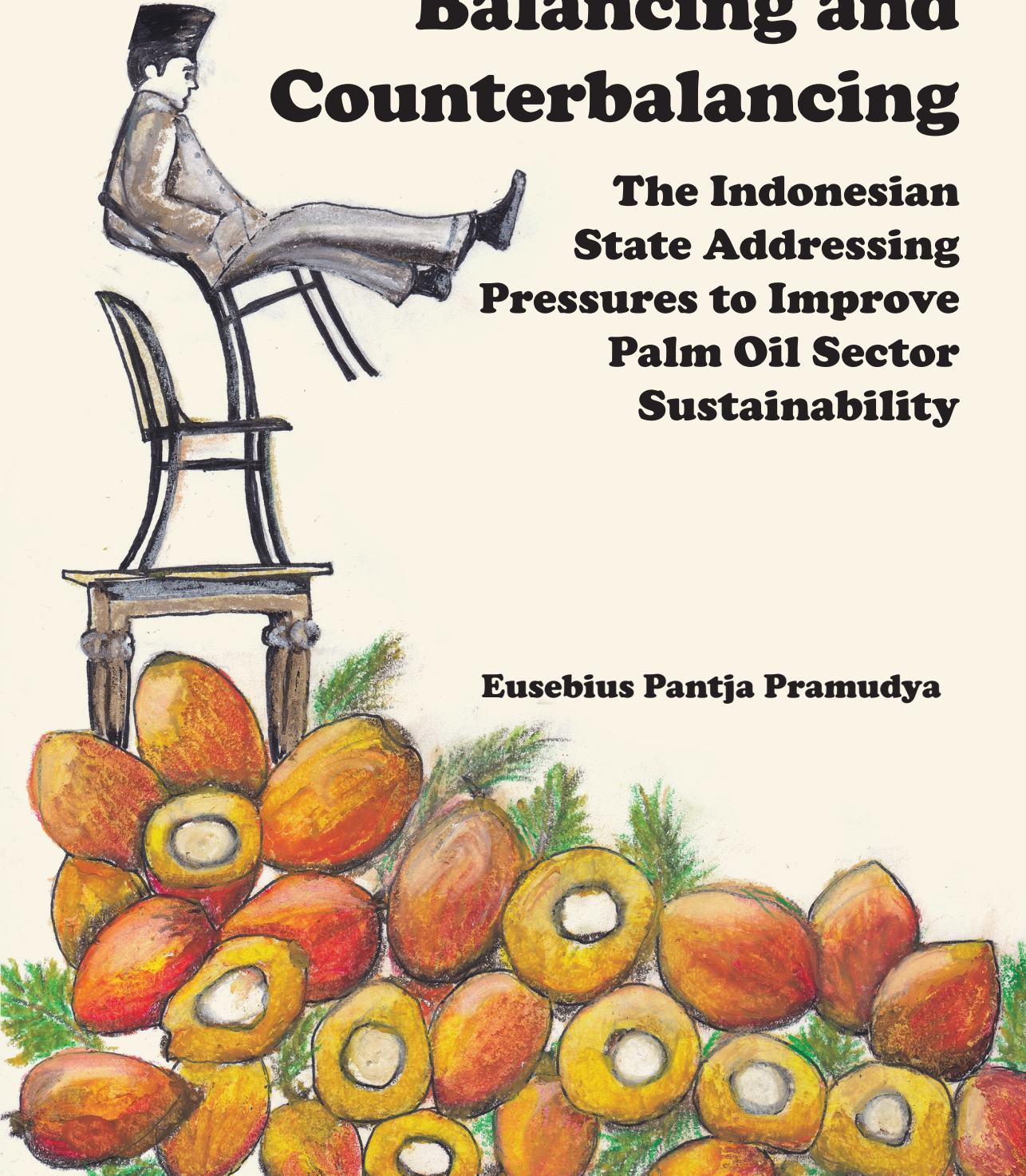


# **Balancing and Counterbalancing**

**The Indonesian State Addressing Pressures to Improve Palm Oil Sector Sustainability**

**Eusebius Pantja Pramudya**





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# **Balancing and Counterbalancing**

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Improve Palm Oil Sector Sustainability,

Eusebius Pantja Pramudya

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# Chapter 1

## Introduction

### 1.1. Background

Palm oil crops, which are highly productive compared to other oil crops, and able to provide food, feed and fuel supplies, have shown an incredible growth in the recent two decades. Between 1995 and 2002, crude palm oil (CPO) production increased by 65%, with production centred in humid tropical zones in Southeast Asia, equatorial Africa and Central America. In the 2010s, Indonesia and Malaysia contributed 87% of the global production (Pye 2013; Varga 2017). In Indonesia, palm oil is a booming sector with plantation areas almost doubling between 1990 and 1995, and again doubling between 1995 and 2012 (Anne Casson 1999; Caroko et al. 2011). In 2017, the plantation area was estimated to be 12,307,677 hectares, which produced 35,359,384 tonnes of palm oil, consisting of 11,311,740 tonnes from smallholders, 2,502,174 tonnes from state-owned plantations, and 21,545,470 tonnes from private plantations (Directorate General of Estate Crops 2017).

In Indonesia, the palm oil sector has been of significant importance to economic growth and increased levels of prosperity. It contributes, amongst others, to earning foreign exchange for international trade and debt service payments, local economic development, household income generation, job creation, small and medium business opportunities, increasing affordability for education, improving basic infrastructure, improving housing and sanitation, and opening access of remote areas (Badrun 2011; Hirawan 2011; Rist, Feintrenie, and Levang 2010; Alwarritzi, Nanseki, and Chomei 2016; Cahyadi and Waibel 2015). Furthermore, the palm oil sector played an important role in the economic recovery from the crisis that impacted the economy from 1997 to the early 2000s (Susila 2004; Rifin 2010).

Despite the above-mentioned economic profits and related advantages, the expansion of the palm oil plantation has caused many environmental impacts, such as forest encroachment, uncontrolled use of fire for land clearing causing fire incidents and massive haze pollution releasing greenhouse gases, uncontrolled peatland conversion, biodiversity loss, environmental services losses, land degradation and erosion, and hydrological change (Teoh 2010; Turner et al. 2011; Hayashi 2007; Ser et al. 2014; Yaap et al. 2010; Germer and Sauerborn 2008). This expansion has also resulted in many negative social impacts such as land conflicts, displacement of indigenous people, dispossessions of local community, labour trafficking, and unfair transactions between smallholders and mills (Colchester et al. 2006; Wakker 2004; Obidzinski et al. 2012; Teoh 2010).

Given these tensions between the benefits contributing to economic development and the impacts on social and environment, sustainability in palm oil production is not only a technical issue but also a challenging governance issue. The Indonesian state faces many dilemmas in addressing both faces of the palm oil sector. Furthermore, international and domestic actors increasingly exert pressures on the Indonesian state to address the impacts of palm oil expansion. The Indonesian state is at the crossroads and faces the challenge of balancing various conflicting demands. In the first instance, the state tries to balance the promotion of economic development through the lucrative palm oil sector with protecting the environment and advancing social equity. Furthermore, the state also has challenges to balance between various entrepreneurs (state-owned enterprises, private enterprises and smallholders), communities (migrants, refugees,



local communities and traditional indigenous communities), the uses of lands (cash crop plantations, areas for conservation, and areas allocated for food security), governance arrangements (state oriented and non-state actors initiatives), and internal agencies (forestry and plantation).

To date, the role and engagement of the Indonesian state is hardly analysed. Primarily, it derives from the rising of regulatory state concept that prioritise arm's-length of regulation and arbitration than promote state intervention and direct hierarchical control (Majone 1999; Glaeser and Shleifer 2003; Levi-faur 2014; Yeung 2012). The focus on regulation disregards the long history of the state's interventions in development and ignores complex processes of political contestation in the transformation of nation-states to become greener (Scoones, Leach, and Newell 2015). In the field of governance studies, there are two dominant explanations for this lack of attention. The first is that the state – both individually or together as intergovernmental organisations – has been considered incapable of governing social and environmental impacts resulting from economic development (Biermann and Dingwerth 2004; Frank, Hironaka, and Schofer 2000; Abbott 2012; Perez-batres, Miller, and Pisani 2011). The state is often perceived as having been captured by political interests benefitting unsustainable forms of development while transformation toward sustainable development is striving against insufficient settlement between competing interest groups and long-lasting negotiation processes, resulting in compromises causing further environmental degradation (Hurrell 2006; Khan 2004; Eckersley 2004a; Mol 2010; Abbott 2012; Mandemaker, Bakker, and Stoorvogel 2011). The second explanation is that private governance arrangements have emerged where the state loses its monopoly in public governance (M. Smith 2006). The state nowadays becomes one among equals in governing sustainability (Cashore 2002; Schouten and Glasbergen 2011; T. M. Smith and Fischlein 2010). As the state is not the most important actor anymore, non-state actors have increasing influence and develop options for governing without the state.

Additionally, the challenges and struggles faced by the Indonesian state have received scant attention. The Indonesian state is considered simply incapable or politically not willing to properly address environmental and social effects of expansion of global agricultural commodities. Meanwhile, the demands on the Indonesian state to address social and environmental issues keep increasing internationally and domestically. In this research, I aim to fill this knowledge gap by unravelling the roles of the Indonesian state in balancing environmental sustainability, social equity and economic development.

Having addressed the focus of this thesis, this introduction chapter proceeds in section 1.2 with an elaboration of the key concepts used throughout this thesis: state, governance and governance mechanisms and balancing. Section 1.3 introduces the four governance mechanisms that are analysed in this thesis. The research questions are presented in 1.4, and 1.5 sets out the theoretical and methodological approach. Section 1.6 presents a brief overview of Indonesian history that gives an important context for this study. This chapter ends with an outline of this dissertation.

### 1.2. Key Concept

#### 1.2.1 The state

The state is a concept of an entity in society that has legal and political powers. The state claims control over territories with a monopoly over the legitimate use of violence, which is based on the legitimation from its people (P. B. Evans, Rueschmeyer, and Skocpol 1989; Hay and Lister 2006). The state organises internal and external societal actors through continuous jurisdiction and personification as a juristic person in international law, as well as administrative, legal, bureaucratic, and coercive systems (Tang, Robinson, and Harvey 2011; Scruton 2007). Instead of exerting authority within its territory, the state stands at the intersection between domestic socio-political orders and transnational relations. The state is more than government, although people often use both terms interchangeably. The state is an entity of jurisdiction in the international legal system, while government is an exclusive coercive organisation for making and enforcing decisions (Robinson 2013). Together, governments form a state by exercising influence and control through law and coercion (Scruton 2007).

The state consists of agencies, levels and actors. The state has multilevel organisation, starting from the central state that consists of the head of the state, the ministerial agencies, and non-ministerial agencies operating at the national level. The ministries hold specific mandates on sectors or functions. The national governments operate at either national or local levels. The state has line divisions based on the specific functions of the state agencies. Local governments are organised at the provincial and district levels. In local governments, there are functional offices that have the responsibility to manage different sectors. In state agencies, one could not expect coordination, cooperation and consistent messages. Often different agencies have their own logics to deliver their mandates. At the level of actors, state actors might also have different positions and interpretations on a specific issue. The state, rather than a simple subject or instrument, is an institutional ensemble where its power consists of various potential structural powers (Jessop 1999). Thus, the state is never a monolithic entity.

#### 1.2.2. Governance and Governance Mechanism

The concept of governance emerges when the central state is no longer the only force in governing society and realising public values. The governance concept offers multiple sites of decision making that involve different actors and interests, and where different forms of 'states' exist, bringing their unique historical specificities, agendas and governmental practices (Jessop 2011; M. Smith 2006). Together, the state and non-state actors exercise governmental practices. Governance refers to an institutionalised process that organises and coordinates activities among economic, political and societal actors toward realising public values (Grindle 2007; Kim 2006). Actors interact in networks, and the state does not govern 'above' other societal actors but with them (Koppenjan and Klijn 2004). The state still retains a central position in selecting and legitimating policy goals but in a more cooperative and less intrusive manner (Peters and Pierre 2006). The state adapts its coordination, steering and power strategies in governing the public in the globalized network society (Arts, Lagendijk, and van Houtum 2009).

A mechanism, referring to the Cambridge dictionary, means the way that a system works. Hood and Margetts (2007) distinguish four resources of mechanism for achieving policy goals, namely:

- Nodality includes information channels in three senses: a figurehead that has a central presence, a store of information, and sitting in a central place. Using Nodality, a governance arrangement aims to stimulate behavioural change indirectly through information and persuasion.
- Authority includes legal or official power to demand, forbid, guarantee and adjudicate. Using Authority, a governance arrangement directs behaviour through the prescription of rules.
- Treasure includes financial resources that provide capacity. Using Treasure, a governance arrangement directs behavioural change indirectly through financial incentives.
- Organisation includes people with skills that give the physical ability to act. Using Organisation, a governance arrangement provides a public good or service directly through government agencies or public companies.

Together, these four mechanisms are called the NATO scheme, which is based on the abbreviation of Nodality, Authority, Treasure and Organisation (Hood and Margetts 2007; Knill and Tosun 2012). Governance arrangements can be developed by either single or combined mechanisms. For example, the state can combine Treasure and Organisation to arrange economic incentives that stimulate a specific economic sector.

### 1.2.3. Balancing

Balancing as a concept emerges out of the struggle of nation-states to achieve social welfare through economic development, but overlooking impacts of development on social and environmental conditions. The emergence of the sustainable development concept urges the state to respond to the increasing awareness of addressing social injustice and environmental degradation. In addressing such socio-economic aspects, the state faces dilemmas in responding to the demand for de-commodification of key aspects of social life, which is likely to undermine the conditions for economic growth (Pirie 2013).

In this dilemma, sustainable development is promoted. Sustainable development's focus is on maintaining or expanding economic production while ensuring a better quality of life for all through a just and equitable manner within the limits of supporting ecosystems (Harris 2003; Jabareen 2008; Agyeman, Bullard, and Evans 2002). The implementation of sustainable development demands the state find a balance between physical sustainability, generational equity, environmental sustainability and global solidarity, so trade-offs between economy, environment and society are precluded (Langhelle 2013; Diesendorf 2000).

In balancing economic development, social equity and environmental sustainability, the state faces multiple interests and interpretations from different actors, organisations and institutions. Diverse social actors with uneven political power compete and interact to negotiate their prioritisation between economy, society and environment. They also compete and negotiate their agendas and pathways to achieve sustainable development, ranging from incremental institutional change, maintaining current structure, to proposing radical transformation (Scoones, Leach, and Newell 2015; Lozano 2008). They bring different approaches to socio-

technical transitions, understanding power and political economy, converging multiple levels of governance toward common goals, the politics of accountability and participation, and the politics of knowledge and culture.

Balancing requires the state's attention beyond actor level. Actors bring their values to their interactions in institutions. The state acts to normalise and codify values toward the emergence of universal values, where major differences are settled and actors collaborate to leverage personnel and financial resources to achieve shared goals (Bourdieu, Wacquant, and Farage 1994; Bardach 1998; Reay and Hinings 2009). Each nation state might take different pathways involving unique competition and then settle with different balancing acts, which results in various paths of development giving different emphases between promoting economic growth, improving environmental sustainability and achieving social equality.

### 1.3. Four governance mechanisms

The Indonesian state has been involved in various ways to facilitate palm oil sector development through, for example, regulation, land allocation, financial incentives, partnerships between palm oil companies and smallholders, linking transmigration program to plantation development, and trade and investment policies (Badrun 2011; Harahap, Silveira, and Khatiwada 2017; Anne Casson, Multastra, and Obidzinski 2014; PASPI 2014; Rival and Levang 2014; Gary D. Paoli et al. 2013; Varkkey 2016; McCarthy, Gillespie, and Zen 2012; Vermeulen and Goad 2006). In this thesis I focus on four governance mechanisms, namely arranging financial schemes, conducting disciplinary action to illegal plantations, developing external coordination with non-state actors, and developing internal coordination of agencies in managing forest, land and plantation fire. This selection is based on both the NATO model and the areas where the Indonesian state is considered to face acute challenges. Below, I elaborate the four mechanisms.

The first mechanism includes the various financial schemes for the palm oil sector (Booth 1988; Badrun 2011; Rival and Levang 2014; Vermeulen and Goad 2006; Anne Casson 1999; Caroko et al. 2011; Cahyadi and Waibel 2015). This corresponds to the treasure mechanism. The Indonesian state has never been absent from palm oil development due to its arranging of various financial schemes. Such arrangements occur as the Indonesian state inherited a considerable size of the plantation sector from the colonial administration (Furnivall 1976; PASPI 2014). Initially the Indonesian state was reluctant and unwilling to facilitate the enabling business environment for the growth of the palm oil sector (Booth 1988; J. A. C. Mackie 1971). Since 1967, finance schemes gave the foundation of the current development when the Indonesian state decided to revitalise the palm oil sector to secure the domestic vegetable oil supply. The state developed finance schemes for state-owned plantations, private plantations, and smallholder plantations in linkage with big plantations (Booth 1988; Badrun 2011; Rival and Levang 2014). The arrangement of financial schemes weakened during the economic crisis in 1997 until the early 2000s (Anne Casson 1999; Caroko et al. 2011). Despite the uneasy macro environment and limited state facilitation, the palm oil sector expanded and contributed to the economic recovery (Susila 2004; Rifin 2010). As the palm oil sector showed itself as a resilient economic sector over the economic hardships, the Indonesian state has developed the new wave of arranging financial schemes since 2006. Fundamental changes resulted from facilitating finance schemes, given that until the 1980s it was a sector dominated by big plantation companies, and nowadays smallholding

plantations comprise more than 40% of the total plantation area. Such an achievement made the palm oil sector to be considered a ‘revolutionary’ or ‘miracle’ sector (Badrun 2011; PASPI 2014).

The second mechanism includes the disciplinary actions to illegal plantations. This corresponds to the authority mechanism. It is widely known that Indonesia faces chronic problems in enforcing laws and coordinating to protect the environment against the impacts of palm oil plantation expansion (Arnscheidt 2009; Warren and Elston 1994; Simarmata 2010; McCarthy 2011). This weak law enforcement results in widespread oil palm plantation expansion into areas that are legally not allocated for cash crop production. Enforcing regulations is not easy due to problems related to Indonesian laws: multi-interpretation, overlaps among regulations, confusing land definitions and change among the definitions, state capture by powerful economic interests, mixed interpretation between formal and informal laws, the inclusion of agroforestry plots into state forests, and administration problems (Bakker and Moniaga 2010; Rosenbarger et al. 2013; McCarthy 2004; Samadhi 2013; Winoto 2009; Rahayu 2011; Fay, Sirait, and Kusworo 2000; Varkkey 2016; Andiko and Jiwana 2012; Aurora et al. 2015). In such a long call for improvements to regulation, since the middle 2000s the Indonesian state has used force to reverse illegal oil palm plantations in some areas. In these actions, the state conducted tree razing, property demolition, seizures, and raids by armed apparatus. The size and coverage of such disciplinary action are limited; however, questions emerge over whether these actions signal the strengthening of the state’s position in regulating palm oil expansion.

The third mechanism includes the interactions of the Indonesian state with various non-state actors creating sustainable palm oil initiatives (Hospes 2014; Wijaya and Glasbergen 2016; Hospes, Schouten, and Deike 2014). This corresponds to a mixture of nodality and organisation mechanisms. In sustainable palm oil issues, the state increasingly develops interactions with non-state actors, as the influence of non-state actors expands in sustainable palm oil issues. NGOs intensively conduct lobby and advocacy campaigns to build awareness of the social and environmental impacts of massive palm oil expansion, while palm oil companies are increasingly aware of the need to address these impacts, otherwise they risk their access to market and capital affected (Khor 2011; Schouten and Glasbergen 2011). NGOs and palm oil corporate buyers developed a private governance arrangement in the Roundtable on Sustainable Palm Oil (RSPO), which dominated sustainable palm oil governance with membership from various actors in the palm oil chain and strong recognition in the market (RSPO 2017). The emergence of RSPO is followed by various initiatives both as alliances of non-state actors actively connected in RSPO’s activities (like the Palm Oil Innovation Group (POIG) and RSPO Next), individual palm oil company’s commitments, and alliances of business for improving palm oil sustainability. Established as a private governance arrangement, nation states were not involved in the process of developing sustainable palm oil standards that was rightly started after the establishment of RSPO. These private governance arrangements later recognised the importance of working with the state, especially when related to regulation compliance and enforcement, regulation improvement and change, and smallholders (Amengual and Chirot 2016; Auld and Gulbrandsen 2015; Vogel 2010). As private governance arrangements increasingly develop interactions with the Indonesian state, the state enters a new atmosphere requiring power and knowledge sharing with non-state actors, both at the national and regional levels.

