO, Lanting Borneo, worked with around 24 local communities; its discourse emphasized a dichotomy between oil palm development and the interests of the “customary community”:

Currently, we advocate the endorsement of customary rights in Kapuas Hulu. With regard to palm oil development, we ask the customary community to calculate the costs and benefits of accepting palm oil development. We can conclude that the customary community received only 0.1 percent, yet they lost their rights for 35 years along with their rubber. In fact, by working in their rubber fields they can use this cash income for their daily shopping needs. (Interview with DU, head of a local Kapuas Hulu NGO, Putussibau, 2016)

This approach, where environmental activists advocated protection of customary rights, gained favorable traction among local communities. Nonetheless, the inability of NGOs to differentiate between oil palm as a smallholder crop (grown on terms set by community members) and large-scale oil palm plantations meant that they often distanced themselves from prevailing community interests (Levang *et al.* 2016). In the pamphlet disseminated by activists, oil palm was linked to labor exploitation:

In the Indonesian palm oil sector, labor rights such as decent pay, freedom, and their ability to negotiate are suppressed. Agreements and expectations from palm oil firms about employment are rarely met. Many people face a worse situation than before the arrival of oil palm. (Local pamphlet from an NGO, NN, Kapuas Hulu, 2016)

This argument seemed to ignore the reality of active community participation in the palm oil sector across Kapuas Hulu, both as smallholders and as plantation workers, and the mutual existence of palm oil laboring and swidden farming. From another perspective, the oppositional stance taken by activists tended to raise local expectations about the prospects of alternative livelihood improvements, which were rarely realized in practice (Acciaoli and Dewi 2016). NGO activists in Putussibau, for instance, promoted swidden cultivation and rubber as a way to sustain livelihoods, as presented in a local seminar: “[Rubber is] a founding local livelihood. While the local community shifts to other crops, rubber plays an important role to sustain household economies. Rubber is

the social capital for local development” (Swandiri Institute in the BAPPEDA office of Putussibau, April 19, 2016).

While activists insist on the economic and social viability of rubber, the local community views it as having declining importance and (at least at the time of fieldwork) being far less important than either pepper or oil palm. Farmers tended to harvest rubber only during periods when they urgently needed cash, as suggested by one farmer:

Even though I have rubber, I have not yet tapped it. These days I am more comfortable cultivating *padi* (swidden) and working as an oil palm laborer. . . . I follow other people to work as an oil palm laborer . . . working in palm oil mills is not complicated, just chopping down [trees]. Previously, I got rid of the [rubber] bark and would harvest it . . . but today I am chopping it down. (Respondent TT, Iban, Village B, 2016)

Indeed, aspirations and monetary needs in West Kalimantan had been growing, and this resulted in greater interest in education, health care, and goods such as motorbikes and electronic equipment (Levang *et al.* 2016). Involvement in the palm oil economy appeared to offer realistic opportunities to meet these desires and needs through increased involvement in the cash economy. In areas that had rejected oil palm cultivation, such as the communities surrounding the buffer conservation areas of Embaloh Hulu and Batang Lupar subdistricts, local people were frequently confused about what livelihood alternatives could be realistically pursued given broader structural constraints. In these communities, which had closer relationships with various environmental activists from Jakarta and Putussibau, local people were more likely to complain about their economic situation and the difficulties they faced in meeting their basic needs.

At the global scale, exposure by NGOs of the relationship between deforestation and oil palm expansion has had profound effects on the institutional environment of the palm oil value chain. These include the setting up of the Roundtable on Sustainable Palm Oil in 2004 as a voluntary certification standard that has established new behavioral norms for firms seeking access to ethically aware consumers. This standard demands, amongst other social and environmental requirements, that plantation firms obtain prior informed consent from customary landholders. This has resulted in slowly shifting institutional norms on the ground in Kapuas Hulu. International finance organizations are also under increasing pressure to obtain independent verification that their investments are not contributing to environmental and social degradation. As a final example, the European Parliament responded to consumer and NGO pressure by issuing a resolution in 2017 to phase out biofuels made from palm oil, a decision that has had profound effects on trade and was, at the time of writing, strongly contested by the Indonesian government.

It can be seen that the broader institutional framework of the palm oil sector, most

notably the influence of the state and environmental NGOs, created conditions that influenced—sometimes in contradictory ways—the nature of community engagement with the sector. In some instances these institutions provided opportunities for positive engagement that could be strategically leveraged by individuals and organizations, while at other times they could shut down negotiations. Furthermore, these institutions were often powerfully reinforced through the discursive interventions of these actors in a battle for the attitudes and perceptions of local communities exposed to the palm oil economy.