The fourth mechanism includes the coordination between the various agencies in managing forest, land and plantation fire (FLPF). This corresponds to the organisation mechanism. The lack of coordination becomes an alarming issue as FLPF has occurred more frequently in

plantation areas and raised questions about the state's legitimacy in governing environmental issues domestically and globally (M. A. Salim 2014; Prasetyo et al. 2016; Harrison, Page, and Limin 2009; McCarthy 2011; Gellert 1998a; Vayda 2006). The Indonesian state faces a huge challenge in managing FLPF. Fire has been used widely for land clearing that often goes beyond control; fire propagates easily in the dry season and causes haze. It is the haze that brings other dimensions to FLPF; haze created tensions with neighbouring countries and raised global concern over the impact on climate change (M. A. Salim 2014; Prasetyo et al. 2016; Harrison, Page, and Limin 2009). FLPF escalated with the growth of the large Indonesian plywood industry until the 1990s, the pulp and paper industry in the 1990s, and the palm oil boom in the 2000s, where frequent fire incidents shifted from forests to plantation areas (Gellert 1998a; Vayda 2006). In managing FLPF, the Indonesian state has a challenge in coordinating two authorities responsible for the sector: forestry and plantation. The state has to manage internal coordination between both authorities specifically, and consequently manage the overall coordination with various ministerial and non-ministerial agencies nationally.

### 1.4. Research objective and research questions

This research aims to unravel the roles of the Indonesian state in balancing environmental sustainability and economic development in response to the various national and international demands. The main research question is:

To what extent and through which governance mechanisms has the Indonesian state sought to balance environmental protection, social equity and economic development in governing the palm oil sector?

In answering the main research question, I focus on the governance mechanisms of the state as identified in the previous section, i.e. the role of the state in arranging finance schemes, enforcing regulation, managing external coordination with non-state actors in sustainable palm oil governance, and coordinating internally to manage FLPF. The sub-questions developed for each governing mechanism are:

1. What roles has the state played in governing the development and sustainability of the palm-oil sector by arranging various finance schemes since 1945?
2. What roles has the state performed in developing disciplinary actions to reverse illegal oil palm plantations to areas preserved for conservation and food security?
3. In what different ways has the Indonesian state responded to the emergence of non-state governing initiatives to promote sustainable palm oil and what are the underlying mechanisms of these responses?
4. How has the state coordinated at the national level, and in the authorities of forestry and plantation to manage forest, land and plantation fire, and to what extent have bureaucratic politics affected these coordination efforts?

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## 1.5. Theoretical and methodological approach

### 1.5.1. Theoretical approach

In analysing the role of the state in finance, disciplining by force, external coordination with non-state actors and internal coordination of agencies, I use a multiple theories approach. A multiple theories approach enables an analysis of the state as a complex entity and captures different pictures of steering mechanisms, leadership roles and venues for influencing transition processes (Termeer and Dewulf 2012).

In unravelling the role of the state in arranging finance schemes, I use the identification of various roles of the state in facilitating economic transformation of a country referring to P. Evans (1995). Evans characterised four roles that might be performed by the state. These four roles are custodian (protecting and policing through regulations), demiurge (becoming a producer), midwifery (assisting the emergence of new entrepreneurial groups) and husbandry (encouraging entrepreneurial groups to endeavour into more sophisticated markets and technology). The state often combines different roles at a time. These roles, performed either individually or in combination, affect the development of an economic sector with various emphases given to restrain or promote, and target different kinds of economic actors in the palm oil commodity chain.

In analysing the measures of the Indonesian state to enforce regulation through the use of force in organising disciplinary action, I analyse elements behind the disciplinary action: drivers, triggers, obstacles, outcomes and constraints. Then, I reflect on what types of governance the state is inclined to take, such as on a spectrum between the green state and environmental (eco) authoritarianism. In the green state concept, the state aims for improving environmental protection through civil society participation and democratic regimes that institutionalise checks and balances (Eckersley 2004a; Duit 2016; Shahar 2015; Ball 2006). In eco-authoritarianism, environmental protection is achieved through top-down approaches with extensive orchestration from state agencies and officials (Beeson 2010; Gilley 2012; Han 2017; Han 2015).

In analysing the challenges faced by the Indonesian state in developing interactions with non-state sustainable palm oil initiatives, I use the Transnational Business Governance Interaction Framework (TBGIF) that was developed by Eberlein, Abbott, and Black (2014). TBGIF looks into the components of governance interaction, and then analyses dimensions of interactions that include actors, levels of interaction, and the character of interaction. The analysis based on TBGIF provides a rich examination, looking beyond a static and one-level identification of relationships between the Indonesian state and the non-state initiatives.

In unravelling the challenges faced by the Indonesian state to develop internal coordination in managing FLPP, I look through the lens of bureaucratic politics. Bureaucracy is ideally insulated from politics in that it provides a precondition for sound coordination. However, in practice, the state has to manage competing logics to be able to reach an institutionalisation of process where finally agencies can focus on using their technical knowledge and minimise the risk for working at cross purposes (Bourdieu, Wacquant, and Farage 1994; Reay and Hinings 2009; Chibber 2002; Bouckaert, Peters, and Verhoest 2010). Four factors contribute to the capability of bureaucratic decision-making to achieve this orientation, namely (1) power bargaining among the bureaucrats, (2) competition of resources, (3) agency ideology, and (4) the role of the senior political leaders (Peters 2001; Stonet 1983; Giessen, Krott, and Möllmann 2014; Clifford 1990; Allison 1971; Welch 1998).

### 1.5.2 Methodological approach

#### 1.5.2.1 Interpretive methodology

The methodology used in this research is based on a qualitative methodology, which in particular follows an interpretive methodology. Such an interpretive methodology facilitates making sense of human actions and their meaning in everyday life contexts based on their knowledge of context, history, backgrounds and prior understanding (Creswell 2009; Ahrens 2008). In the implementation of interpretive methodology, the research starts with informed puzzles or senses of tensions grounded in research literature (Yanow and Schwartz-Shea 2006b). In interpretive methodology, study sites, respondents or cases are not decided from the start; they are selected based on their fitness to the phenomenon being studied.

Interpretive methodology that provides a research umbrella consists of many varieties. In this research, I use two varieties of interpretive methodology: (1) a reflective political economy analysis that considers relationships between historical political process and the theoretical discourse of the discipline (Oren 2006), and (2) a value-critical policy analysis that seeks to predict differences in interpretation and fundamental value disagreements (Schmidt, Sr. 2006). The two varieties of interpretive methodology correspond to the two natures of exploration covered in this research. The reflective political economy is used to analyse historical data on the role of the state in arranging various finance schemes across different periods in Indonesian history. The value-critical policy analysis is used to analyse contemporary data on the role of the state in conducting disciplinary actions, interacting in the network of non-state actors, and developing internal coordination in managing FLPE.

#### 1.5.2.2 Multiple case studies

In developing the empirical cases, I use multiple case studies for the four governance mechanisms. By using multiple cases, I examine the governance mechanisms in their real-world context and identify underlying mechanisms in each governance mechanism. The examination aims to identify similarities and differences among the cases (Eisenhardt et al. 2007; Yin 1981). Rather than offering a one-shot analysis, I analyse these similarities and differences further by comparing evidence and assumptions iteratively (Waiswa, Stern, and Prisley 2015).

There are two types of case study that are developed. The first type is a historical case study where I compare economic policies from different periods in Indonesian history. In analysing the roles of the Indonesian state in arranging finance schemes, I identify various approaches of the Indonesian state over different periods of Indonesian development. The analysis covers phases of Indonesian development history from 1945 to 2016. In each phase, I analyse instruments of finance that the Indonesian state used, and the societal groups who are targeted by these instruments. The analysis shows different developmental prioritisations of the Indonesian state, which reflect the balancing act of the state weighing up economic development, social equity and environmental sustainability, and addressing different societal groups to be included or precluded in development processes.

The second revolves around comparative case studies analysing contemporary issues that I use to illustrate three empirical cases. In analysing the disciplinary actions to reverse illegal palm oil plantations, I observe the cases of disciplinary actions that took place from 2006 to



2017. The cases involve various actor configurations, which reflect the dynamic nature of the disciplinary action themselves. In the identified fifteen actions that had been conducted, the majority of the cases come from Sumatra, from which I took six cases for a deeper analysis. The information was collected based on the network of actors, which became an entry point to analysing the institutional linkages between the cases. In analysing the interactions developed by the state in the network of non-state actors, I compared responses of the Indonesian state to three non-state sustainable palm oil initiatives (Roundtable on Sustainable Palm Oil or RSPO, Indonesian Palm Oil Pledge or IPOP, and Indonesia Palm Oil Platform or InPOP) between 2003 and 2017. The observation of the cases covered various periods: 2003-2017 in the case of RSPO, 2014-2016 in the case of IPOP, and 2014-2017 in the case of InPOP. The different periods are based on the development of each specific non-state sustainability initiative. In analysing the challenges to developing internal coordination in managing FLPF, I focus on the two main authorities that are responsible for overseeing the sectors related to the fires, namely forestry and plantation authorities, as well as the national coordination of both authorities. The time framework for this policy analysis is between 2011 and 2017, where substantial changes in coordinating efforts in managing FLPF were organised by the Indonesian state.

### **1.5.2.3 Data collection and resources**

The data for this research are collected from primary and secondary sources. In the historical analysis on the role of the state in arranging finance schemes for the periods of 1945 to 1998, I used primarily secondary data sources. However, for the more recent period of 1998 to 2016, I combined secondary and primary data sources. In the contemporary analysis on the role of the state in the other three empirical studies, I combined secondary and primary data sources but with a higher reliance on primary data sources.

Secondary sources of data were collected from journal articles, books, reports and news media. Individual studies in the scientific literature were sourced to generate or explore theory, and to identify concepts sufficient for coherent configuration, piecing them together into insightful and relevant research (Brunton, Stansfield, and Thomas 2012). In finding relevant scientific literature in journal articles and books, my research covers several fields, among others governance studies, political ecology, economic history, politics, development studies, environmental politics, and bureaucratic politics. Beside the scientific literature, I also use information from reports, discussion papers, briefings, newspaper and magazine articles, and blogs and social media sets produced by government, academic centres, NGOs, think tanks and companies. These resources are considered 'grey literature' as they do not go through formal academic peer-review processes (A. Lawrence et al. 2014; Adams, Smart, and Huff 2017; Mahood, van Eerd, and Irvin 2014). In using sources outside of peer-review, it is important to consider the various types of grey literature, assessing their relevance and potential contribution to the issue under discussion while excluding those that cannot be defended on the basis of widely acknowledged rules about quality.

In-depth and semi-structured interviews are the main measure to collect primary data in my research. In-depth interviews have the ability to pursue questions in elaborate detail, have the flexibility to allow the pursuit of understanding among the participants, have the potential to recover and analyse the agency of individuals, and are able to map the conceptual world of participants (Soss 2006). Semi-structured interviews provided a flexible way to allow for

capturing respondents' spontaneous descriptions and narratives (Brinkmann 2014). The respondents were selected by using a snow-ball method starting from some people that had good knowledge and were very familiar with specific subjects, followed by opening the gate to other relevant respondents (Goodman 1961; Heckathorn 2011). The majority of interviews were done individually, but there were also some group interviews. In group interviews, multiple participants shared their knowledge or experience relating to a specific subject (DiCicco-Bloom and Crabtree 2006).

### 1.5.2.4 Data analysis

In analysing interviews, I referred to the five steps suggested by Mann (2005), namely: (1) getting a sense of the whole interview by listening closely and reading the whole of the records and notes of the interviews to familiarise myself with the data, (2) coding by generating labels to capture both a semantic and conceptual reading of the data, (3) searching for themes by identifying the coherent and meaningful construction of patterns, (4) reviewing themes to see if they work in relation to particular extracts and the full data-set, and then defining and naming themes to capture the essence of each theme while unravelling the overall story, and finally (5) weaving together the analytic narrative and relevant data extracts. In conducting these steps, referring to Rowley (2012) and Moser and Korstjens (2017), the interpretation process is the most important aspect where the researchers reflect upon their own assumptions and potential bias they might introduce.

## 1.6 Setting the Scene

In discussing the state in general and particularly the Indonesian state, understanding history would give a strong basis to unravelling the changes in ideological orientations, administrations, policies and actor preferences. The importance of considering the historical context of Indonesia is visible in the analysis of the historical cases of finance scheme arrangement. However, to a lesser extent, outlining the context of Indonesian history also contributes to understanding the political atmosphere surrounding the administrations, and how their policy products were shaped by previous administrations. In this section, I briefly describe Indonesian history.

The independence of the Republic of Indonesia was proclaimed by nationalist leaders Sukarno and Mohammad Hatta on 17 August 1945, two days after the surrender of the Imperial Japanese forces in the Second World War. These nationalist leaders never came under one umbrella as they were divided across different positions on cooperating with the imperialist administration, strategy for the independence struggle, ideologies, and mobilising development resources (Brown 2003). Confusion often emerged from these divisions, which resulted in an uncertain agenda, for example in managing the plantation sector after Indonesian independence (J. A. C. Mackie 1961). Since 1945, Indonesia had been led by seven presidential administrations, commencing with Sukarno as the first president until 1967.

Japan, under the terms of the surrender, was supposed to maintain order until the Allied Forces took control (Brown 2003; Ricklefs 2001). The Indonesians, who had experienced harsh conditions under Japanese occupation and repression under the Dutch colonial administration, fervently took part in fighting the Japanese troops and then the British

Army that led the Allied Forces Army. Later, the Dutch colonial administration under the Netherlands Indies Civil Administration (NICA) returned (Vickers 2005). This resulted in the independence struggle from 1945 to 1949. In 1949, the Dutch recognised Indonesian sovereignty but with burdensome conditions that aimed at prolonging Dutch political and economic control (including ensuring Dutch companies could continue business as usual with the profits remitted to the Netherlands, an obligation to consult on all monetary and financial measures potentially affecting Dutch business, the control of the central bank under the Dutch, and an obligation to pay colonial debts) (Booth 2016). This uneasy situation contributed to the fraught nature of Indonesia-Netherlands relations thereafter.

After the end of independence struggle, Indonesia practised liberal democracy (1950-1959), resulting in unstable government and a flourishing of rebellions. Sukarno then installed authoritarianism under the name of Guided Democracy (1959-1966). Entering the 1960s, Indonesia experienced an unpredictable political situation, hyperinflation, and deteriorating living conditions. The failed coup on 30 September, 1965, and the mass-murder targeting of communist organisations and their associated leftist allies afterwards eroded Sukarno's leadership and opened the way for General Suharto to seize power. After assuming the presidency in 1967, Suharto led an economic development-oriented administration that stimulated growth by facilitating foreign capital inflows and a more liberalised trade regime, while maintaining stability through repression. The Indonesian state organised extensive development interventions until the 1980s; this declined afterwards when the revenues from the oil boom decreased and the country experienced a shift toward a more liberal macroeconomic approach (Booth 1998; Hill 2000).

The East Asian crisis in 1997 impacted Indonesian economy severely. The plunge in the value of the Rupiah triggered multiple factors developed years just before the crisis, such as the undervalued currency, high interest rates, massive unhedged foreign loans by business, low and declining export competitiveness, speculative investment for non-productive activities, lending from banks to their parent companies and affiliates, and economic dependency on Japan and Korea; these factors were accompanied with an unfavourable natural environment with a long drought causing major forest fires, and the weak political leadership (Brown 2003). The reform package formulated by the IMF failed to address real problems and aggravated complications that increased political and social tensions. In May 1998, riots erupted targeting Chinese interests, and Suharto finally decided to leave the office on 21 May. Vice President Bacharuddin Jusuf Habibie was sworn in immediately as the third Indonesian president, marking the beginning of the *Reformasi* period.

*Reformasi* started with a frequently changing government where people had lost their fear of security forces. The turmoil rolled into political and social conflicts, which in Indonesia sometimes had sectarian overtones and erupted to inter-religious violence (Ricklefs 2001). Between 1998 and 2004, Indonesia had three presidents. Habibie was widely perceived as a Suharto loyalist, but surprisingly he later proved to be reform-oriented by fostering a major overhaul of the political system (Drakeley 2005). The election in June 1999 resulted in a win for PDI-P, the party of Megawati Soekarnoputri (Sukarno's daughter). The People's Consultative Assembly (MPR) General Meeting passed a no-confidence motion against Habibie's administration in October 1999, and installed Abdurrahman Wahid as the fourth president, with Megawati as vice-president. President Wahid led the country with combination of hope, promise, vision, confusion and disillusionment (Drakeley 2005; Vickers 2005; Ricklefs 2001).

Wahid lost his presidency less than two years later as he did not effectively address the most fundamental challenge to restore state governance and manage the national economy. In July 2001, MPR held a Special Meeting which installed Megawati as the fifth president. The market welcomed Megawati, having appointed a professional economic team, managing a better relationship with the army, and benefiting from a stronger position in the parliament (Drakeley 2005; Takashi 2006; Vickers 2005). In the 2004 election, Megawati lost to her former security coordinating minister, Susilo Bambang Yudhoyono, who promised a clean government and social justice. President Yudhoyono was the longest-serving president after Suharto. His leadership laid down a solid foundation for the Indonesian state economically and politically, although there were shortcomings as democratic stagnated alongside a decline in sectors producing goods (Aspinall, Mietzner, and Tomsa 2015; Anwar 2015; Booth 2016).

In the *Reformasi* period, the state administration was decentralised (Booth 2011; Luebke 2009; Buehler 2010). In term of improving local government capacity, the decentralisation policy had some success in particular districts, but the overall performance remained relatively low. Local state actors often took opportunities in the midst of contradictions and ambiguities in laws and regulations, while corruption undermined public service delivery across the nation. As national government control in environmental protection declined while local actors skewed toward pursuing economic benefits from natural resources, deforestation became widespread (Resosudarmo 2004).

In the 2014 presidential election, both candidates – Joko Widodo and Prabowo Subianto – echoed the concerns of Indonesia as a weak state, powerless in controlling the country's natural resources, being more as an object in its international relations while lacking capacity to stand up in the increasingly competitive and uncertain global era (Anwar 2015). The concern over the state's weaknesses emerged in a rising new nationalism to address systemic economic and political failings (Aspinall 2016). Joko Widodo, who promised to become more decisive, less dependent on political elites, and more effective in bureaucratic management, won the election and became president in October 2014 (Aspinall, Mietzner, and Tomsa 2015). There were high expectations that President Widodo would address the Indonesian state's fundamental problems, although the challenges he faced were harder than perhaps acknowledged (Mietzner 2015). The Widodo administration took a statist-nationalist economic development strategy; however, tangible impacts depended on the ability of state budget management to support intensive infrastructure development and the expansion of social spending (Warburton 2016; Yusuf and Sumner 2015).

## 1.7 Structure of the Dissertation

This dissertation comprises six chapters. After this Introduction, the four research sub questions are explored from the empirical case studies presented in chapters 2 to 5. The research sub-questions provide guidance to explore four building blocks of the roles of the state. The presentation of these chapters follows the research framework as exhibited in Figure 1.1

Chapter 2 discusses the role of the Indonesian state in arranging finance schemes. The approach taken to describe these roles is a historical observation of the periods where the state managed the arrangement of finance schemes differently. I use the various roles identified by Evans to characterise the dissimilar roles performed by the Indonesian state across history.

In each period, I analyse the finance schemes developed together with the effort to balance economic development, social equity and environmental sustainability. Chapter 2 has been published in the *Bulletin of Indonesian Economic Studies*.