Customary Institutions in Kapuas Hulu

The Ibanic Dayak community in Kapuas Hulu has complex customary cultural institutions that manage natural resources and address conflicts (Yasmi *et al.* 2007). For instance, in Ibanic customary culture the community lives in a longhouse consisting of 10 to 30 households, with a longhouse head called the *tue rumah*. During the 1950s and 1960s, Village B consisted of 12 households living in one longhouse, while Village A had 20 to 30 households in a longhouse. To demarcate the territory between longhouses, it would be customary for communally managed agroforests called *tembawang* to be established. The *tue rumah* imposed sanctions on any outsiders collecting resources without their approval, and the negotiation of territorial claims among longhouses was decided based on the negotiation between the *tue rumah* and higher leaders of several longhouses, known as *patih*.

Incorporation within palm oil value chains has been associated with a shift in preferences for individual, rather than longhouse, residency. In Village B, scarce timber resources combined with past conflicts among customary leaders also contributed to the decline of longhouse unions and their accompanying institutions. Here, the role of the *tue rumah* to regulate land and labor access has been diminishing, such that many Dayak communities now depend on customary decisions to be made at the higher level of *patih*. While longhouses are often important sites for various social gatherings (as we observed in villages where less oil palm was grown), the Iban community in Village B was not really functioning in this way, due to increased intra-community conflicts. Conflicts within Dayak communities were frequently perceived by local migrants and non-Dayaks as a sign of weak customary institutions that would increase the ability of firms to gain further access to resources.

Customary institutions once had a significant influence on the regulations of subsistence-based swidden cultivation in allocating land access and facilitating reciprocal labor exchange. For instance, villagers would obtain exclusive rights to ancestral land after it was transferred by their grandparents. Farmers would take the risk and invest

their time and energy to open up forest areas for swiddening, but only after gaining local approval from the *tue rumah*. Clearing primary forest, in particular, posed major risks, including dangers of encountering crocodiles, sun bears, or venomous snakes. In addition, the *tue rumah* would also monitor labor reciprocity among the households within the longhouse, and they would impose customary sanctions on any reluctance to appropriately engage in labor exchanges.

Ibanic Dayak culture and institutions are strongly associated with swidden cultivation. M. R. Dove (1985) highlighted past studies of swidden cultivation that demonstrated its economic and cultural importance for Dayaks in terms of inheriting collective norms and ensuring food production. These cultural practices continued even as rubber became integrated as a complementary cash crop alongside a subsistence crop economy for Dayak households (Dove 2011). Nevertheless, external influences associated with oil palm development have changed local attitudes toward swidden cultivation. In the previous discussion of government institutions, national and local elites enacted regulatory interventions that restricted local swidden-linked burning practices. Their assumption was that the swidden cultivators were incapable and reluctant to participate in oil palm development. In fact, a new tentative coexistence seems to be emerging between swidden farming and oil palm at the case sites. In Village B and Village C, some farmers have largely incorporated oil palm cultivation into their swidden plots, but with a marked generational pattern. Older informants revealed their continued commitment to swidden land, while at the same time they had begun to embrace oil palm cultivation. Yet, for younger Dayaks, swidden cultivation is often seen as a mostly unproductive livelihood strategy and one with decreasing social value. The generational shift was explained by a Sebaruk farmer:

I work in a palm oil firm here. . . . I am not involved in swidden cultivation, but my parents are. However, I am involved in oil palm and rubber cultivation. The oil palm [fruit] has not yet been harvested, but the rubber has. For me, swidden cultivation is insufficient for us. (Respondent AS, Sebaruk, Village C, 2016)

Swidden cultivation is poorly valued by younger farmers due to its inability to generate significant cash income and due to the influences of urban lifestyles and mass consumerism (as also described by Cramb *et al.* 2009). With better formal education and training, youths are abandoning swidden farming and participating more in various livelihood activities linked to oil palm. In Village B, a 41-year-old Iban man described the process through which he abandoned swidden cultivation and embraced oil palm cultivation:

In 2013 I went to Lubok Antu to visit my relatives in Malaysia. One of them shared his story about the unpleasant experience of planting pepper, rubber, swidden, and running a local shop. A Chinese

man persuaded my brother in Malaysia to plant oil palm, saying it was more beneficial than pepper. I then took 500 (oil palm) seeds. I started to plant despite the warnings of local villagers. Nowadays I no longer practice swidden cultivation, as I expect more from the oil palm harvest. (Respondent YE, Village B, 2018)