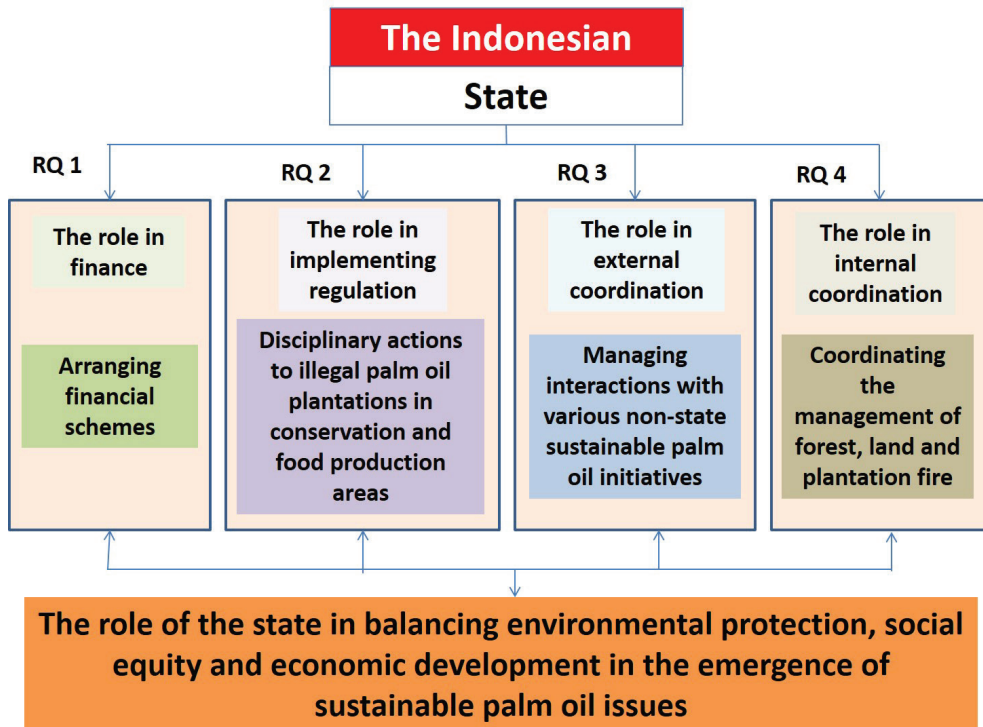
Chapter 3 explains the use of force by the Indonesian state in implementing regulations for limiting oil palm plantations to protect the environment and to ensure food security. In discussing this role, I take six case studies from disciplinary actions performed by the Indonesian state in Sumatra. The six case studies offer different constellations of positions between the state and non-state actors. The reflection from the findings of the case studies is built upon the debate of eco-authoritarianism versus the green state. I also study whether the disciplinary action led to incidental responses or to a political administrative response, one that resulted in a state transformation toward stronger environmental protection. Chapter 3 has been published in *Third World Quarterly*.

Chapter 4 describes the various responses given by the Indonesian state to three non-state sustainable palm oil initiatives, i.e. RSPO, IPOP and InPOP. I analyse the interaction between the Indonesian state and the non-state sustainable palm oil initiatives to understand the dynamic interactions among the actors and organisations, the pathways of the interaction, and the character of the interaction. A characterisation of the interactions identifies whether the interaction happened as coordination, co-optation, competition, or chaos. As the state responds differently across different non-state sustainable palm oil initiatives, non-state actors might be confused and apply an inappropriate strategy. Relating to this possibility, I follow with some notes to businesses that want to participate in the non-state sustainable palm oil initiatives. Chapter 4 has been published in *Asian Journal of Sustainability and Social Responsibility*.

Chapter 5 presents the challenges faced by the Indonesian state in managing the FLPF issue. Apart from an observation on general coordination at the national level, I also pay attention to the forestry and plantation sectors that play key roles in FLPF. I analyse the policies developed by the state in general, and those sectoral policies developed by the forestry and plantation authorities. In examining these policies, I analyse the aspects related to the politics of bureaucracy that challenges internal coordination. Chapter 5 is on submission to an international academic journal.

The final chapter answers the research questions and reflects on the scientific and societal relevance of the study. I start the chapter by answering research sub-questions, and then synthesize responses to the sub-research questions, providing an answer to the main research question. Following the answers to the research questions, I reflect on the strengths and methodological limitations of my research, develop suggestions for further scientific exploration of the topics, and make recommendations for policymakers both at the state and non-state actor levels. The chapter is concluded by a reflection on the implication of this research to the broader discussion of sustainable palm oil, and a theoretical discussion about the role of the state.

Figure 1.1: The Research Framework



# Chapter 2

## **Governing the palm oil sector through finance**

### **The changing roles of the Indonesian state<sup>1</sup>**

#### **Abstract**

By analysing the different roles of the Indonesian state in arranging finance schemes for palm oil development since 1945, this article aims to answer two questions: What are these roles? And to what extent have they prioritised or balanced economic growth, environmental protection, and social equity? We conclude that the state has never been absent from the palm oil industry but has had different and changing financing roles that are historically contingent and shaped by the evolving economic and political landscape. Furthermore, these roles reflect Indonesia's priorities of achieving economic growth through palm oil development, furthering social equity, and, recently, promoting environmental sustainability.

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<sup>1</sup> This chapter has been published as Pramudya, Eusebius Pantja, Otto Hospes, and C. J. A. M. Termeer. 2017. "Governing the Palm Oil Sector through Finance: The Changing Roles of the Indonesian State." *Bulletin of Indonesian Economic Studies* 53 (1): 57–82. doi:10.1080/00074918.2016.1228829.

### 2.1 Introduction

One of the most contentious issues in policy debates on sustainable agriculture is the expansion of palm oil production in Indonesia, which has been the world's leading palm oil producing nation since 2006. Most controversial is the perceived imbalance between the economic revenues of this expansion and its environmental and social effects: forest and peatland burning and the resulting haze; deforestation and loss of biodiversity; and social tensions and conflicts due to land acquisition, violation of rural and indigenous communities' rights, and unfair treatment of smallholders (McCarthy 2010; Obidzinski, Andriani, and Komarudi 2012; Rival and Levang 2014). In this article we address three shortcomings and biases in the debates.

First, many of the debates have focused on the roles and principles of multinational business and international NGOs in contributing to sustainable and equitable palm oil production in Indonesia (Schouten, Leroy, and Glasbergen 2012; Smit et al. 2013; Ruysschaert and Salles 2014; Oosterveer et al. 2014; Von Geibler 2013). These non-state actors have frequently assumed that the state abstains from, is passive in, is incapable of, or even resists promoting the sustainable development of palm oil production (Hospes 2014; Hamilton-Hart 2015). However, we believe it is impossible to understand the expansion of the palm oil sector, and the perceived lack of attention to sustainability and equity, without examining the roles played by the state.

Second, the changing political-economic regime of the country has not been adequately addressed in debates on and analysis of the expansion of palm oil production in Indonesia. Although Indonesia is now the world's largest palm oil producer, this was not the case in 1945, shortly after independence, when it inherited palm oil estates from the Dutch (Booth 1988; Furnivall 1976; Mackie 2007). To date, much of the debate on the sustainability of palm oil production lacks a historical understanding of how the palm oil sector has evolved and what roles the government has played in directing changes in the sector.

Third, the research on the role of the state in palm oil development has mainly focused on the government's involvement via regulation (Jarvis 2012; Glaeser and Shleifer 2003) and on the quality and enforcement of this regulation (Mandemaker, Bakker, and Stoorvogel 2011). The use of other policy instruments to govern the expansion and sustainability of agriculture has been largely ignored. One such instrument is finance (Hood and Margetts 2007). The state has made considerable use of finance schemes to govern palm oil expansion (McCarthy, Gillespie, and Zen 2012; Vermeulen and Goad 2006; Badrun 2010), providing subsidies and financial services to state-owned banks and palm oil estates. We contend that without these schemes, the expansion and sustainability of Indonesia's palm oil sector would never have occurred.

Because the palm oil sector is capital-intensive, finance schemes are critical to enabling and advancing palm oil production. Palm oil growers typically wait four to six years to recover their investment (Papenfus 2000; Koh and Wilcove 2007); establishing mills and refineries also requires considerable outlays. Yet many private companies in Indonesia have found it relatively easy to mobilise investments owing to their links to big business groups that have privileged access to capital markets; after the introduction of the decentralisation policy in the early 2000s, local governments developed an investment climate that has been very favourable for private companies (Varkkey 2013; Vermeulen and Goad 2006).



For smallholders, finance can be difficult to access. Financial service providers are often biased towards large enterprises, wealthy individuals, and urban clients (Claessens 2006). Smallholders face institutional and other problems that limit their access to investors and local capital (Beck and Demirguc-Kunt 2006; Vermeulen and Goad 2006); they lack access to long-term and mid-term finance (Molenaar et al. 2013) and use credit from moneylenders and traders for short-term finance (Rainforest Alliance 2016). The call for sustainable production, which requires fundamental changes in smallholder practices, demands even more investment. Because finance is not available through formal financial providers, smallholders rely on finance schemes arranged by the state. These schemes are important in enabling the inclusion of smallholders in the capital-intensive palm oil sector.

With the aim of contributing to a better understanding of the roles of the Indonesian state in governing the expansion and sustainability of the palm oil sector, we address two questions: What roles has the state played in governing the development and sustainability of the palm oil sector through the use of finance schemes since 1945? And to what extent do these roles reflect the state's priority of achieving a balance between economic growth, social equity, and environmental protection?

In addressing these questions, we review five distinctive periods since 1945. Each marks a major change in the post-colonial history of the Indonesian political economy: the post-independence era (1945–67); the Suharto interventionist state (1967–90); the period of economic liberalisation (1990–98); the Asian financial crisis and its aftermath (1998–2006); and the period of economic revitalisation (2006–present). Historical analysis of these five periods enables us to examine the changing roles of the Indonesian state in using finance schemes to promote the expansion and sustainability of the palm oil sector since 1945.

In this article, the concept of 'state' refers to various government agencies of Indonesia that were, or are, regulating, formulating, or implementing finance schemes directed at estate crop development. These include ministries, technical agencies, and Bank Indonesia (BI; the central bank). For each period, we specify the particular agencies and schemes of the state. Additionally, we use the term 'state' generically when discussing the overall picture of the changing roles of the state in the political-economic history of Indonesia.

## 2.2. Methods

The five periods discussed in this article are distinguished by major changes in the political economy of Indonesia and by the different finance schemes used by the state. For analysing specific finance schemes, we concentrate on one or more flagship programs per period.

Data collection and analysis entailed a literature review, analysis of official statistics and policy documents (regulations and operational guides issued by relevant ministries), and interviews with key informants in the industry and within government. The literature review was used to ascertain the roles of the state. Information from official statistics provided an overview of the expansion of palm oil cultivation during the five periods for different producers. (Appendix table A1 provides an overview of our sources). For all five periods, we reviewed scientific publications. For the last two periods, we also reviewed policy documents.

We identified four groups of key informants to interview: policy actors (from BI, the Ministry of Agriculture, the Coordinating Ministry for Economic Affairs, and the then Ministry of Transmigration, as well as individuals responsible for estate crop development at the regional level); financial service providers (banks, financial companies, cooperatives, and banking consultants); palm oil supply-chain actors (companies and smallholders); and smallholder supporters (NGOs and farmers' unions). Between September 2013 and January 2016, we conducted 32 interviews (21 in Greater Jakarta, 6 in South Kalimantan, 2 in Riau, and 3 in Jambi) (appendix table A2). These interviews yielded data on the use of finance schemes by the state in the last three periods.

### 2.3. Analytical Framework

Handbooks and policy debates on the role of the state in finance distinguish two models (Backhaus and Wagner 2005; Gruber 2010; World Bank 2012). The first is the interventionist state. In this model, the state directly intervenes by providing subsidies and credit or by organising financial institutions to do so (Chang 2009). The second model is the minimalist or regulatory state, whereby the state merely defines the rules of the game and refrains from direct intervention. The regulatory approach implies that the state minimises the direct provision of financial services and instead provides room for the private sector to expand in finance (Jarvis 2012). The second model has been acclaimed by international financial institutions. In its 2013 Global Financial Development Report, the World Bank (2012) argued that direct financial intervention can be misapplied, although it valued such intervention for providing financial access to underserved people, including smallholders growing perennial crops. Martin and Clapp (2015) observed that states often combine interventionist and regulatory roles when using finance to promote agricultural development.

Various scholars have further differentiated the roles of the state. For instance, Abdul-Aziz and Kassim (2011) distinguish between the roles of regulator, enabler (providing an enabling environment), moderator (balancing market incentives with community interests), and facilitator (assisting with project completion and reducing risks). Zhang, Bennett, and Jin (2010) highlight three key roles performed by governments: buyer (purchasing the goods or services produced), regulator (setting the rules of the game), and enabler (facilitating transactions and regulating to encourage market development). Jacob (quoted in Ghazinoory, Mirzaei, and Ghazinoori 2009) provides the following typology of the government's roles in finance: equipping (providing the necessary infrastructure), organising (formulating and implementing policy), intelligence (providing the intellectual framework for knowledge-based development), and ambition (setting the overarching vision of the nation).

Though nuanced, these typologies lack a historical understanding of the state's roles in finance. They are also not helpful in understanding how these roles shift or how they relate to agricultural transformations or policy regime changes. To explain the roles of the Indonesian state in financing the expansion and sustainability of the palm oil sector, we need a framework that can provide a historically embedded analysis of the state's decisions about adopting different roles and about which actors to focus on. The framework of Evans (1995) meets these criteria. It is based on the characterisation of four different roles of the state in transforming an economy: custodian (regulating), demiurge (becoming a producer), midwifery (assisting

entrepreneurs), and husbandry (upgrading entrepreneurs). Evans’s framework focuses on the roles of specific groups within the state and explains how and how much the state is likely to intervene (Adolf, Bush, and Vellema 2016).

Evans’s fourfold distinction is based on a comparative historical analysis of the role of the state in industrial transformation in developing countries (Evans and Tigre 1989; Evans 1995). Although this typology is biased towards industry and urban situations (Ikpe 2013; Radice 2008), it is useful for describing the different roles of the state in governing Indonesia’s palm oil sector, for the following reasons. First, the sector is agroindustrial. Second, the state has played a key role in orchestrating the expansion of palm oil production as a rural and agroindustrial transformation process. Third, the magnitude and impact of this transformation is comparable to the industrial transformation that Evans described.

We have adapted Evans’s framework to distinguish the different roles of the state in financing agricultural development (Table 2.1).

Table 2.1: The specification of Evans’s roles of the state in finance for agricultural development

Evans’s roles of the state	Description of roles in economic transformation	Specification of roles in finance for agricultural development
Custodian	restricting and enabling economic activities through regulations	Regulating the market (liberalisation of protection); enabling non-state actors (private financial actors) to finance agricultural development
Demiurge	organising economic activities	providing state-owned financial services for agricultural development; installing state-owned enterprises
Midwife	assisting emergence of entrepreneurs	facilitating entrepreneurs’ access to finance; supporting the development of new financial arrangements
Husbandry	supporting entrepreneurs to change their practices in order to meet new societal and market challenges	financial incentives targeted to meet new market requirements (e.g. sustainability and equity)

Source: adapted from Evans (1995).

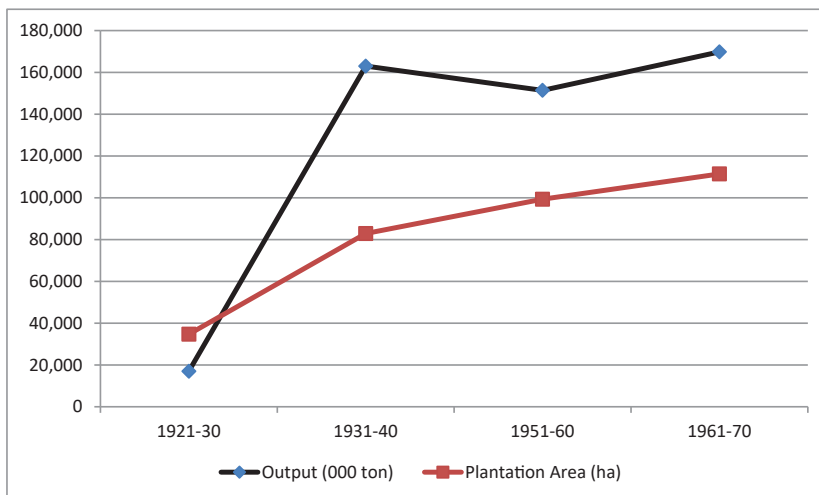
Concerns about sustainability have increasingly affected the debates over both the expansion of the palm oil sector and the state’s role in guiding this expansion. According to Harris (2003), sustainable development consists of three complementary elements: economic sustainability (organising different kinds of capital to maintain or expand economic production), environmental sustainability (managing the ecosystem and limited natural resources), and social equity (fulfilling basic health and educational needs and delivering participatory democracy). Furthermore, Diesendorf (2000) argued that trade-offs between economy, environment, and society are precluded regardless of the economic and social development paths taken. On the basis of these notions, we use ‘sustainability’ to refer to a combination of economic development, social equity, and environmental sustainability, without trade-offs.

Addressing sustainability demands changes, which in Evans's typology relates to new societal and market challenges. To meet these challenges, entrepreneurs need capital, which involves financing sustainable development that, according to Scholtens (2006), aims to promote socially and environmentally desirable activities.

### 2.4. Historical analysis of governing palm oil expansion through finance

Indonesia's palm oil sector expanded steadily from the end of the 19th century, during the Dutch colonial administration, until the 1930s. Production declined during the Second World War and the War of Independence. Shortly after independence, production slowly started to expand again (Figure 2.1).

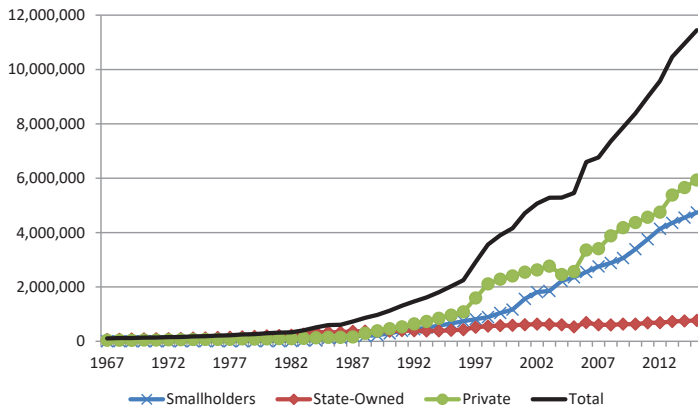
Figure 2.1. Palm Oil Plantation Area and Production 1920s-1970s



Source: Booth (1988), p. 211

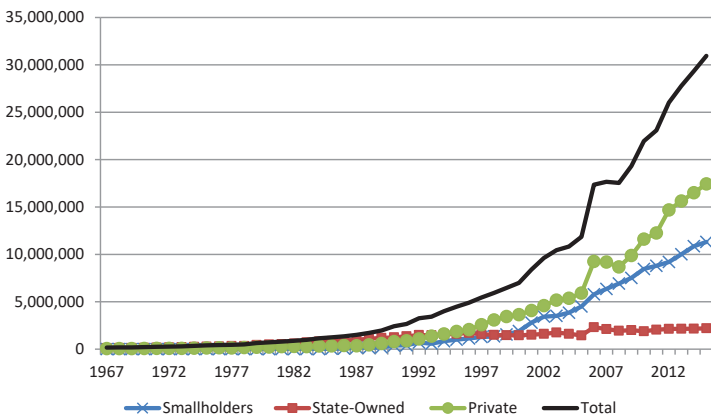
Since 1967, two general trends can be observed in palm oil production and oil palm plantation areas in Indonesia. The first is staggering growth: from a planted area of only about 100,000 hectares in 1951–60 to one of around one million hectares at the end of the 1980s. Growth was even faster in the 1990s: in the middle of the decade the area under cultivation surpassed two million hectares, with another million added every three to four years. Annual production has grown concomitantly: from only 150 million tonnes after independence to 30 million tonnes in the mid-2010s (Figures 2.2 and 2.3).

Figure 2.2: Plantation area of palm oil (in ha) per type of producer since 1967



Source: Directorate General of Estate Crops (2015)

Figure 2.3: Palm oil production (in tons) since 1967, per type of producer



Source: Directorate General of Estate Crops (2015)

The second general trend is that private plantations and smallholder cultivation have grown faster than state-owned plantations in terms of both area and production. State-owned plantations dominated in area until 1990, when they were overtaken by private plantations. Since then, private plantations and smallholder cultivation have expanded exponentially. The total area under private plantations has increased nearly 13-fold: the total area cultivated by smallholders has increased more than 16-fold, whereas the total area under state-owned plantations has only doubled (Figures 2.2 and 2.3). For details of growth of production and area for each of the five historical periods, see appendix figures A1 and A2.

To support the expansion of the palm oil sector, the Indonesian state has used several finance schemes (Table 2.2). The design and implementation of these schemes might differ, however, because of ‘everyday politics’, to borrow a term from Kerkvliet (1995).