Dayaks in Village A shared similar opinions about swidden cultivation. For example, a well-educated Dayak man in his mid-40s explained how swidden cultivation had largely become irrelevant to his livelihood as he instead invested cash resources into rental properties. Another Iban man in Village A, in his mid-30s, had moved away from swidden cultivation to local trading after receiving a university education in Java. He preferred purchasing rather than growing food: “I was born here. I am a local trader but not a farmer. I purchase my own food, as I cannot depend on this local society. I purchase it from Malaysia” (Respondent J, Village A, 2016).

In Village C, Dayaks are a minority compared to Malays and other migrants, who often aggressively criticize customary swidden farming by Dayaks, which they claim is destructive and polluting. A local Malay leader explained:

I need to explain the effects to indigenous farmers. I already told them the smog will go overseas [to Malaysia]. I did not blame the swidden cultivation, but just the way land is converted through slash-and-burn practices. We observed little progress [in government attempts] to reduce slash-and-burn farming. It took two months to socialize that to farmers. (Respondent N, Village C, 2016)

A decline in customary resource tenure institutions has also facilitated a further powerful mechanism driving exclusion and unequal land possession among villagers—that of the market itself. In addition to contractual deals negotiated by firms, growing numbers of villagers from Village A and Silat Hilir have become engaged in land markets associated with oil palm, such that increasing economic differentiation has emerged. It has been reported elsewhere in Southeast Asia how the local transition to perennial cash crops resulted in an increasing pattern of individualized land tenure and the weakening of community governance (Cramb *et al.* 2009). This was observed, for instance, in both Village B and Village C, where customary institutions that had traditionally demarcated village boundaries based on natural signs (such as rocks, rivers, and trees) obtained from village elders were now being challenged as the physical landscape itself was transformed through oil palm. A Sebaruk man explained how he preferred using GPS and a letter of consent from the village head (Surat Keterangan Tanah, SKT) to demarcate land boundaries when purchasing swidden land from other villagers.

In addition to an increasing trend toward perennial cash crops, declining traditional practices of labor exchange have also been observed (Cramb *et al.* 2009). In the past,

reciprocal labor exchange arrangements, known as *kabanbelayan* among the Iban (Sather 2006), were employed within longhouse communities to overcome labor bottlenecks during planting, weeding, and harvesting times (Dove 2011). When the arrangement was strictly enforced, not even material returns or surplus rice was allowed to be substituted for labor. In Iban culture, cooperation between local community members is particularly useful when it comes to labor-intensive activities such as felling trees and harvesting subsistence food crops (Cramb 2007).

In contemporary Kapuas Hulu, however, instead of complying with traditional labor exchange rules, many instances of labor exchange now involve monetary contributions, as reported by a Dayak man in Village C who paid IDR 80,000 per day for local assistance on his swidden, and an Iban Dayak in Village B who paid IDR 50,000 per day for outside labor to assist with the rice harvest. For perennial cash crops, labor arrangements are almost universally based on monetary exchanges; in both Village B and Village C daily labor was reportedly paid up to IDR 100,000 to harvest oil palm fruit.

Across Southeast Asia there has been a trend toward off-farm livelihood diversification, but often as part of a multipronged strategy to continue farming or as a strategy to accumulate resources and invest in larger smallholding plots (Rigg *et al.* 2016). Land dispossession due to plantation development has been reported elsewhere, leading to highly unequal access to land and processes of agrarian differentiation (Hall *et al.* 2011), such that off-farm work can even help reduce distress land sales. Similar outcomes were observed in Village B, as explained by a Dayak Iban (a single mother):

The advantage of working in palm oil mills is that I can earn money while still engaged in swidden cultivation. I work from 7 in the morning to 2 in the afternoon. Afterward, I continue my swidden work. . . . Fifteen years ago, women could not seek a financial income apart from swidden cultivation. Yet I can make it to work on the palm oil plantation. (Respondent VM, Dayak farmer, Village B, 2016)

While work on the oil palm plantation did not provide the abovementioned single mother with significant money to meet all her needs, she found this work beneficial because it allowed her to flexibly meet her daily cash economic needs.