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Table 2.2: Key features of finance schemes used by the Indonesian state to support the palm oil sector

Finance schemes	Interest rates and funding sources	Outreach
PIR (1977-1990)—various programmes	10.5% p.a. before conversion Subsidy 4.5% p.a. for smallholders Funding source: 70% from Ministry of Agriculture, 25% from implementing banks, 5% from Bank Indonesia	67,754 ha nucleus estates 163,781 ha plasma smallholder estates
PIR-Trans (1986-1990)	Estate companies borrowed at 11% p.a. during estate establishment and 14% p.a. after trees produced. Implementing banks borrowed at 4% from Bank Indonesia Funding source: 55% from Bank Indonesia's liquidity credit at interest 6.5% p.a., 45% from implementing banks at market rate Ministry of Transmigration provided funding for smallholders' housing and public facilities	138,326.67 ha nucleus estates 362,529.30 ha plasma smallholder estates
KKPA (1992-2006)	14% p.a. (until 1998) 75% from Bank Indonesia's liquidity credit, 25% from implementing banks (until 1998) 16% p.a. (after 1998) 100% from the transfer of Bank Indonesia's liquidity credit to PNM (after 2000)	155,211 ha (76,157 smallholders)
KPEN-RP (2006-2015)	10% p.a., 5-year grace period State budget via Ministry of Agriculture	75,888 smallholders
KUR (2007-2015)	14% p.a. State budget via Coordinating Ministry of Economic Affairs	Total borrowers 400,000 medium-size bankable business, actual numbers of palm oil farmers are not available
Replanting credit from ICEF-Palmoil (2016)	12.5% p.a. 41% from ICEF-Palmoil (collected from export tax), 59% from the implementing bank	2,200 smallholders (until April 2016)

Sources: Krishnamurti (2016), Direktorat Jenderal Perkebunan (2007), Ministry of Agriculture website (<http://www.pertanian.go.id/>), ICEF for Palmoil website (<http://www.bpdp.or.id/>), Komite KUR website (<http://komite-kur.com/>), Bank Indonesia Decree No.30/97/KEP/DIR, Badrun (2010), interview 4

### 2.4.1. The Post-Independence Era (1945-67)

Indonesia inherited a large palm oil estate sector from the Dutch. In the 1930s, palm oil was the fifth most important export crop from the Dutch East Indies in terms of value (Furnivall 1976) and the colony was the world's major producer (PASPI 2014). Yet during the Second World War and the Indonesian War of Independence, the plantation sector was generally neglected: the trees were undernourished and decaying, resulting in enormous productivity deterioration (Booth 1988). After independence in 1945, although the new government could see that estate crops had the potential to contribute to economic growth, finance for replanting and improving management of crops was not readily available. The government became ensnared in a prolonged debate about the nation's development approach (Mackie 2007), and the perception that the estate sector was exploitative and a legacy of colonialism discouraged state facilitation of the sector, including financing (Mackie 1961; Booth 1988; Arndt 2007). Squatting on estate land had mushroomed since the Japanese occupation because the separatist uprising made it difficult to secure the estate areas. Meanwhile, the growing labour movement frequently contested companies' management (Booth 1988). After the estate companies were nationalised in the 1960s, there was limited knowledge transfer from the former owners, resulting in deteriorating management of the estates (Mackie 2007). Lack of investment caused the estates to lose their comparative advantage, which contributed to Indonesia's later economic downturn.

The role of the Indonesian state in this post-independence era can be described as 'custodian', but not in an enabling sense: the state concentrated on producing and issuing regulations, but these formed a restrictive environment for the estate sector and decreased private capital presence. Social equity was prioritised over revitalising the palm oil plantation sector as an economic driver.

### 2.4.2. The Suharto Interventionist State (1967-90)

After the failed 1965 coup, the power of Sukarno's nationalist government faded and, in 1966, General Suharto assumed power and established the New Order regime. Backed by military domination that stabilised social turmoil, this regime installed technocrats to steer development and the massive aid flows from Western nations (Booth 1998). The central bank was reoriented to finance development programs directly through state-owned banks. The regime in effect ended squatting and labour resistance. Palm oil was no longer seen as a colonial product but as a strategic commodity for earning foreign exchange, creating employment, accelerating growth in less developed areas, and securing a domestic supply of cooking oil (Casson 1999; Paoli et al. 2013). Palm oil soon surpassed coconut oil as the main edible oil for domestic consumption (Gwyer and Avontroodt 1974).

With its development orientation and political stabilisation measures, and with funds from the 1970s oil boom revenues and foreign aid, the government developed new finance schemes. First, in 1967, it arranged soft loans to state-owned companies, backed by World Bank credit (Booth 1988). The availability of capital helped the estate crop sector quickly recover to pre-war levels of performance and competitiveness. A similar approach was used in 1972 to improve the performance of private companies. Second, in 1977, the government launched a credit scheme to facilitate the expansion of palm oil production and provide economic benefits to

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local communities and smallholders: the Perkebunan Inti Rakyat (PIR) program (translated from Nucleus-Estate Smallholder [NES] program), which was expected to alleviate poverty in the outer islands (such as Sumatra and Kalimantan) (Zen, Barlow, and Gondowarsito 2005).

The PIR program was a comprehensive finance scheme for mill construction and estate expansion (Badrun 2010). Although the companies owned the mills, they were allowed to supply only 30% of mill capacity. Smallholders were to provide the other 70%. These smallholders became 'plasma farmers', each using two hectares of land for palm oil cultivation and receiving assurance that the mill would purchase their fruit. They were also allowed to use one or two hectares for housing and growing food. Using the budget for rural development, the government provided individual housing and facilities for building public infrastructure to enable expansion into areas released from forest status.

The government launched different versions of the PIR program (Badrun 2010; Vermeulen and Goad 2006). In 1977, it started PIR-Lokal, to target communities living around government estates. During PIR-Lokal's first, unproductive years of planting, participants complained about shortages of food and income and about low prices for fresh fruit, so in 1984 the government introduced PIR-Berbantuan (Assistance NES) and PIR-Khusus (Special NES). Later, the government linked the PIR program to its transmigration program, which became the main mode for supporting palm oil development in Indonesia from 1986 to 1990.

In 1984, the new PIR programs were replicated on private plantations (Zen, Barlow, and Gondowarsito 2005). By granting credit access at concessionary rates for estate development and mill construction, the government stimulated private-sector involvement in the palm oil sector (Casson 1999). Estate companies could borrow at a rate of 11% during estate preparation and at 14% once production commenced, while the banks executing these loan agreements could borrow from BI at 4%. Such subsidised interest rates helped companies to overcome risks and uncertainties, as many of them were new to the sector.

A third finance scheme, initiated in 1968, was a fund for plantation development (Badrun 2010). It was fed by taxing palm oil trading to finance studies on developing better inputs and farming practices. It did not depend on state budget allocation. In 1984, this scheme was abolished to stimulate private-sector development.

Although considered successful at first, the PIR program was increasingly criticised. Estate expansion into remote areas caused environmental change and the marginalisation of indigenous people. The Ministry of Forestry and Estate Crops estimated that 4.1 million hectares of forest had been converted to plantations during 1982–99 (Casson 1999). PIR credit did not incorporate environmental assessment in its preconditions, and the World Bank, as principal funder, required that PIR loans complied with its own environmental standards. Yet, as Badrun (2010) notes, the requirement for environmental protection was new for both the government and the companies involved. Rather than strictly implementing credit monitoring, bureaucrats were, in general, focused on their remit (Pincus and Ramli 1998), and the World Bank did not integrate environmental protection in its monitoring system (Rich 2002). In addition, unclear land tenure and lack of consultation with local communities created social conflict (Feintrenie, Chong, and Levang 2010). Smallholders had little room for bargaining, since their obligation to sell fruit to specific mills granted the mills 'monopsonistic' power (McCarthy 2010). Disparity with indigenous communities persisted, as migrants acquired



new knowledge faster (Rival and Levang 2014). Under ineffective credit supervision and monitoring, economic development remained the Indonesian state's priority and social and environmental impacts were not fully addressed.

During the Suharto interventionist period, the state performed two of Evans's roles: demiurge and midwifery. It adopted the role of demiurge by using state-owned companies and banks to foster economic transformation and by playing a direct role in producing crops, processing oil, constructing smallholder estates, and arranging credit for companies and smallholders. The state shifted to a midwifery role by involving private estate companies and smallholders in the commodity chain. It organised comprehensive support for smallholders and improved their access to the market through linkages with mills. Both companies and smallholders boosted the performance of estate crops domestically and globally, ending the domination of state-owned companies in the palm oil sector.

### **2.4.3. Economic Liberalisation (1990-97)**

In the 1980s, declining oil and gas revenues and rising foreign debt services increased the burden on the state budget (Booth 1998). The government had to reduce its intervention to a few basic objectives, such as achieving food security; it was no longer permitted to use BI's liquidity credit for palm oil (Badrun 2010).

The state-owned banks, which, according to Priyadi (1996), previously operated as channels for various government credit programs, had to operate similarly to commercial banks. In doing so, the banks could disregard the government's demand to prioritise development projects. BI switched its focus to managing monetary policy from previously active in arranging financial market intervention to reduce interest rates (Hill 2000). Private banks burgeoned, allowing big-business groups, to which many private banks were connected, to organise financing arrangements backed by the principal companies.

While the government targeted its support to smallholders, private estates grew rapidly owing to liberalisation of the banking sector and financial deregulation. The direction of liberalisation that initially aimed to introduce more competition into the financial sector was overtaken by Suharto's interests, through his family and cronies; the New Order technocrats lost their ability to steer policy (Pincus and Ramli 1998). Big businesses enjoyed privileged access to capital mobilised from banks and owned by principal companies, as well as to the domestic stock market; foreign loan facilities; and, thanks to high-level government officials, credit from state-owned banks. Such privileged access emerged from cronyism and political patronage dictating the lending decisions of state-owned banks and enabling loans to be channelled to affiliated companies (Bennett 1999). Both actions undermined the requirements for mitigating social and environmental impacts in credit assessments. The freer investment regimes enabled businesses to expand without being restricted to allocating 70% of the estate to smallholders, as required in the PIR program (Gellert 2005). Ownership of private plantations ultimately ended up in fewer hands: 14 conglomerate groups dominated private estate ownership, owning 2.1 million hectares (Casson 1999).

Although direct financing of estate companies was no longer possible, the government decided to continue supporting smallholders through the KKPA (credit for farmer cooperatives) scheme

(Badrun 2010). Smallholders applying for KKPA credit needed to be guaranteed by the milling companies that would purchase their fruit. A former KKPA consultant of BI's explained that the scheme 'opened the opportunity for the emergence of independent smallholders' (interview 1). Farmers looking to enter the palm oil sector were no longer reliant on big estates.

In this period of state-regulated liberalisation, the state played a non-interventionist role of custodian and also adopted a midwife role, regulating financial liberalisation to indirectly assist big companies to access capital for expansion. With the launch of the KKPA during the liberalisation period, the state adopted an 'official' midwife role, enabling the emergence of a new group of entrepreneurs: independent smallholders. As the credit decision in general ignored the principles of prudence, requirements for mitigating social and environmental impacts were also largely ignored.

### 2.4.4. The Financial Crisis and Its Aftermath (1997-2006)

The 1997–98 Asian financial crisis damaged Indonesia's finances, fuelling political and social turmoil and ending three decades of high economic growth under the New Order government. The former Minister of Agriculture said, 'The country faced [a] food crisis and bankruptcy; financial support to farmers was not possible any more' (interview 2). In 1998, Indonesia turned to the IMF, which later arranged a stabilisation package requiring fundamental restructuring of the banking sector (McLeod 1999). The IMF demanded BI withdraw from direct development financing (Grenville 2004), and this agreement was formalised in Law 23/1999 on Bank Indonesia. A former BI governor regretted this decision: 'It was a wrong-targeted recipe; rather than addressing misuses of liquidity support by big business that ruined Indonesian economy, [the] IMF also abolished liquidity credit aimed for small business development' (interview 3). He also said, 'If the government did [eliminate liquidity credit] earlier during the good economic conditions of the 1990s, the impact might not [have] been that hard; it was not a suitable policy during the crisis'. BI used the term 'liquidity credit' to refer to liquidity support by big business and to liquidity credit for small business development: both were curbed under the same policy. The dismantling of BI's role in distributing liquidity credit ended the flow of state funds to oil palm smallholders.

Concomitantly, the IMF advised increasing interest rates to curb capital flight, which, according to Casson (1999), hampered local palm oil investors looking to access affordable credit. Despite immense pressure from the IMF, the Indonesian state sustained a finance scheme for smallholders until 2008, by transferring the remaining balance of KKPA credit to a new state-owned venture-capital company called Permodalan Nasional Madani (PNM). In 2013, PNM's head-office manager noted that credit to oil palm smallholders and cooperatives contributed significantly to PNM's KKPA portfolio, but that no more than a few thousand smallholders were reached: PNM revolved only the remaining KKPA budget, and many smallholders and their cooperatives could not meet the requirements (interview 4). The interest rate PNM offered was higher interest rate, which was—16%, (compared with 14% previously—since the credit was financed entirely from the KKPA scheme (earlier, some finance had come from the implementing banks).

In the early 2000s, the palm oil sector expanded rapidly in response to increasing global demand, mainly from China (Garnaut 2015; Rosner 2000). Expansion into peatlands, where

burning was the easiest way to clear land, 'flourished; these lands were considered underutilised' (Caroko et al. 2011). Such expansion happened at the onset of a fundamental change from a centralised Indonesian state to a decentralised government. Decentralisation made it easier for palm oil companies to acquire forest and peatland areas without following statutory procedures; in return, the companies funded political campaigns (Varkkey 2013). Such a practice was not limited to Indonesian companies: foreign companies, like those from Malaysia and Singapore, operated within similar patrimonial networks in their home countries (Varkkey 2016).

Smallholder estates grew at the same pace as company plantations, and continue to do so (see appendix figure A1). Smallholders rarely have adequate access to financing, particularly long-term financing. An International Finance Corporation survey (Molenaar et al. 2013) of 300 smallholders revealed that only 44% of them (43% of the sample) had loans and that those loans were not necessarily related to oil palm cultivation. Meanwhile, only 16% of the independent smallholders (57% of the sample) received loans for estate development. Smallholder interviewees (interviews 14 and 29–30) mentioned that they started their plantations with their own money. Because their capital was limited, they used seeds from fallen fruit or bought uncertified seeds and relied on knowledge from friends or family who had plantations or previously worked for an estate company.

Withdrawal of direct funding, the decentralisation policy, and land-grabbing resulted in the state facing increasing problems in balancing economic development, social equity, and environmental protection. While the companies enjoyed freer capital movement and illegal licensing through business patronage, the smallholders did their best to exploit market opportunities. The former Coordinating Minister for Economic Affairs said, 'As the palm oil economy has proven to be a lucrative business, no one can stop its growth, while the state, at that time, could not do much to reduce its growth and impact' (interview 9).

The unbalanced growth of the palm oil sector put the state under increasing pressure from national and international organisations. In the more democratic atmosphere, local communities assisted by NGOs increasingly criticised the state. This criticism increased after the 1999 Amendment to the Indonesian Constitution put sustainable development high on the national agenda. However, the former Minister of Agriculture said that the 'rule of law cannot do much without strategy, policy, and program; although it has been written in our Constitution, the government needs time to adjust' (interview 2).

There was a great need for the state to adopt a husbandry role. By so doing, it could assist entrepreneurs in facing the changing domestic and global circumstances. However, the state was unable to assume this role, as financial reserves had dried up and possibilities of assigning BI to finance development were limited. The state had to prioritise political stability and economic recovery. It therefore limited itself to regulation within the sector, adopting the role of custodian.

### **2.4.5. Economic Revitalisation (2006-current)**

The palm oil sector was very important in Indonesia's economic recovery. Until 2007, it contributed 6% of Indonesian GDP and 80% of Indonesia's estate crop exports; it also employed 13.4 million people on estates and 3.2 million people in the processing industry, increasing household and rural incomes (Directorate General of Estate Crops 2009; Susila and Setiawan 2007).

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Whereas growers with more capital can overcome barriers impeding access to finance, smallholders still have difficulty accessing funding. Palm oil business associations, company executives, agriculture ministry officials, and bankers all mentioned land titles as the main barrier to accessing finance (interviews 1 and 16–23). Many smallholders who own their land only have a letter issued by the village head as proof of ownership, and financial institutions are reluctant to accept this letter as collateral. BPN (the National Land Office) admitted that its annual budget for mapping was limited, resulting in its having land data for only 5% of the total area of Indonesia and in most of these data being at the wrong scale and outdated (Winoto 2009). The cost of administering formal land ownership documentation increased significantly as land became scarcer. Interviews with bankers revealed that administration costs could jump from Rp 2.5 million per hectare for ordinary landholdings to several times higher than that for land with mining potential (interviews 17–18).

The state's intention when economic circumstances improved was to arrange finance schemes to help smallholders in replanting and in increasing plantation productivity. In 2006, the state launched the KPEN-RP (Credit for Bioenergy Development and Estate Revitalisation) scheme), which targeted plantations no larger than four hectares. Most of the credit was used to open new plantations rather than replanting. The estate revitalisation program ran until 2014. In an interview for the Ministry of Agriculture's newsletter, the then Deputy Minister of Agriculture said that 213,852 hectares of oil palm estates had been financed (Sinar Tani, 5 June 2013). This finance scheme was terminated in early 2015, soon after the new government had taken office.

KPEN-RP credit had a maximum grace period of five years and received interest subsidies from the Ministry of Finance. Smallholders could only access this scheme by joining cooperatives or partnerships with an estate company and obtaining a purchase guarantee from a milling company. The Directorate General of Estate Crops provided guidance on the amount of credit needed for replanting: between Rp 45 million and Rp 57 million (depending on the district) for every two hectares. Yet smallholders noted that two hectares could be planted for less than Rp 30 million (interviews 14 and 29), and some financial institutions agreed (interviews 17 and 26).

The agriculture and finance ministries worked with the banks appointed by the government. BI could only providing advice to the line ministries, and could not pressure banks to meet government targets—unlike previously, when, for example, it took over the implementing banks' credit operations and capital participation to reduce high arrears of PIR credit (Badrun 2010; Prawiranata 1996).

Although finance schemes were available, problems remained. Until April 2014, KPEN-RP credit had reached only 45% of its target (Directorate General of Estate Crops 2015). A consultant assigned by BI to assist with the implementation of KPEN-RP said, 'Our margin was meagre; we almost got nothing except tired' (interview 1). Bank officials had similar opinions: for them, KPEN-RP was costly, especially given the lack of coordination between the agriculture and finance ministries and local governments (interviews 16–18).

Ministry of Agriculture officers attributed the low absorption of KPEN-RP to competition with KUR (people's business credit, managed by the Coordinating Ministry for Economic Affairs) (interviews 7 and 22). They said the government paid more attention to KUR schemes because KPEN-RP was a revitalisation initiative of the former vice-president who ran against President Susilo Bambang Yudhoyono in the 2009 election. However, the Coordinating Ministry for

Economic Affairs maintained that KPEN-RP and KUR were different: the government provided insurance to KUR instead of interest subsidies (interviews 22–23). Therefore, KUR did not necessarily provide cheaper loans and the grace period was not as long as that of KPEN-RP.

The banking sector was reluctant to finance the agricultural sector. A BI officer explained: ‘In general, Indonesian banks preferred short-term credit, like for trading and consumption, while credit for agriculture, together with forestry, livestock farming and fishery, never went beyond 7%’ (interview 27). A farmer in South Kalimantan said, ‘Banks, in general, are interested in farmers with money, as I experienced when I did not have money: no one came to me. After I earned a lot of money, bankers proactively approached me to offer credit products, whether I would need them or not’ (interview 29).

The banking sector became increasingly reluctant to finance palm oil smallholders because they doubted the management capacity of their cooperatives; the banks preferred companies to build and manage estates without too much farmer involvement (interviews 16 and 18). Such reluctance was not shown by financial institutions targeting small and medium-sized enterprises (interviews 4, 17, and 26). The opinions expressed by the corporate bankers whom we interviewed match the practice of the *Kemitraan and Manajemen Satu Atap* (One Roof Management) schemes that have been promoted by the government since 2005 (in the absence of the PIR program), where estate companies worked directly with smallholders via village-level cooperatives to manage entire plantations and paid local landowners monthly (Gillespie 2012). A consultant to the central bank highlighted a similar problem: ‘In many cooperatives, the managers misused their assets’ (interview 1). This is in line with McCarthy’s (2010) observation about the poor performance of smallholder cooperatives.