Customary institutions in Kapuas Hulu (such as those linked to swidden cultivation) once played a critical role in determining livelihood aspirations and engagement with new economic opportunities. These institutions are still important for some Dayak communities, especially the older generation, and they can be seen to have mediated the integration of these communities into the palm oil economy. Yet, over time, the influence of these institutions has tended to evolve (and indeed decline). Local institutional adaptation is a key feature of the social landscape in Kapuas Hulu and has resulted in new systems

of resource access that frequently build upon past customary institutions in a largely path-dependent way. The ability of communities to draw legitimacy and strength from these institutions appears to be a key determinant of social outcomes arising from engagement with the palm oil economy.

V Conclusion

This research presents the complex multi-scalar institutional environment emerging around the palm oil value chain as it manifests itself in Kapuas Hulu. While we recognize that livelihood outcomes for rural households are often site specific, our study has highlighted the multi-scalar sets of institutions that intervene in the relationship between agrarian communities and the palm oil sector. We have further demonstrated how livelihood change and rural development outcomes can be helpfully analyzed, and indeed understood, through a global value chain lens, especially one that is sensitive to the broader institutional environment of the chain.

In this case study, large-scale oil palm development has resulted in land appropriation and the exclusion of some individuals from accessing traditional land resources. This has occurred as a result of various mechanisms, including the regulatory processes associated with spatial planning, formalizing private concessions (HGUs), constructing discursive strategies, and establishing patronage relationships with local customary elites. While local communities have, at times, been able to call on external institutions to mobilize support for their struggle against land appropriation, they are generally engaged in a negotiating space with highly unequal power relations. National and local elites have more successfully configured alternative strategies to incorporate regulations, force, discursive constructions, and market pressures to achieve access to land (to borrow from the powers of exclusion presented by Hall *et al.* 2011). The outcome of this process has been a large-scale landscape transformation across Kapuas Hulu away from a mosaic of forests, agroforests, and swidden land toward mostly monocultural oil palm plantations, even as this process remains incomplete.

The process of allocating large-scale concessions combines regulations and discursive narratives to accommodate the interests of lead firms in global value chains. These interests are able to concentrate land resources into their hands, or at least their supply chain, through regulatory mechanisms that ensure this is achieved at relatively low cost. They rely heavily on negotiating and networking with various national and local elites within the state apparatus who support their desire to encourage a shift away from swidden-based land practices. With such formal regulatory support, plantation firms can

secure land access and exert pressure on customary institutions to facilitate resource access. The degradation of customary institutions was also influenced by competing aspirations among Dayak communities themselves to reject or accept firm land contracts, and was ultimately associated with an increase in market-based land transactions (a relatively new institution) and subsequent loss of indigenously controlled land.

While there has been a countermovement by environmental activists and other NGOs to recognize customary rights and to reject oil palm expansion, this countermovement has largely failed to consider the reality that many community members are actively embracing the crop and voluntarily engaging with the broader oil palm economy. Many swidden farmers expressed their disappointment with environmental advocacy groups, since they had been largely unable to generate alternative income-generating activities for the local community. As a result, many of these farmers have established their own oil palm smallholdings to secure a cash income. In the current broader context of the Indonesian agrarian political economy (and the institutional environment described in this article), there appears to be limited room for maneuver for many rural households beyond the palm oil sector—at least in Kapuas Hulu.

While agribusiness firms are generally able to increase their control over land through various contractual agreements, there is another associated process of establishing palm oil related infrastructure. This infrastructure development provides some (albeit limited) choice and improved access to local inhabitants, so that they can engage with the larger value chain that reaches beyond Kapuas Hulu, and often in quite beneficial ways. Local actors occupy different positions in the value chain in order to improve market access and strengthen their social and economic position. The broader market access associated with global palm oil value chain interventions encourages more local engagement with smallholding palm plantations, as found also by previous smallholding oil palm studies (Cramb 2015; Potter 2016). Our approach of examining the broader institutional environment of the GVC for palm oil generates insights into the possibilities for reforming governance structures in ways that might allow community engagement to occur on terms more amenable to community interests.

Our research findings also have implications for understanding agrarian change and rural development trajectories in Indonesia. Smallholder households are clearly not just functioning as passive objects of development assistance or corporate accumulation, but they are actively configuring new roles as producers and broader agents within the local economy. However, their attempts to assert a vision for appropriate rural development pathways in this case are ultimately dependent on their capacity to engage with, and actively reshape, the broader institutional environment of the palm oil value chain. Efforts to promote rural development should consider a much wider set of leverage points

and actors embedded at different scales within an institutional environment that is continually under construction.

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