To overcome the banking sector’s reluctance to fund agriculture, Indonesian policymakers have been considering since 2004 whether to establish a bank specifically for agricultural financing (Ashari 2010). In our interviews, the officers from the coordinating agriculture and economic ministries shared the same opinion. An officer from the Ministry of Agriculture said, ‘The key is in how the central bank is managed— that currently does not include financing development’ (interview 22), whereas an officer from the Ministry of Economic Affairs said, ‘Establishment of a special agriculture bank will not help with reliance of the funding from the market; in the past we could organise intensive agriculture financing when the central bank was still involved directly in organising development finance’ (interview 22). Furthermore, the current policy trend of the state’s financing role focuses on engaging private-sector players and, according to Martin and Clapp (2015), will end in commercially oriented private financial providers reaping profits under the state’s facilitation.

The period after the Asian financial crisis also sparked smallholders’ enthusiasm in investing in order to profit from high commodity prices, especially in 2007 and early 2008 (Potter 2010). Many oil palm growers with limited capital developed their plantation without assistance from companies and government extension officers who provided seeds, fertilisers, credit, and technical assistance in the nucleus-estate system (Cahyadi and Waibel 2013). The researchers, NGO representatives, and farmers we interviewed observed that growers without sufficient capital preferred cheaper options when starting estates—such as encroaching on forest and peatland areas and clearing land by burning, which accelerated environmental destruction (interviews 5, 6, 8, 25, 30, and 31)

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Accelerated environmental destruction to clear land for oil palm estates led to worldwide concern and demands for more sustainable practices. International NGOs and buyers created the Roundtable on Sustainable Palm Oil, a voluntary organisation to promote the introduction of sustainability standards in the palm oil chain (Schouten, Leroy, and Glasbergen 2012). The Indonesian government subsequently developed the Indonesian Sustainable Palm Oil (ISPO) standard to hasten the implementation of sustainable practices (Jakarta Post, 2 Dec. 2010). ISPO, which has come to rival the international roundtable as the dominant sustainability scheme for oil palm in Indonesia (Hospes 2014), demands that all plantations in the country be certified. The principles and criteria for smallholders are stipulated in Regulation of the Minister of Agriculture 11/2015 but are not yet mandatory, pending further coordination in the ministry and among local governments. Since certification is costly, the state has committed to supporting smallholder certification.

To meet the demand for inter-sectoral financial sources for palm oil development after the termination of KPEN-RP, the government launched the Indonesia Estate Crop Fund (ICEF) for palm oil. ICEF is a public–private partnership, supervised by the Ministry of Finance, that provides finance schemes for biofuel development, smallholder support (including ISPO certification), research and education, and promotion (Krishnamurti 2016). ICEF support mainly finances biodiesel development, while smallholder financing still faces problems of land titling, financial institutions’ reluctance for agriculture lending, and companies’ reluctance to buy fruit directly from independent smallholders (SawitIndonesia.com, 19 Jan. 2016). Farmers complain that the new scheme of palm oil tax has eroded their profits (Kompas, 4 Feb. 2016). The then President Director of ICEF, however, in a presentation in The Hague in February 2016, said that government support for biodiesel has helped farmers to avoid a decline in the price of certified palm oil since 2015. The financing of ISPO has yet to be finalised. According to its chair, ISPO will prioritise company certification and continue to smallholder certification upon readiness of ICEF to support (interview 32).

Since 2006, the state has adopted a husbandry role but also performed a midwifery role. The government aims to support replanting, mainly on the existing smallholder estates, which is a husbandry role, yet it still intends to support new estates developed on degraded land, which is a midwifery role. The role is restricted to facilitation, since direct financing is no longer possible under the central bank’s restricted role. The current government, elected in 2014, has organised ICEF’s finance scheme in addressing price decline and sustainability—an act that is part of a husbandry role. The government’s priorities are economic development and preparing the industry to meet the sustainability standards demanded by the global market.

## 2.5. Discussion

In the post-colonial political-economic history of Indonesia, the state has performed different financing roles in governing the development and sustainability of the palm oil sector. These roles are outlined, by period, in Table 2.3, together with the policy priorities of each period.

Table 2.3: The financial roles and priorities of the Indonesian state to govern the palm oil sector, per period

Period	Financial roles	Specification	Priority
Post-independence era (1945-1967)	Custodian	<ul style="list-style-type: none"> <li>Restricting private investments in palm oil sector through regulation</li> </ul>	Social equity or anti-economic development
Suharto interventionist state (1967-1990)	Demiurge and midwife	<ul style="list-style-type: none"> <li>Soft loans to companies</li> <li>Credit to smallholders linked with estate companies as buyers</li> <li>Liquidity credit from central bank</li> <li>Control of foreign investment</li> <li>State-owned banks as implementer of development programmes</li> </ul>	Economic development and social equity (inclusion of smallholders). Limited attention to environmental protection (accepting World Bank's environmental standard)
Economic liberalisation (1990-1998)	Midwife (light version)	<ul style="list-style-type: none"> <li>Limiting the use of liquidity credit to cash crop development</li> <li>Privatisation of banking sector</li> <li>Opening capital market</li> <li>Credit to smallholders organised in cooperatives (with estate companies as guarantors)</li> <li>Liquidity credit from central bank</li> <li>Take-over of arrears by central bank</li> </ul>	Economic development. Limited attention to social equity and environmental protection
Economic crisis and its aftermath (1998-2006)	Custodian	<ul style="list-style-type: none"> <li>Elimination of central bank's role in financing development projects</li> <li>Establishment of a financial company to manage the remaining budget of smallholder credit programme without additional credit</li> </ul>	Economic development. Preventing total economic collapse
Economic revitalisation (2006-now)	Husbandry and midwife	<ul style="list-style-type: none"> <li>Enabling the use of SME credit for oil palm smallholders</li> <li>Credit for estate replanting</li> <li>Credit for biofuel development</li> <li>Plan to support ISPO certification from state budget</li> </ul>	Economic development. Preparing palm oil producers for sustainability demands from the market

## Balancing dan Counterbalancing

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Our historical review of these roles shows that the government has not developed the palm oil sector to balance economic development, environmental protection, and social equity. In all five historical periods reviewed, with the exception of the post-independence era (1945–67), finance schemes have mainly been used to induce economic transformation and increase revenue from palm oil exports.

Balancing economic development, environmental protection, and social equity requires more than simply directing the priorities of public policy. It also requires changes of governance as the process of steering society and the economy through collective action and in accordance with some common objectives' (Torfing et al. 2012, 14), such as developing the palm oil sector or promoting sustainable palm oil production. Various institutional barriers or weaknesses of the Indonesian state identified by scholars also have to be addressed: fragmentation of governance efforts across different state agencies and weak policy coordination; limited institutional capacities; corruption; a poorly functioning judicial system; a lack of both transparency and an accountable democratic process; and weak monitoring and enforcement (Nguitraoool 2012; Gellert 2010; Hamilton-Hart 2015; Jarvis 2012).

Though integrating environmental protection and social equity into the current development agenda is not easy for the government, there are clear signs that it has learnt from initiatives implemented by the private sector. The state has developed a national standard for sustainable palm oil, has explored ways to establish agriculture banks, and is supporting smallholder replanting with consideration of sustainability. The twofold challenge for the Indonesian state in aiming to govern the palm oil sector through finance and to simultaneously balance economic development, environmental protection, and social equity is to address institutional weaknesses and to further strengthen its capacity to learn from and engage with non-state actors (Evans 2008; Eckersley 2004).

As the state became more flexible in its ability to coordinate and mobilise agencies to pursue its development objectives, its financing roles became more comprehensive. The interventionist era saw strong coordination and leadership from technocrats who were guided by central planning and by BI's direct involvement in development financing. During the state-led liberalism era, the government's financing role was limited, but BI continued to arrange finance schemes for smallholders. The dismantling of BI, and then of the centralised state, by decentralisation was in response to the 1997–98 Asian financial crisis and reduced the state's flexibility in arranging finance schemes. The current period shows that although the economy has recovered, the state's limited flexibility in governing economic actors has restrained its capacity to arrange complicated finance schemes.

## 2.6. Conclusion

The Indonesian state has not adopted a single, constant role in using finance schemes to direct oil palm expansion; rather, it has adopted different roles and combinations of roles (Table 2.3). These roles, and the changes they have brought, have been mainly shaped by shifts in the dominant public policy and ideologies of the state, rather than specifically relating to challenges in the palm oil industry. The roles the state has played are historically contingent, reflecting different political and economic regimes and their changes: decolonisation, nationalisation,



and new social-political instability; the birth and demise of an interventionist state; the rise and fall of financial and economic crises; and new global demands for sustainability and biofuel development.

Rather than aiming to achieve a balance between economic development, environmental protection, and social equity, these finance schemes have been consistently used to promote economic development. The state has aimed at different targets between ensuring food security and earning foreign exchange and tax revenue from exports. Historically, environmental protection has been given the least priority in the state's finance schemes. In the period of comprehensive state intervention, environmental protection was legislated but weakly enforced. Such weak enforcement worsened; from 1990 to 2006, the state did not play an active financial role. The current commitment to environmental protection is closely linked to the state's response to maintaining the performance of the palm oil sector, given the demand to improve sustainability practices.



# Chapter 3

## **The disciplining of illegal palm oil plantations in Sumatra<sup>2</sup>**

### **Abstract**

The Indonesian state issued many regulations to control palm oil expansion, but they have been weakly enforced, resulting in widespread illegal plantations. During the last decade, Indonesian authorities have used force to reduce illegal plantations. This article analyses the drivers behind these actions and questions to what extent they reflect the rise of eco-authoritarianism. By investigating six cases of disciplinary action in Sumatra, we conclude that the Indonesian state is neither practising eco-authoritarianism nor constituting a green state. The disciplinary action, however, has had limited success in environmental terms due to policy incoherence, violent contestation, and sector's historical context.

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<sup>2</sup> This chapter has been published as Pramudya, Eusebius Pantja, Otto Hospes, and C.J.A.M. Termeer. 2017b. "The Disciplining of Illegal Palm Oil Plantations in Sumatra." *Third World Quarterly*. (November 28, 2017): 1–21. doi:10.1080/01436597.2017.1401462

### 3.1. Introduction

Since 2000, the palm oil sector of Indonesia has expanded rapidly (Dinerstein et al. 2015; Pramudya, Hospes, and Termeer 2017). Such expansion has not only been due to favourable biophysical conditions, but also to enabling social-political ones, such as regulatory gaps, weak law enforcement, political instability and rampant corruption (Mandemaker, Bakker, and Stoorvogel 2011). To ensure inclusive development and environmental sustainability, Indonesia has developed an extensive list of regulations regarding the production and expansion of palm oil plantations (Andiko and Jiwan 2012; McCarthy and Zen 2010; Paoli et al. 2013). However, these regulations have been poorly enforced, resulting in widespread forest encroachment (with over 500,000 hectares of palm oil plantations in forest zones),<sup>3</sup> peatland destruction, land conflicts, the concentration of land possession, food area conversion, and biodiversity loss (Golay and Biglino 2013; Obidzinski et al. 2012; Pichler 2015; Rival and Levang 2014; Semedi and Bakker 2014). Decentralisation, patronage networks, and local power structures have constrained, reshaped or redirected the implementation of laws and regulations (Alhamran 2012; Bettinger 2015; Eilenberg 2012; Karsenty and Ongolo 2012; McCarthy 2004; McCarthy 2012; Urano 2014; Varkkey 2016).

Illegal plantations in Indonesia are not a recent predicament. Rampant squatting after the Japanese occupation until the 1960s obstructed productivity into the 1970s (Mackie 1961). In 1967, the Suharto regime repressed squatting, enabling the growth of large plantations (Crouch 2007). In the 1980s, Suharto prevented squatting through partnerships between smallholders and large plantations (Badrun 2011), although this strategy strongly favoured the latter (Booth 1988; Pichler 2015). The economic liberalisation of the 1990s and the collapse of the Suharto regime in 1998 resurrected expansion without regard to regulations. This expansion was first driven by companies, but later smallholders joined, responding to the global market's surging demand in the mid-2000s (Eyes of the Forest 2014; Purwanto 2016; Rist, Feintrenie, and Levang 2010; WWF-Indonesia 2013).

Over the last decade, the Indonesian government has taken action to curb illegal plantations. By scanning national newspapers, the reports of non-government organisations, and the reports of environmental organisations, we recorded 15 disciplinary actions in Sumatra and Kalimantan between 2006 and 2016 as can be seen in Appendix B.1. These actions included tree razing, property demolition, seizures, and raids by armed forces. In some cases, these actions met with violent resistance to which the state responded with the use of violence. Though the scale and timing of disciplinary action could be seen as too little and too late, the disciplinary action is historically unique and salient, given four factors: Indonesia's orientation to limit intervention to regulatory action (Jarvis 2012), the enormous state support to the sector (McCarthy, Gillespie, and Zen 2012; Paoli et al. 2013; Pichler 2015), state capture under patronage politics (Varkkey 2016), and a preference by smallholders for converting to palm

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<sup>3</sup> See: The Indicative Map for New Permit Overdue from the Ministry of Environmental and Forestry (<http://webgis.dephut.go.id:8080/kemenhut/index.php/id/fitur/61-pippib>). Accurate data on the area of illegal oil palm plantation are not yet available. However, rampant development of illegal oil palm plantations can be imagined. In Riau Province, the Provincial Legislators identified around 1.8 million hectares out of 4.2 million hectares of oil palm plantations as noted Tanjung (2017). Meanwhile in East Kotawaringin District, Central Kalimantan, the District Government's audit team identified 737 hectares of illegal oil palm plantations (Setiawan, 2017). Furthermore, 7 million hectares of arable lands and peatlands that still contain high biodiversity are vulnerable to conversion for commercial use (Susanto, 2013).

oil production (Feintrenie, Chong, and Levang 2010; Langston et al. 2017; Sandker, Suwarno, and Campbell 2007).

Our central question is: what drives the state's disciplinary action against illegal plantations and to what extent does such action reflect the rise of eco-authoritarianism? To address this question, this article analyses six cases of state disciplinary action against illegal palm oil plantations in Sumatra. For our analysis, we have developed a framework on drivers, triggers, and constraints of disciplinary action.

The article is organised as follows. Section two introduces the concept of eco-authoritarianism and contrasts this with the concept of the green state. Section three presents the analytical framework and methodology. Section four explains the overregulation of palm oil production in Indonesia. Section five describes and analyses six cases of disciplinary action of the Indonesian state to reduce the extent of illegal palm oil plantations. Section six presents the main findings and explains to what extent the cases reflect eco-authoritarianism. The conclusion is presented in section seven.

### **3.2. Eco-authoritarianism vs the Green State**

Two approaches can be distinguished in the literature on environmental policies and steering by the state to protect the environment: eco-authoritarianism and the green state.

The first approach emphasises that authoritarian measures are needed to protect the environment. Examples of eco-authoritarian states are China, South Korea, Singapore, and Egypt. In these countries, strong national leadership, top-down planning, substantial regulatory power, repression, civil society marginalisation, and security apparatus oversight have led to successful implementation of environmental policies (Beeson 2010; Gilley 2017; Han 2015; Han 2017; Sowers 2007). Eco-authoritarianism is supported by scholars and policymakers who believe that grass-roots or deliberative democracy cannot guarantee an effective protection of the environment (Ball 2006; Beeson 2010).

Eco-authoritarianism may involve state violence (Beeson 2010). State violence, certainly when of a repressive nature, might evoke resistance and even violent counter-reactions by local communities. This again may trigger subsequent state violence, certainly when the resistance is perceived as a challenge to state sovereignty and its monopoly on the use of violence (Peluso 1993; Tilly 1999).

Eco-authoritarianism is not without controversy and faces criticism from environmental scholars. For instance, Ball (2006) and Eckersley (2004) argue that most authoritarian regimes are weak in political and legal accountability, which provides a fundamental threat to the whole ecosystem, including human beings. As an example, these scholars refer to the eco-nationalism of the Nazi regime (Eckersley 2006). Another critique of eco-authoritarianism is the fear that bureaucrats are often unaware of social reality, and as such lack the required administrative and resource capacity to effectively protect the environment (Shahar 2015; Sommerer and Lim 2015).

The key concept in the second approach is the green state. This concept can be seen as an alternative to, or possibly even the opposite of, eco-authoritarianism. Eckersley, who has coined the concept of the green state, emphasises that environmental policies need to be built upon a democratic system with the strong participation of citizens, and the key role of non-state actors in developing environmental policies. The green state actively connects environmental values to economic and legitimisation imperatives, and directs regulation and democratic procedures to enable participation of all those potentially affected by ecological risks (Dryzek et al. 2003; Eckersley 2006). Most supporters of the green state, according to Ball, are “grass-roots democrats who favour widespread political participation and decision making by majorities at the local level” (Ball 2006). Distinctive features of the green state are regulatory and collaborative governance: the state refrains from the use of violence but governs through regulation and collaboration with non-state actors, with a view to proscribe environmentally damaging activities and facilitate environmental restoration.

### 3.3. Analytical Framework and Methodology

To gain insight into the Indonesian state’s disciplinary action, we developed a framework to analyse information from six case studies. The framework consists of a dynamic system of triggers and drivers that together explain the disciplinary action of the state and its outcomes within local contexts. In developing the framework, we reviewed literature detailing critical junctures and incidents such as those by Gawronski and Olson (2013), Angelides (2001), and Flanagan (1954). We also reviewed research on the drivers of deforestation (Hosonuma et al. 2012; Waiswa, Stern, and Prisley 2015), and on the promotion of energy efficiency (Reddy 2013).

Triggers are events that are sufficiently complete in themselves to permit inferences and predictions about an action. Triggers result in action if there are drivers. Drivers are defined as causes that work singularly or in combination. We use the term obstacle to refer to an event that may block or prevent disciplinary actions.<sup>4</sup> Actions result in reactions, which create an outcome. We distinguish two types of outcomes: (1) systemic outcomes or reforms of political-administrative processes at central or local government levels that result in policies limiting the illegal expansion of palm oil plantations; and (2) incidental outcomes that do not lead to political-administrative reform, due to constraints. Constraints are processes or events that limit outcomes and explain why the outcome was incidental rather than systemic.<sup>5</sup> This framework is exhibited in Figure 3.1.

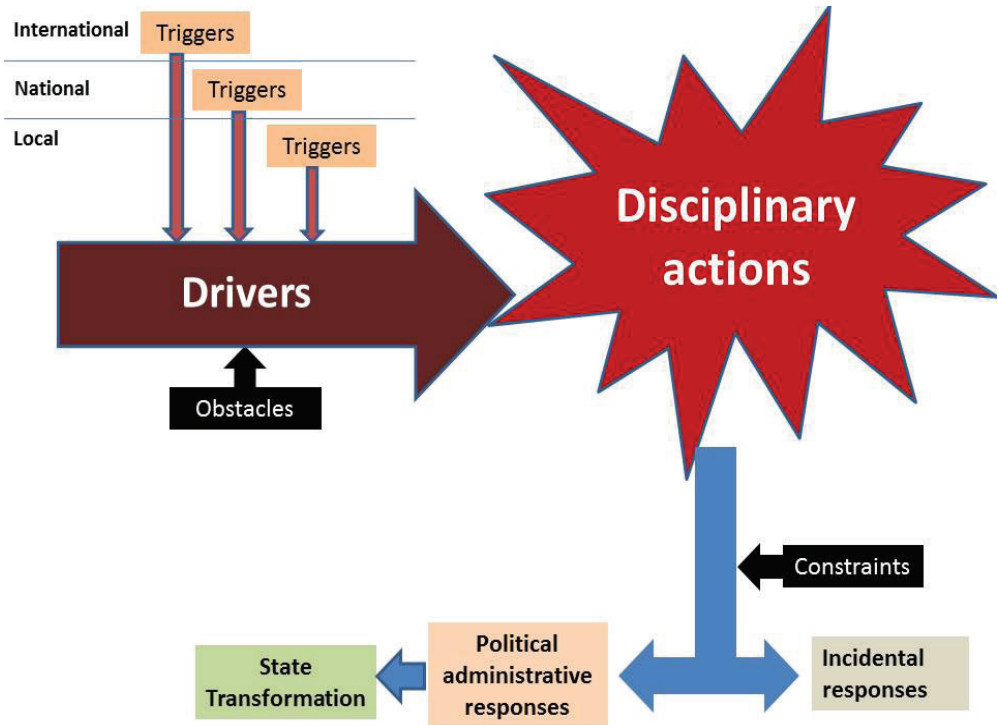
This research uses a multiple case study design, which aims to examine the phenomenon of disciplinary action in its real-world context. We have based assumptions of triggers, drivers and outcomes on an analysis of similarities and differences between the cases. These similarities and differences are refined through iterative comparison of evidence and assumptions. The similarities and differences identified in the analysis of triggers, drivers and outcomes facilitate the observation of eco-authoritarianism, which are viewed from the ultimate intention of the action, the level of non-state actors’ participation, the extent of centralised decision-making operating in multi-level governments, and the use of coercive power.

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<sup>4</sup> In the Oxford Dictionary an ‘obstacle’ is defined as ‘a thing that blocks one’s way or prevents or hinders progress’.

<sup>5</sup> Constraint is defined in the Oxford Dictionary as ‘limitation’ or ‘restriction’.

Figure 3.1. Framework for analysing disciplinary state action



To select case studies, we scanned media and NGO publications that reported disciplinary state action in palm oil plantations. From examining 15 examples of disciplinary action, we selected six cases. These cases present a range of illegal practices (such as encroachment into conservation areas or other land use), specific disciplinary actions (including razing or seizing plantations), types of actors (state and non-state actors), and levels of governments (central, regional and district).

Media and NGO publications provided first-hand information about each case, including details on the activities and networks of actors. We interviewed both state and non-state actors. The term 'state' refers to various ministries or agencies, as well as levels of governments (central, provincial and district) within Indonesia that have been involved directly in the disciplinary actions and their outcomes. In selecting interviewees, we used a snowball method. This started with initial information provided by several informants, and developed to include other informants they knew from their social networks (Goodman 1961; Heckathorn 2011). In total, 18 semi-structured interviews were conducted from February to May 2015 and from December 2015 to January 2016 as listed in the Appendix B.2. The interviewees were from Greater Jakarta (3 interviews), Jambi (1 interview), Riau (7 interviews), North Sumatra (2 interviews), and Aceh (5 interviews).

### 3.4. The complexity of Palm Oil Regulations

Indonesia's over-regulated palm oil sector has created chronic enforcement and coordination problems. These regulations are drawn from a variety of legislation in the areas of plantations, forestry, environment, trade, business licensing, and regional autonomy (Andiko and Jiwana 2012; Paoli et al. 2013). ISPO (Indonesia Sustainable Palm Oil), the mandatory palm oil standard promoted by the Indonesian state since 2009, demanded compliance against a total of 137 regulations (Qayuum 2014).

Plantations are allowable only in the non-forest cultivation area, according to Forestry Law No. 5/1967, later defined as APL (Area for Other Purposes) by the Forestry Minister's Decree SK.382/Menhut-II/2004. To operate, plantation companies are required to obtain a HGU (Land Use Rights) Permit, according to Basic Agrarian Law No. 5/1960. HGU was later elaborated in Government Regulation No. 24/1997 on Land Registration, Government Regulation No. 40/1996 on Business Use Permit, Building Use Permit and Land Use Permit, and the Plantation Law No. 18/2004. Meanwhile, according to Ministerial Regulation No. 98/2013, smallholders must register their lands and receive a STDB (Cultivation Registration Certificate), permitting their plantation.

To address the massive carbon release from forest destruction, Indonesia developed a carbon forestry decree in the Regulation of the Minister of Forestry SK.159/Menhut-II/2004 on Ecosystem Restoration in Production Forest Areas. Furthermore, Government Regulation No. 6/2007 provided for a license system on ecosystem restoration zones. This ecosystem restoration scheme enabled the private sector to manage conservation forests; as of 2016, there had been 16 ecosystem restoration forests (Rezkiyana 2017). Responding to the pressure to address rampant deforestation, the Indonesian state issued the Prevention and Eradication of Deforestation Law No. 18/2013, stipulating that transactions of commodities produced in forest zones (including palm oil fresh fruit bunches or FFB) are against the law. Furthermore, the government restricts palm oil expansion in peatlands and food production areas. Government Regulation 71/2014 on Peatlands prescribes that peatlands of more than 40cm depth are to be conserved. In food production areas, the Government prevents excessive conversion from food crop by the issue of the Food Area Preservation Law 41/2009.

However, illegal plantations continue to be widespread within this overly complicated legal system that often overlaps, lacks policy coherence, conflicts with customary laws, and provides room for extra-legal arrangements (Bakker and Moniaga 2010; Daemeter Consulting 2015; Harahap 2017; McCarthy 2004). Land status is often unclear, due to four main factors: first, the time taken to agree on spatial planning, second, poor coordination between forestry and plantation authorities, third, insufficient state budgets for adequate information systems, and fourth, intensive lobbying by politicians and businesses (Samadhi 2013). As a result, plantations often expand even before licenses are granted (Rahayu 2011). Land zoning is often altered regardless of the lack of legal clarity (Rosenbarger et al. 2013). Moreover, smallholder plantations flourish in previous agroforestry lands, which are misleadingly classified as forest under state control (Fay, Sirait, and Kusworo 2000).

Enforcing the regulations poses a significant challenge. Most large estates are owned by people with strong political connections (Caroko et al. 2011; Environmental Investigation Agency and Telapak 2002; McCarthy and Zen 2010; Varkkey 2016). Meanwhile, smallholder farmers have the liberty to choose the kinds of crops they want to cultivate via the Cultivation Law 12/1992, which protects smallholders when converting their lands. This also includes converting



peatlands into plantations. Demanding strict compliance by smallholders is difficult due to the state's incapacity, a widespread perception that the state is protecting big business, and the state's reluctance to excessively inconvenience smallholders (McCarthy 2011).

### 3.5. The Six Case Studies

#### 3.5.1. Illegal palm oil plantations razing in Tesso Nilo National Park (TNNP), Riau

Palm oil plantations occupy around a quarter of the 83,068 hectares of TNNP zone, which flourished after the increase of FFB global price in the mid-2000s (Nofitra 2016). Illegal plantations were developed by either accessing customary lands by indigenous people or through outsiders marrying indigenous people (WWF-Indonesia 2013). Some of the plantations inside TNNP indeed have formal certification through Prona (the government-sponsored land certification programme) (Interview 1), although some of these government certificates renounced as they were issued without formal procedural compliance. (Interview 2)

There were two disciplinary actions taken in TNNP. The first was in November 2010, triggered by an attack on security officers in May 2007. This was met by a response of deploying 20 forest rangers and police officers equipped with two excavators and ten chainsaws to demolish 63 hectares of plantations (Alhamran 2012). The disciplinary action stopped after TNNP Administration ran out of money and succumbed to pressure from a member of parliament (Interview 2). The suspension of action concerned environmental NGOs, who subsequently organised an international campaign noticeably embarrassing the Indonesian state. This campaign received international media coverage; an uploaded YouTube clip showed the Forestry Minister being confronted by Hollywood star Harrison Ford over the lack of protection in TNNP.<sup>6</sup> As humiliation is associated with insecurity and perceived as a loss of power (Callahan 2004; Ginges and Atran 2008), the state responded severely. In May 2014, 250 army and police officers razed 200 hectares of plantations in the presence of the Forestry Minister and state officials of Riau province (Nofitra 2014). The impacted settlers protested these actions to the Komnas HAM (National Human Rights Commission) and UKP4 (the President's Development Monitoring Unit during the Yudhoyono administration), which then visited them in 2013. Komnas HAM and UKP4 demanded that the TNNP Administration respect the community's rights; furthermore, UKP4 warned the settlers that encroachment was intolerable (Interview 2).

Both actions became incidental responses as they met two main constraints: many people had settled in the region before TNNP was established without a clear option for their livelihoods, and good roads already existed, which enabled the transport of harvested wood and FFBs (Alhamran 2012). An administrative outcome was possible when the government, in 2014, implemented a social forestry program that permitted settlers to stay with the proviso of crop conversion to fruit, natural rubber and timber as a gradual phasing out of palm oil (Interview 3).

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<sup>6</sup> The visit of Harrison Ford made international news as noted in Guardian, September 11, 2013; CBS News, September 10, 2013; Sydney Morning Herald, September 11, 2013; Independent, September 11, 2013; ABC, September 11, 2013; The Diplomat, September 11, 2013; Mongabay, September 9, 2013; Jakarta Post, September 11, 2013. The confrontation between Harrison Ford and the Indonesian Forestry Minister can be seen in a clip uploaded in YouTube at <https://www.youtube.com/watch?v=oZnzZxumGcw>

### **3.5.2. Illegal palm oil plantations razing in Aceh Tamiang's protected forest**

The protected forest of Aceh Tamiang District faced a serious threat, where 33,807 hectares (42%) had been converted into company-owned palm oil plantations since the mid-2000s (Karokaro 2015). Even the District Head owned a portion of the palm oil plantations (Interview 6 & 8). This expansion degraded water catchment areas and caused flash flooding in 2006, taking 42 lives, and displacing 83% of the inhabitants (Yansen 2011). Another extensive flood occurred in 2010. Massive and more frequent disasters traumatised the residents, pushing the state to take action, which in turn developed into drivers. Local NGOs established FKL (the Leuser Conservation Forum) who soon partnered with the district Forestry Office with wide support from residents (interview 5, 6 & 7). FKL initiated a disciplinary action by razing illegal plantations, starting in the most remote area to prevent conflict with plantation owners (Interview 6). Whilst the district government was initially reluctant, later it contributed financially, and the District Head allowed his plantations to be razed (Interview 6 & 8). The district government also set tough sanctions for encroachment (Interview 9).

The outcome of this disciplinary action was an administrative response. Receiving significant support from the government, 1,040 hectares had been reinstated with fruit and natural rubber trees by 2014 (Simanjuntak 2015), while FKL undertook reforestation of 3,000 hectares in 2016 (Interview 6). Success in reforestation resulted in international acknowledgement, with the Goldman Environmental Prize being awarded to the leader of FKL (Rulistia 2014).

This outcome was constrained, however, as the Forestry Minister in the middle of 2014 changed the land status from protected forest to production forest (Interview 6, 7, 9 & 10). This decision was made without consulting the local government and policymakers, raising suspicions that the decision was intended to facilitate an investor's construction of a cement factory (Interview 6 & 10).

### **3.5.3. Cracking down on illegal palm oil estates in Area VI–Besitang of the Gunung Leuser National Park (GLNP), North Sumatra**

GLNP in general faced serious threats albeit its status as a national park and international recognition as a UNESCO's Biosphere Reserve (UNESCO 2012). In Area VI-Besitang, the problem is very complicated, starting in the 1990s when the Forestry Ministry granted a logging permit to a company. The permit ended in 1997, but the logging roads are still in a good condition, facilitating the transports of logs, latex and FFBs harvested from the GLNP zone (Interview 11 & 12). In 1999, 88 households fleeing from the Aceh conflict entered Area VI while the GLNP Administration could not prevent their settling inside the zone, given the humanitarian situation (Interview 11). Seeing that GLNP Administration allowed the refugees to settle, squatters free rode the situation by facilitating illegal land transactions (Pardede 2000). In 2005, 735 households lived inside Area VI, which decreased to 550 households in 2007 as the Aceh conflict waned (Gunawan 2007). The GLNP Administration facilitated the relocation of the refugees to Musi-Banyuasin District, South Sumatra (Interview 11 & 13). The refugees, which experienced intimidation by other settlers, prepared themselves unforthcomingly (Gunawan 2010). By 2011, GLNP Administration claimed the resettlement of all refugees, but there were still more than 2,000 people from 700 households inside Area VI (Interview 11 & 13).

Triggered by widespread squatting, which became very persistent, had developed a driver of a security problem. The disciplinary action started in 2006-2007 when GLNP-MA razed

200 hectares of plantations, which was then followed by the razing of 6,200 palm oil trees by 2010 with the support of NGOs. In this first period, 17 squatters were detained (Rare 2010). Upon conclusion of the relocation program, a second action was organised in June 2011, when 1,200 personnel from the army, police, and the district government's civil police service attempted to expel the remaining settlers (Misno 2011). The operation ended in a clash when squatters stoned the personnel. The personnel responded by rubber bullets shooting; three security personnel and three settlers were injured in the clash (Gunawan 2016).

After the second disciplinary action, the conflict became more violent. In May 2012, a local GLNP office was attacked, and two GLNP cars were destroyed (Sadikin 2013). The violent conflict paralysed Area VI oversight as the squatters could attack forest rangers anytime they entered the forest (Interview 11 & 13). Local NGOs criticised the repression and accused the authorities of acting too late.<sup>7</sup> Receiving no response from GLNP Administration, the NGOs reported the case to Komnas-HAM who sent an investigation team in 2013 (Faiz and Sari 2015). Komnas-HAM, as a unit under the President, is empowered to issue recommendations that carry serious legal impact, although the investigation itself is lengthy; this investigation was still underway during our visit in April 2015.

The disciplinary action results in incidental response, since the state is unable to solve the problem of encroachment without offering any alternative livelihoods for the settlers. The government was also constrained by distrust from the locals who perceived themselves being treated unfairly, particularly given that permits were granted to companies in the past while local community needs were ignored.

### **3.5.4. The cracking down on illegal palm oil plantation in Harapan Rainforest (HRF), Jambi**

HRF is a 98,555 hectare ecosystem restoration concessionary located in Jambi and South Sumatra, which was established in 2004 as an implementation of priority policy for climate change mitigation (Silalahi and Erwin 2013). It was developed in the former production forest where indigenous people were allowed to hunt and harvest non-timber forest products (Beckert, Dittrich, and Adiwibowo 2014). Around 30 per cent of the forest zone has been converted to palm oil plantations with average acreage of around 25 hectares; this demonstrates that the owners are not impoverished farmers (Afrizal 2009). Simultaneously, illegal logging occurred with protection from security officers (Tambunan 2012). Local state officials were initially reluctant to take action, arguing that the zone belonged to private entities. However, persistent squatting blocking implementation of national priority policy had become a driver for considering disciplinary action.

In 2011, police organised disciplinary action by arresting four settlers. This action invited retaliation as in April 2012, 200 squatters referring to themselves as agrarian reform activists took hostage two forest rangers and a police officer.<sup>8</sup> The response to this was the arrest of six squatters and confiscation of their chainsaws. Four months after the clash, police arrested 13

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<sup>7</sup> As explained in the website of WALHI in Aceh (<http://tmzoelfikar.blogspot.co.id/2011/06/walhi-sesalkan-penembakan-pengungsi.html>), the settlers have lived inside GLNP's zone for more than a decade. They have organised to build schools and mosques without any assistance from outsiders.

<sup>8</sup> Press Conference of Hutan Harapan, April 17, 2012. <http://burung.org/2012/04/17/siaran-pers-hutan-harapan-massa-spi-sandera-2-staf-hutan-harapan/>

squatters, which stimulated SPI's protests.<sup>9</sup> SPI and other agrarian reform NGOs organised a march from Jambi to Jakarta, where they camped for several days in the yard of the Forestry Ministry in December 2012 (Interview 15). Responding to the protest, the Forestry Ministry granted community forestry status in February 2013 to areas where the settlers lived. The alternative solution provided by the state in arranging a community forestry permit was seen as a step back by HRF Management (Silalahi and Erwin 2013). Later in August 2016, HRF Management accepted the situation and developed an empowerment programme that enabled a partnership with the settlers in protecting the forest.<sup>10</sup>

Both the violence and the pressure at the national level generated an obstacle for organising further disciplinary action. The outcome of this action was limited to an incidental response. The primary constraint is the perception of the settlers and agrarian reform activists toward the ecosystem restoration program as 'green land grabbing' (Hein and Faust 2014), besides the state apparatus also seen to be involved in illegal activities.

### **3.5.5. The seizure of illegal palm oil businesses in Register 40 – Padang Lawas, North Sumatra**

There are 47,000 hectares of palm oil plantations inside the Register 40 protected forest owned by 44 companies with the largest one owned by D.L. Sitorus, a powerful local that worked with smallholders in 61 villages (Jong 2015). Sitorus claimed customary ownership of the land and argued that their holdings were not regulated under the national regulation. The district government was sufficiently convinced to grant them a business permit in 1988 (Simarmata 2012).

Contempt of regulation became a trigger, which developed into a driver when carried out on a considerable scale. The first disciplinary action was via a legal case, which resulted in a Supreme Court verdict to seize Sitorus and his smallholder partners plantations (Gunawan 2009). This verdict was perceived unfair and stimulated violent resistance. The district government officials were unwilling to enforce the verdict due to their concern for violence; they even granted the operating permit to the company's mill in 2012 (Karakaro 2014). The district officials' unwillingness invited a suspicion that they tried to benefit from maintaining a business with over 100 billion rupiah monthly turnover; such suspicion strengthened as security officials were occasionally seen guarding the company's property (Karakaro 2014).

The local resistance and the local government's disobedience became the trigger, which developed into a driver of security problem. Competing for interpretation of the national law vis-à-vis customary law, unfair perception of the verdict, and powerful local influencers became obstacles to implementing the Supreme Court's verdict. The sluggish implementation of the verdict raised concerns among the students that organised a protest (Karakaro 2014).

The second disciplinary action was taken in 2015 when President Widodo instructed the business be seized. A state-owned company was assigned to oversee the phasing out of palm oil and conversion to agroecology farming (Gunawan 2015). The administrative response achieved after the government's decision affected all illegal business while protecting the interests of workers and smallholders. However, the implementation of this decision seemed

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<sup>9</sup> Press Conference Serikat Petani Indonesia. November 29, 2012. <http://www.spi.or.id/pt-re-ki-pelaku-kekerasan-dan-kriminalisasi-masyarakat-tani/>

<sup>10</sup> As explained in HRF website <http://hutanharapan.id/read/pengembangan-kemitraan-masyarakat#.WeMOQHZLfcc>

to dawdle; it was later found that Sitorus still controlled the business. The government made him as a suspect again in 2017 (Arumingtyas 2017), but the case remained unsolved when Sitorus died in August 2017 (Simatupang 2017).

### **3.5.6. The eradication of palm oil plantations expanding in a food production zone in Bungaraya Sub-district, Siak, Riau**

In 2002, the Siak District Government issued Government Regulation No. 7/2002 stipulating Bungaraya Sub-district to become a food production zone. Implementing this regulation was challenging in the rapidly growing and large-scale conversion of paddy fields to palm oil plantations since the middle 2000s. Farmers experienced a dwindling water supply, stimulating further crop conversion (Interview 15 & 16). This irresistible conversion without any concern to the Sub-district regulation became the trigger that was later developed into a driver as Sub-district officials perceived it as a security problems.

The first disciplinary action, ordered by the Sub-district Head, razed a hectare palm oil plantation in 2009 (Jasmi 2012). The NGOs in Riau perceived that the Sub-district head acted beyond his authority since the determination of the food production zone was still waiting for the approval of the Riau Spatial Plan by the National Government. The lack of support from higher governmental levels, the decreasing water supply for rice cultivation, and the pressure from NGOs provided obstacles for continuing the disciplinary action. In early 2010, farmers held demonstrations at the local government office, resulting in the Sub-district Head agreeing to not take any further disciplinary action, on the provision that farmers stopped converting land (Interview 17). However, the conversion continued as the farmers perceived that continuing rice cultivation did not provide for a better livelihood (Rahmadiyah and Isril 2017).

In 2014, the Riau Spatial Plan was approved, which created a legal basis for a political-administrative response. Siak District legislators were initially concerned that implementation of the regulation would stimulate local conflict, and therefore resisted its enforcement. The Siak District Food Production Office intensively lobbied the legislators and successfully convinced them to support the regulation (Interview 18). However, this outcome was constrained by a degraded irrigation system that did not undergo sufficient reconstruction, as well as fertiliser scarcity, which limited rice cultivation (Interview 16 & 18). The outcome was further complicated by palm oil plantations spreading into peatlands, meaning the food production reserve zones did not adequately prevent greater environmental degradation (Sabiham and Sukarman 2012). In spite of these limitations, as noted in Kompas, September 2, 2017, the number of farmers converting back to rice cultivation increased (Rangkuti et.al., 2017).

## **3.6. Discussion**

In the six case studies, we identified five drivers of disciplinary actions: security problems (in the Tesso Nilo, Area-VI, HRF and Padang Lawas cases), pressure from non-state actors (in the Tesso Nilo, Aceh Tamiang, Area-VI, HRF and Padang Lawas cases), state humiliation (in the Tesso Nilo case), contestation of the state's legal authority (in the Padang Lawas and Bungaraya cases), and collective trauma (in the Aceh Tamiang case). These drivers made the state appear unable to manage environmental problems, which in turn cast doubt on the Indonesian state's legitimacy (Dittmer 2002; McCarthy 2011). To compensate for the perceived

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loss of legitimacy, the state would resort to disciplinary action, paradoxically at a time that is generally considered as a post-authoritarian regime (Dittmer 2002; McCarthy 2011).

Eco-authoritarianism can be observed in these coercive actions, but more as a reaction to maintain the state's legitimacy. Proscribing environmental degradation is not the primary aim, which unsurprisingly describes why disciplining actions have been limited in comparison to the scope of illegal palm oil plantation expansion in Indonesia. The policies taken are often shaped by a pro-development ideology that has been very influential in Indonesian history (Beeson 2010).

Our cases show that nearly all disciplinary action did not lead to state transformation for improving environmental protection. The reactions generated are often beyond the state's capacity to manage (Beeson 2010). Firstly, state agencies often develop contradictory policies and opinions, which refers to lack of policy coherence, and this has been a persistent problem for Indonesia (McCarthy and Zen 2010; Simarmata 2012). In our cases, policy incoherence occurs horizontally (between state agencies at the same level) and vertically (between central and local governments). Policy coherence was an issue under former President Yudhoyono who preferred conflict avoidance and showed a reluctance to coordinate state agencies (Aspinall, Mietzner, and Tomsa 2015). President Widodo has tried to reduce policy incoherence, but his administration has done so in a relatively unsystematic way, and through ad-hoc responses (Warburton 2016).

Secondly, the Indonesian state faces challenges in dealing with powerful locals who support and protect illegal plantations. To understand these challenges, it is too simple to perceive this plantation expansion as illegal without considering local context and power dynamics. The term of illegality hides the lack of capacity of the Indonesian state to steer local resource distribution. Local power holders control access to resources using a mix of formal and informal laws (Anggraini and Grundmann 2013; McCarthy 2011). In the post-Suharto regime, various groups continued to appropriate authority and determine what was illegal or not (Bakker 2015). The informal laws used for facilitating resource distribution have often been in conflict with state legislation. The abuse of law is sometime protected by powerful politicians and security officials. State actors on the ground lack capacity to deal with these power brokers, at times because of the local elite working within the government, or because local regulations are unclear and in conflict with the regulations of higher levels of government (Butt 2010; Daemeter Consulting 2015; McCarthy and Zen 2010). Organising disciplinary action without understanding such complicated power relations may be perceived by the locals as trying to block affordable access to resource distribution. Where the state is seen as being unjust, popular resistance increases and the state's legitimacy is questioned. Reacting to this resistance violently does not resolve differences in perception between the state and rural and indigenous people regarding natural resource uses.

Thirdly, resistance to disciplinary action was often violent, provoked either by powerful local elites or sparked by the frustration of locals trying to secure land. These violent reactions from below were often followed by violent retaliation from the state, which was then met by further violence by the locals. This spiral of violence might even grow beyond the local state agencies' capacity to manage the situation, such as in Area-VI Besitang. Repression might be expected to evoke the perception that the state is capable of regulating and managing the environment. However, there is no evidence that violent action contributes to reversing illegal palm oil plantations. Our research shows that the use of violence when protecting the environment

tends to enforce resource sovereignty, while simultaneously creating rural dispossession and oppression that does not develop a sound basis for sustaining environmental protection (Deudney 2006; Peluso 1993).

Additionally, the focus on legality lacks the granularity required on the historical context of palm oil development in Indonesia. Historically, Indonesia actively facilitated the development of this industry, initially through large plantation companies and later through smallholder plantations (Badrun 2011; Booth 1988; Rival and Levang 2014). The state's role in arranging financial schemes diminished after the East Asian economic crisis, although the state realised that more interventions were required to facilitate the market-driven, rapid expansion of the palm oil sector since the 2000s (Pramudya, Hospes, and Termeer 2017). With such limited state financial facilitation, companies utilise patronage politics with local government leaders to access lands and capital, while smallholders access capital from financiers to open plantations in the unused lands and lands previously used for agroforestry and food crop production (Purwanto 2016; Varkkey 2016). Responses to illegal palm oil plantation expansion, particularly in smallholdings, are lacking the historical vision that the state formerly facilitated the growth of smallholder plantations in a sector that was previously dominated by large plantations. Disciplinary actions build a perception of unfair treatment for the smallholders that developed their plantations in responding the state's call to participate in a lucrative commodity chain for national development.

Developing administrative responses to achieve state transformation for improving environmental protection is possible only by considering these constraints. Emphasising authoritarian approaches to reverse illegality without considering these constraints could lead to popular resistance. In our cases, the Indonesian state explored solutions by arranging social forestry, providing for community forest rights, and finding a compromise between ceasing disciplinary actions and requesting a behavioural change from the community. The state also transferred illegal palm oil plantation to state-owned enterprises and organised relocation of settlers, which aimed to revitalise the forest. In these solutions, we observe the state's role in balancing economic development, social equity and environmental sustainability, instead of merely imposing authoritarianism when protecting the environment.

We also observed various interactions developing between the Indonesian state and non-state actors. Firstly, non-state actors forced the state to deliver concrete action in protecting the environment (NGOs in Tesso Nilo, ecosystem restoration company in HRF, and students in Padang Lawas). Secondly, the state collaborated with some non-state actors (environmental NGOs), while other non-state actors (human rights and agrarian reform NGOs) opposed, such as in the Area VI-Besitang. Thirdly, local state agencies supported action initiated by non-state actors, while the policy of the central state fractured achievements, as in the Aceh Tamiang. Lastly, the state was challenged by non-state actors who assisted farmers in fighting against unfair action in Bungaraya. Non-state actors were involved in the planning and implementation of disciplinary action in Aceh Tamiang, Area VI-Besitang, and HRF, while disciplinary action in Tesso Nilo, Padang Lawas and Bungaraya did not involve non-state actors. The state responsiveness to calls and actions of non-state actors, and the collaboration between the state and non-state actors at the local level suggest that the Indonesian state follows the green state approach. The character of the green state that is observed certainly excludes the Indonesian state from the eco-authoritarian state approach. However, it is also too early to argue for the rise of the green state in Indonesia.

### 3.7. Conclusion

We have identified five drivers of state disciplinary actions toward illegal palm oil plantations: security problems, pressure from non-state actors, state humiliation, contestation of the state's legal authority, and collective trauma. These drivers stimulate the state's coercive actions. However, these coercive actions are more a state's fight for legitimacy and are not primarily conducted to address environmental problems.

On the one hand, the disciplinary actions of the Indonesian state can be seen as an example and expression of eco-authoritarianism. There is clear evidence that the state employs repressive actions to reverse the encroachment of illegal plantations. On the other hand, the active involvement of non-state actors in some cases, suggests the rise of the green state. However, it is too early to judge this as well. The limited scale of the disciplinary actions compared to the nation-wide scale of the problem of illegal plantation expansion threatening forest and food production areas, the late timing of the disciplinary actions, and the limited political-administrative transformation afterwards shows that the Indonesian state finds it difficult to practice green state approach.

The outcomes of the disciplinary actions were constrained by the lack of policy coherence, challenges from powerful locals, violent resistance, and a lack of awareness of the development economics context of the Indonesian palm oil sector. Environmental protection objectives are more likely to be achieved when the state considers and balances economic development, social equity and environmental protection.



# Chapter 4

## Friend or Foe?

### **The various responses of the Indonesian state to non-state sustainable palm oil initiatives<sup>11</sup>**

#### **Abstract**

Companies have become leaders in initiating governance improvements towards more sustainable palm oil production and processing. These initiatives have interfered with the development and sustainability agendas of palm-oil producing countries. In Indonesia, the world's largest palm oil producing country, it might be expected that the state treats non-state governance initiatives as an intrusion, or even rejects such initiatives outright. However, the Indonesian state has developed differing reactions to various non-state sustainable palm oil initiatives, which in turn confuse palm oil companies. This article aims to explain why the Indonesian state has reacted to non-state sustainable palm oil governance initiatives in different ways, and to draw lessons for business. For this purpose, we focus on the state's responses to three initiatives, namely the Roundtable on Sustainable Palm Oil (RSPO), the Indonesia Palm Oil Pledge (IPOP), and the Indonesia Palm Oil Platform (InPOP). To describe and analyse the responses of the Indonesian state, we use the Transnational Business Governance Interaction Framework. We observe that the state's responses might be characterised variously as coordination, co-optation, chaos and competition. These responses change depending on time, actor constellation, the phases of development of these initiatives, and governmental level. Companies can learn how to develop non-state governance initiatives that do not evoke unexpected or outright hostile reactions from the state.

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### 4.1. Introduction

In 2003, market leaders in palm oil consuming countries were approached by environmental non-government organisations (NGOs) to develop the Roundtable on Sustainable Palm Oil (RSPO) in addressing social and environmental impacts of the global palm oil production as highlighted in an intensive NGO campaign (Khor 2011; Paoli et al. 2010). Cooperation among market leaders is possible among those who control the market, according to Mügge (2006). The RSPO as 'roundtable governance' combines moral and market authorities to change the behaviour of companies and government regulations without the direct involvement of the nation-state. As a form of 'private governance', the RSPO provides alternative instruments in addressing concerns surrounding the social and environmental impacts of business (Pesqueira and Glasbergen 2013; Schouten, Leroy, and Glasbergen 2012; Andonova 2010; von Geibler 2013).

The emergence of private governance, in itself, gives rise to the role of the state in four areas: mandating (defining minimum standards for business performance embedded within the legal framework), facilitating (developing enabling conditions or providing incentives), partnership (bringing complementary skills and inputs), and endorsing (giving political support) (Fox, Ward, and Howard 2002). Gulbrandsen (2014) argues that the state might be highly involved in the agenda-setting and negotiation, but then decreases its involvement in the implementation and evaluation. Other scholars found that the state might also develop roles by cooperating at a trans-governmental level, by developing new institutions based on practices and rules introduced by the private governance, or by competing for ruling authority (T. B. Lawrence, Hardy, and Phillips 2012; T. M. Smith and Fischlein 2010; von Geibler 2013). However, business has the concern that increasing a state's regulatory activity inevitably raises public expenditure and potentially diverts investment (Detomasi 2007).

In spite of the different roles, the general image is that nation-states in the Third World are reluctant to promote environmental and social changes while such private governance models directly impact domestic economic development (Giessen et al. 2016; Abbott 2012; Mol 2010). However, nation-states cannot simply ignore these private governance arrangements, as private actors have become one among equals with the state, and nation-states are increasingly dependent on trade in achieving their development objectives (Cutler 1999; Milker 2011; Jessop 1997; Cashore 2002; Menocal 2004; P. Evans 1997).

In Indonesia, as the biggest palm oil producing country, we would expect the state's enormous support to oil palm producers. In addition, in the prevalence of increasing nationalism, we would expect a more consistent rejection of interference from private governance to domestic affairs. However, this is not the case for Indonesia. After an uncomfortable interaction with RSPO, the Indonesian state developed a national-based standard with the Indonesian Sustainable Palm Oil (ISPO) in 2009, which is often seen as a rival to RSPO. The emergence of ISPO does not cease interaction between RSPO and the Indonesian state. Later, the Indonesian state exhibited contrasting responses to two non-state sustainable palm oil initiatives emerged in 2015: the Indonesia Palm Oil Pledge (IPOP) and the Indonesian Palm Oil Platform (InPOP). The Indonesian state confronted IPOP, which was established by leading palm oil companies and facilitated by the Indonesian Chamber of Trade and Industry (KADIN). Facing rejection by the state, member companies disbanded IPOP in June 2016. Contrarily, the Indonesian state responded positively and collaborated well with

InPOP, despite presenting similar objectives, program components and stakeholders. The Indonesian state, thus, has had varied responses to the emergence of non-state initiated palm oil sustainability governance arrangements.

The lack of consistency of the Indonesian state in responding to the non-state sustainable palm oil initiatives might affect business in several ways. Simply ignoring the issue of sustainable palm oil is not possible due to the increasing awareness of the global market reflected in the increasing sales of certified sustainable palm oil, standard compliant producers and commitments made by nation states (RSPO 2017; Potts et al. 2014). Improving sustainability practices in an individual company alone might not be sufficient owing to complexities in implementing the regulation, understanding consumption, and global palm oil supply networks involving multiple scales, locations and actors (D'Antone and Spencer 2015; Azhar et al. 2017; Oosterveer 2015). Conflicting with the state, without any doubts, would severely impact companies particularly with the threat of banning and penalties. The lack of consistency apparent in the Indonesian state's approach indeed confuses business to what extent they could participate in the non-state sustainable palm oil initiatives.

The objective of this paper is to explain why the Indonesian state has reacted differently to non-state sustainable palm oil governance initiatives and to draw lessons for business. In achieving this objective, we have two questions. First, how has the Indonesian state responded differently to the emergence of non-state sustainable palm oil initiatives and what are the underlying mechanisms of these responses?. Second, how can business prevent unexpected, if not outright hostile, reactions from the state towards non-state governance initiatives in sustainable palm oil?

The analysis uses the Transnational Business Governance Interaction Framework (TBGIF), which is developed by Eberlein, Abbott and Black (2014) to analyse interactions. Interactions are defined as 'the myriad of ways in which governance actors and institutions engage with and react to one another' (Eberlein, Abbott, and Black 2014, 2). Focusing on interactions enables a more in-depth understanding than observing responses as a one-shot static occurrence. It allows for an analysis of the dynamic interplay between acts, reactions and interactions (Weick 1987), and thus involves initial responses, engagements, reactions, and follow-up activities.

This article is organised in seven sections. The second section following this introduction discusses the conceptual framework. The section presenting methodology follows. The fourth section describes the cases of the Indonesian state's responses to RSPO, IPOPOP and InPOP. The fifth section presents the analysis of the case using TBGIF, followed by a discussion about interaction and business implications. The conclusion summarises the arguments of the paper.

## **4.2. Conceptual Framework: Business, Sustainability Governance Initiatives and the Governance Interaction**

In the past, initiatives for sustainability centred in the state and its coercive mechanism, which together the nation states developed intergovernmental initiatives (Abbott 2012; Perez-batres, Miller, and Pisani 2011). The state-centric approach is under challenge with state failure, where the state alone failed to provide well-performing public services, while interstate mechanisms were constrained by long negotiation and compromises leading to the development of narrow agendas (Khan 2004; Abbott 2012, 553).

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The awareness of these limitations has promoted a shift from hierarchical forms of government towards governance. Governance enables business to develop self-regulation. Although much self-regulation by business focuses on lowering transaction costs, Vogel (2010) observed that they evolve faster, covering issues that have not been addressed by government regulations. Furthermore, such self-regulation has required companies to make expenditure and undertake commitments addressing political and social pressures on business.

Some self-regulation mechanisms evolved further by involving stakeholders outside business, including NGOs (Vogel 2010, 70). These stakeholders can impose norms, values or cultures to create social order, as long as actors comply with their roles. Actions that enable business to create larger impacts include establishing and developing sustainability initiatives for leveraging standards, coordinating policy dialogue, and conducting joint action, which enable creating bigger impacts (Nelson 2017; Perez-batres, Miller, and Pisani 2011, 846). However, their interactions are less formalised and demanding, which enable them to reach across different levels and sectors (Kooiman and Bavinck 2005; Termeer 2009; Abbott 2012, 547).

In cases where public agencies are involved, there is an increase in the legitimacy of business to co-govern and develop more formal relationships with a broader political system (Abbott 2012, 548; Schouten and Glasbergen 2011). Among these public agencies, the state still has prominent roles to address issues such as regulation, enforcement, or inclusion of small-scale producers (Vogel 2010; Auld and Gulbrandsen 2015; Amengual and Chirot 2016). Although governing is the primary role of the state, state officials face barriers in implementing the more horizontal governance initiatives. These barriers come from conflicting convictions concerning sound policymaking, stereotyping potential partners, the pressure of framing the issue as a severe crisis or near to deadline, fear of undermining existing policy or not reaching governmental targets, and blocking learning by not expressing doubts, hiding internal struggles or not being willing to face disappointments (Termeer 2009, 311–13).

Although the interaction between business and public agencies, most notably the state, involves rich dynamics, the field of interaction has lacked scholarly attention. Governance studies tend to focus more on analysing individual governance arrangements (Andonova, Betsill, and Bulkeley 2009; C. A. Brandi 2017; Abbott and Snidal 2008). Eberlein et al. (2014, p. 6-14) developed the Transnational Business Governance Interaction Framework (TBGIF) to provide a conceptual framework for analysing dynamic interactions between regulatory governance arrangements. To analyse dynamics, TBGIF distinguishes various regulatory governance components or phases; these include agenda setting, rule formation, implementation, monitoring, enforcement and evaluation (Eberlein et al. 2014, p.6). Additionally, TBGIF covers several dimensions, institutions and actors, driving forces, impacts, characteristics, and changes over time.

We use TBGIF in three ways. First, we characterise interactions between the state and the private governance arrangements in four possible ways: competition, coordination, co-optation, and chaos (Eberlein et al., 2014, p. 11-12). Competition occurs when the state imposes its conditions on private governance to improve its reputation, legitimacy, and authority. Coordination emerges when both the state and private governance realise that cooperation could increase the legitimacy and relevance of the state's policies. Co-optation happens when either the state or private governance has hegemony and develops meta-regulation. Chaos occurs when interactions become unpredictable, and strategies become uncertain. More detailed forms

of interaction are possible, such as competition through niche-carving, coordination through the discursive articulation of principles, and coordination through the division of labour. Some interactions can occur together, such as co-opetition and chaos, or change over time, such as chaos that transforms into competition. Some interactions are distinctive across institutional levels, such as chaos at the national level and coordination at the local level.

Second, we distinguish institutional levels of interactions: micro, meso and macro (Eberlein, et al., 2014, p. 8). At the micro level, individual actors from differing governance arrangements interact beyond what is formally required. At the meso-level, private governance schemes interact with other private governance arrangements and with state-based regulators. At the macro-level, regulatory bodies interact, creating discourse between issues; such issues can be environmental concerns and social concerns.

Third, we analyse the underlying mechanisms. The framework addresses various dimensions of interaction, such as actors, drivers, and mechanisms, as well as characteristics and changes in the interactions. These dimensions relate to institutions, events behind and around the implementation, and dynamics of the interactions. Some governance arrangements might have similar dimensions of interactions; examples of these are governance arrangements in sustainable palm oil overlapping with drivers for promoting practices in addressing the social and environmental impacts of oil palm plantation expansion.

Together, these three ways develop a detailed analysis of governance interaction from their characters, levels and underlying mechanisms.

### **4.3. Methodology**

The research uses qualitative methodology with data collected from primary sources and secondary sources. The primary data was collected from interviews with key actors from (1) the three key ministries responsible for the development of the palm oil sector, namely the Coordinating Ministry of Economic Affairs, the Ministry of Agriculture, and the Ministry of Environment and Forestry, and (2) non-state sustainable palm oil initiatives under observation. Between early 2015 and early 2017, 15 interviews were conducted, as listed in Appendix C.1. The interviews were conducted with various methods, that is, direct meeting, teleconference, and e-mail. The interviewees were selected using a snowball method, where certain people are selected who, because of their past or present situations, have more significant accessibility and knowledge about particular events (Biernacki and Waldorf 1981). These people usually can develop referral chains for other possible interviewees. However, as Handcock and Gile (2011) mentioned, in snowball sampling, using either a specific group (to identify others members of the group) or individuals (to identify other individuals), we also identified other respondents by interpreting their association and presence related to the initiatives. The interpretation is related to the dynamics of natural and organic social networks, as mentioned by Noy (2008), where we capture not only social knowledge but also power relations among the resource persons. The secondary data is collected from documents and updates from the three governance arrangements, in the form of books, journal articles, reports related to sustainable palm oil issues, blogs of international research organisations, and news media.

In using the term 'state', we acknowledge that the state is not a monolithic entity. Vertically, the state has national and local levels, which might take different positions on an issue. Horizontally, the state has various agencies with different mandates; nationally, they exist as ministries and non-ministerial agencies, while in the local level we might also find agencies coordinated by the district, provincial or national level. Inside individual state entities, state officials may take different positions. When this occurs, we refer to the official position as that which is taken by state actors from the agencies that assume the responsibility of the sector concerned.

The term 'non-state' that we use refers to different kinds of organisations and initiatives that exist beyond the state's domain, including NGOs, companies and community organisations. Non-state actors represent a range of interests and discourses with activities take place at local to global levels, actors that joined the steering of global affairs with nation-states (Nasiritousi, Hjerpe, and Linnér 2016; Koenig-Archibugi and Zürn 2006). Their power stems from legitimacy and an ability to invoke moral claims, their knowledge and expertise, their access to networks, their access to key agents and decision-making processes, and their access to resources and position in the global economy. In this article, we associate intergovernmental agencies, which are often perceived as part of the state, as non-state actors as long as they do not assume legal roles with or without the state.

We use the terms 'state' and 'government.' Both terms are often used interchangeably and are used to explain the same thing; however, in some cases, they assume different meanings. To explain this, we refer to some references. Robinson (2013) recommends that the 'state' be seen as a jurisdiction entity of the international legal system while 'government' is the exclusive coercive organisations for making and enforcing certain group decisions. Rocha (2008) argues that the 'state' is the whole political society including the government that consists of executive, legislative and judicial functions. Meanwhile, 'government' is a political group that performs an executive function and manages various kinds of interventions following the direction of the state. Scruton (2007) defines the 'state' through its four components: (i) association among persons for the ends of government, (ii) legal organization; (iii) attachment to a particular territory over which jurisdiction is exercised; and (iv) personification as a juristic person in international law and a kind of quasi-person in popular thinking. Meanwhile, 'government' forms a state by exercising influence and control through law and coercion that might be perceived as a means to order, or as an end for social existence, with compromises between these two. Reflecting on these references, we summarise that 'state' is an entity in organising a society internally and externally while 'government' it is an administration established for arranging the implementation of state's regulations.

## **4.4. The Responses of the Indonesian State**

### **4.4.1. The Roundtable on Sustainable Palm Oil (RSPO)**

In 2002, World Wide Fund (WWF) approached palm oil buyers – Aarhus, Golden Hope, MPOA, Migros, Sainsbury and Unilever – to establish RSPO and develop credible criteria for sustainable palm oil production (Omont 2005). RSPO formulated its objective as 'to promote the growth and use of sustainable palm oil through cooperation within the supply chain and open dialogue with its stakeholders' (RSPO General Assembly 2015). Until 30 June 2016, RSPO

had 2,941 members ranging from oil palm growers, processors and traders, manufacturers of consumer goods, retailers, banks and investors, environmental and social NGOs, academia, research and development organisations, and donors and sponsors. The 1,373 ordinary members consist of 633 consumer goods manufacturers, 462 palm oil processors or traders, 155 oil palm growers, 64 retailers, 32 environmental NGOs, 14 banks and investors, and 13 social NGOs (RSPO 2016).

Being established as a private governance arrangement, RSPO approached the Indonesian state to implement the second principle on regulation compliance and smallholders certification (RSPO 2013). An RSPO Indonesian Liaison Office (RILO) was established on 1 December 2006 to work on smallholder engagement, to develop a national interpretation of RSPO principles and criteria (P&C) and their trial implementation, and to communicate with stakeholders (RSPO 2007; RSPO Indonesia Liaison Office 2008). RILO established the Indonesian National Interpretation Working Group (INA NIWG) on 11 January 2007 to facilitate discussion on the draft of a national interpretation that had been submitted by the Indonesian Palm Oil Association (GAPKI) in July 2006 (Dharsono and Zulfikar 2007). INA NIWG involved several state agencies, namely the National Land Agency (BPN), the Ministry of Industry, the Ministry of Forestry in Group 1 (Legal, License and Social Issues Group), the Ministry of Agriculture in Group 2 (Environment and Natural Resources) and Group 3 (Agronomy and Mill Practices), the Ministry of Environment in Group 2, and the Ministry of Trade in Group 4 (Economics and Labour). RILO also developed the Indonesian National Smallholder Working Group (INA SWG) in early 2007 (Darussamin 2011). INA SWG cooperated with the Ministry of Agriculture on the RSPO standard.

The interactions in 2006-2009 are considered a modest involvement, which ended after the Indonesian state developed ISPO (Wijaya and Glasbergen 2016). ISPO is perceived as an act of reclaiming the state's authority in governing the palm oil sector (Hospes 2014; Wijaya and Glasbergen 2016; C. Brandi et al. 2013). The development of ISPO altered the interaction between the Indonesian state and RSPO from implicit recognition to explicit disqualification (Wijaya and Glasbergen 2016; Hospes, Schouten, and Deike 2014).

However, the development of ISPO did not end the interaction between the Indonesian state and RSPO. The National Development Planning Agency (BAPPENAS) encouraged RSPO P&C implementation together with ISPO strengthening and regulation enforcement (Haryana, Indarto, and Avianto 2010). The Vice Minister of Agriculture expected that RSPO would recognise ISPO as a requirement to fulfil its second principle on compliance with national regulations (Subagyo 2013). Some similarities are identified between RSPO and ISPO that could become the basis for a joint audit (Gillespie and Harjanthi 2012; Suharto et al. 2015). The Vice Minister of Trade spoke at the RSPO European roundtable in 2014 and proposed collaboration in developing a joint-standard available for non-RSPO members (RSPO 2014). This cooperation was essential as ISPO faced challenges in getting international market recognition. Moreover, the Ministry of Agriculture provides a room for RSPO's Indonesian Smallholder Working Group (INA-SWG) meetings and training sessions where the Ministry's staff members always participate (interview 16). RSPO officials mentioned this facilitation was possible based on the good personal relationship between RSPO's advisor and the Ministry's officials, as the advisor is a retired officer from the Ministry (interview 16).

When these limited interactions occurred, RSPO was often criticised by state officials. RSPO was considered slow in facilitating Indonesia's efforts to meet ambitious climate change

targets (Suharto 2010). Several times, in speeches, Indonesian state officials also claimed that RSPO was established to serve the interests of Western countries.

### 4.4.2. The Indonesia Palm Oil Pledge (IPOP)

IPOP is a collaborative pledge facilitated by KADIN as a response to President Yudhoyono's call for private sector transformation to end deforestation, a call delivered in the keynote speech at the Tropical Forest Alliance meeting (Butler 2013). The members of KADIN's Sustainable Business Group, who were mostly palm oil companies, delivered this by inviting the key staff members of Indonesia's REDD Taskforce and NGOs such as Greenpeace, Rainforest Action Network, and WWF (interview 9), to develop a pledge. This pledge provided a joint-platform for member companies that had previously developed sustainability commitments to inspire other companies towards a similar mission.

The pledge was signed on 24 September 2014 in New York during the Climate Summit, which was facilitated by the United Nations General Assembly. Four leading palm oil companies (Golden Agri Resources, Wilmar International Limited, Cargill and Asian Agri) signed the pledge that was witnessed by then-President Yudhoyono (Harfenist 2014). Two more leading palm oil companies later followed, Musim Mas (March 2015) and Astra Agro Lestari (February 2016).

For one year after the pledge was signed, IPOP operated as a KADIN program (interview 11). The launch of IPOP's Management Team on 25 August 2015 was a high-profile event with speeches from the Head of the Indonesia Investment Coordinating Board (BKPM), and the ambassadors of the United States, Norway and the United Kingdom (Rizkaprilisa 2015). Representatives from key ministries also attended the launch (interview 9,11). The Head of BKPM expected IPOP to set parameters for sustainable palm oil in Indonesia while the ambassadors expected IPOP to improve the legality of the sector (BKPM 2015). The IPOP Management Team focused on managing programs on issues concerning smallholders, land, policy reform, and communication. In implementing its program, the IPOP Management Team organised several meetings at the national and provincial level, and at the international level during the Paris Climate Summit 2015.

NGOs criticised IPOP for protecting business interests by not openly addressing palm oil expansion in peatland areas, the prevailing conversion of high carbon, and the lack of conservation of forests (Jacobson 2015; Greenomics Indonesia 2016). However, more concerning was that two days after the launch, IPOP faced hard resistance from key state officials, namely the director generals of the Ministry of Agriculture, the Ministry of Environment and Forestry, and the Coordinating Ministry of Economic Affairs (interview 9).

First, the officials suspected IPOP would develop a competitor of ISPO (interview 10,12,13). The explanation in formal documents that IPOP did not give preference to RSPO over ISPO did not help to clarify this suspicion, and BKPM's Head did not clarify his statement on expecting IPOP to develop new parameters of sustainability (interview 11).

Second, the Coordinating Maritime Affairs Minister blamed IPOP as the agent of developed countries to protect their vegetable oil markets, particularly the United States (Witoelar 2016; Chen and Yi 2016; interview 5). Moreover, the Minister argued that private sector



initiatives were not relevant anymore as Indonesia and Malaysia had agreed to develop a palm oil producer council (da Costa 2015). Suspicion over intervention by developed countries heightened as most of the signatories had headquarters outside Indonesia, while those that are based in Indonesia signed because of their buyers' pressure or due to lobbying from the US Embassy (interview 13,11).

Third, the action of IPOPOP signatories to stop buying FFB (Fresh Fruit Brunches) produced in the Leuser Ecosystem Area in Aceh was considered illegal, and harmful to smallholders (Jong 2015; Jong 2016), while also threatening Indonesia's palm oil sector (interview 10,13,14). Key state officials regretted this decision as it had no consideration for the steps taken by the state to exchange lands (interview 3,13). Additionally, producers with contracts up to 100,000 tonnes annually argued that they had produced before the establishment of the protected area (Listiyarini 2017). This example of producers asking for state protection fits the argument of Mügge (2006) that producers often request state intervention to circumvent transnational private regulation.

Fourth, key state officials perceived the IPOPOP lobbying for stricter peatland and HCV (High Conservation Value) regulation as interference in Indonesian sovereignty (Jong 2015; Jacobson 2016; interview 10,13). Furthermore, a state official from the Ministry of Environment and Forestry argued that although the companies signed the pledge with international coverage, at home their conversion of biodiversity-rich areas continued (interview 14).

Fifth, key state officials regarded IPOPOP's activities as aiming to develop a cartel. The establishment of the Management Team heightened concerns that some people had been selected to jointly manage the leading palm oil companies (interview 11). The Ministry of Environment and Forestry rejected a request from the IPOPOP Management Team to meet with them and instead asked for a meeting with member companies (interview 6,11). Furthermore, key state officials argued that having 'Indonesia' in IPOPOP's name indicated it was a national initiative, whereas there had never been any official endorsement of IPOPOP (interview 10,11).

IPOPOP's member companies insisted that with or without IPOPOP they would apply tighter sustainability requirements (Redaksi 2015a). IPOPOP's legal team replied that the key state officials in question resisted higher standards (Jong 2016). Together with NGOs, IPOPOP argued that the state used the smallholder argument as a smokescreen to protect rogue companies that have strong political influence (Jacobson 2016). The key actors perceived to be challenged by such responses (IF Editorial Team 2016; interview 10,15). Meanwhile, IPOPOP achieved a notable success with Astra Agro Lestari signing the pledge, as the company had been sceptical of sustainability and had stayed outside of RSPO (Jacobson 2016).

The IPOPOP Management Team was confused with such criticism as government officials were always invited and present (interview 9). Also, IPOPOP did not have difficulties in discussions either with ministry staff below the director general level or with local government officials. The Management Team believed that the media exaggerated the conflict. Furthermore, the government did not criticise similar initiatives such as InPOP and PisAgro. With such tension, KADIN's figureheads, who had good relations with the Indonesian state, did not want to facilitate discussion with key state officials (interview 7,11).

The situation became more difficult in October 2015 as the Director General of Plantation demanded IPOPOP's suspension as it violated the Indonesian Constitution (Redaksi 2015b; Arshad 2016). Though, state officials found it was not easily done (Arshad 2016; Jong 2016).

Meanwhile, the KPPU (Business Competition Supervisory Commission, the Indonesian's antitrust commission), investigated IPOP for cartel practices by excluding producers that could not comply, and thereby effectively strengthening giant companies (Amin 2017). KPPU threatened to penalise each IPOP members with a fine of Rp. 125 billion if they were indicted for cartel practice (Nurmayanti 2016). The KPPU's allegation was not taken seriously by IPOP member companies since Indonesia's antitrust regime was weak, while incompliant suppliers could sell their FFBs to other companies (Jacobson 2015). However, the allegation by KPPU was a sensitive issue for companies linked to the US and Singapore, which finally decided to disband IPOP in June 2016 (Michail 2016; interview 9). In its disbandment press release, IPOP stated that the Indonesian state had adopted its ideas in policies for a palm oil moratorium, establishment of a Peat Restoration Agency, and ISPO strengthening. Environmentalists considered the disbandment as a backward step, resulting from state officials' not seriously supporting the President's fight against forest and haze, and preferring weaker standards (Michail 2016; Poynton 2016; Shah 2016).

The Indonesian state's position was perceived as defending sovereignty (IF Editorial Team 2016a; IF Editorial Team 2016b). Some people linked the assertiveness towards IPOP with the emergence of new nationalism that, according to Aspinall (2015), sees Indonesia becoming increasingly averse to foreign interference and demanding greater international recognition of its power and status under President Joko Widodo.

### **4.4.3. The Indonesia Palm Oil Platform (InPOP)**

InPOP is a multi-stakeholder platform established in October 2014 as a collaboration of the Indonesian Government, the United Nations Development Programme (UNDP) and related stakeholders (Suharto et al. 2015). InPOP aims to work with the Indonesian state, as the primary stakeholder, in developing a national long-term action plan, addressing causes limiting Indonesia's sustainability, influencing government to harmonise policies, and improving partnership with existing initiatives. InPOP invites very diverse stakeholders from different governance levels, public and private, as listed in Appendix C.2.

Unlike in private voluntary sustainable governance, where non-state actors played a dominant role, InPOP gradually transfers leadership to the Indonesian state, particularly after recognising smallholder issues need active state involvements (Bovarnick, Newport, and Uno 2015). It is widely known that UNDP played an active role in approaching the Indonesian state (interview 6,7,10,11,13). Indeed, UNDP approached the Ministry of Agriculture and identified the state's concerns in palm oil sustainability issues (interview 1). Based on this, four working groups in InPOP were developed, in smallholders' capacity and productivity, environmental monitoring and management, governance and land conflict mediation, and ISPO's strengthening and market access (Jacobson 2015). InPOP asked the Agriculture Minister to appoint directors from the Directorate General of Plantation to lead the working groups. In strengthening ISPO, InPOP assists state officials in collecting data on regulation implementation and their obstacles (interview 2,3,8). InPOP developed an inter-ministerial steering committee and, by doing so, helps the Ministry of Agriculture to assume its leadership in palm oil sustainability.

Regarding smallholder issues, InPOP aims to reach 4.4 million hectares of smallholding plantations, which is almost a half of Indonesia's total oil palm plantation area (T. Salim 2014). To achieve this, InPOP implemented the first project in ISPO certification for smallholders in Riau involving 2,200 smallholders from six palm oil cooperatives, and later implementations took place in South Sumatra and West Kalimantan (UNDP 2015). Regarding legal compliance, state agencies and other stakeholders at InPOP's October 2015 meeting recommended the acceleration of smallholder permits, in the form of STDB, a Smallholder Plantation Registration Letter, and SPPL, an Environmental Management and Monitoring Consent Letter. In January 2016, IPOPOP organised a meeting to discuss smallholder financing schemes.

The meeting in October 2015 considered the complicated tenure system, limited data and spatial mapping, and regulation for developing plantations in degraded lands that had been allowed since 2010. In November 2015, InPOP discussed improving smallholders' legal rights to land through the Committee for Inventory of Land Control, Ownership, Use and Utilization (IP4T Committee), a committee that facilitates changing land status for areas where the local community had lived for a long time but where the land was incorrectly mapped as forest. In May 2016, InPOP facilitated discussions for bridging a forest protection concept recognised in Indonesian law with HCVs recognised internationally; this became a major issue in strengthening ISPO (Hospes 2014; C. Brandi et al. 2013; Wijaya and Glasbergen 2016). In spite of this difference, in general, the Indonesian regulations have accommodated many HCV principles (Suharto et al. 2015). In November 2016, the InPOP taskforce on HCV facilitated the revision of the HCV Indonesia Toolkit, developed earlier by international NGOs. The discussion on land and HCV issues addressed criticisms where state officials often argued that demanding recognition of international concepts had ignored the legal system embedded in Indonesia regulations (interview 2,15).

Collaboration between InPOP and the Indonesian state has been working well to date. Being hosted by the Ministry of Agriculture improves InPOP's effectiveness and its ability to approach other state agencies. However, some respondents observed that its establishment under UNDP's project arrangement is a liability since it might cease upon the project's completion if the state is not interested in developing it further (interview 6,10,11). The meetings organised by InPOP are often not results-orientated (interview 10,15), but this is not surprising since immediate results from a policy program such as InPOP might not be immediately evident (interview 8). Also, state officials often show an unconvincing commitment to work beyond an ad-hoc approach (interview 6,7). Taking into account the limitations of InPOP, the contribution of IPOPOP to sustainability governance on palm oil issues needs more observation.

#### **4.5. Discussion**

The three case studies show that the Indonesian state responds differently to the various non-state governance initiatives in sustainable palm oil. These responses indicate that the Indonesian state acts beyond an obvious assumption that it would always support the palm oil sector against sustainability issues raised by external actors. Unravelling the Indonesian state's various responses is discussed in these three following paragraphs: governance interactions

that occur between the state and non-state sustainability initiatives, the underlying mechanisms of those interactions, and the implications for business.

### 4.5.1. Governance Interactions

To unravel the Indonesian state's responses to non-state sustainability initiatives, we use the TBGIF to observe the interaction. The analysis characterises four types of interactions: competition, coordination, co-optation, and chaos.

1. RSPO maintained the mechanisms of a transnational private initiative to develop governance mechanisms, concerned at the inability of producing states to address the impacts of palm oil expansion. This belongs to co-optation character but from the non-state actors' side. Later, the state was invited to be involved in the interpretation of RSPO principles and criteria, and in smallholder certification. The invitation allowed for the character of coordination to emerge. The Indonesian state, almost at the same time, recovered from the economic crisis and wanted to return to its development interventions. Consequently, the state experienced tension between being in a new environment demanding progressive change and their interest in increasing its developmental role. With this tension, the state recognised the importance of addressing sustainability issues and decided to develop a national standard in ISPO, which shifted the character to competition. In developing ISPO, the state realised it was difficult to obtain international recognition as RSPO had and, therefore, attempted to maintain and recover its coordination character. However, with the current tension and tendency to preclude RSPO mechanisms, the coordination survives only through interaction at a personal level.
2. IPOP emerged with high-level support both from the Indonesian state, donor countries and supranational organisations, which enabled it to build a high profile both internationally and nationally. The situation changed after the new government emerged in 2014, where having a high profile became a liability. Meanwhile, internally IPOP was not ready, and KADIN did not support building relations with state officials. The interaction character changed from coordination to chaos with severe criticism from the key state actors in the palm oil sector. With this interaction characterised as chaos, the key state officials aimed for the co-optation of IPOP, while IPOP continued its good relationships with state actors from lower echelons and local government. The co-optation was possible upon an antitrust allegation by KPPU, leading to the disbandment of IPOP by its members.
3. UNDP approached the Indonesian state about developing InPOP and positioned itself as a bridge between the state and non-state initiatives. The state welcomed the assistance of UNDP, as on its own, the state experienced significant challenges in coordinating with stakeholders such as RSPO and NGOs. The coordination type interaction strengthened over time as InPOP helped the Ministry of Agriculture develop the leadership needed on sustainable palm oil issues.

The summary of the responses can be seen in Tables 4.1, 4.2 and 4.3, following:

Table 4.1. Governance Interactions between the Indonesian State and RSPO: from Coordination to Competition, and from Competition to Limited Coordination

	Agenda setting	Rule formation	Implementation	Evaluation
Period	2003-2006	2006-2008	2009-now	2010-now
Micro-level	No interaction	<b>Coordination</b> based on personal relationships among officials	<b>Limited coordination</b> based on personal relationships among officials	<b>Limited coordination</b> based on personal relationships among officials
Meso-level	No interaction	<b>Coordination through discursive</b> articulation of principles and criteria	<b>Competition</b> emerged after the Indonesian state decided to develop the national standard (ISPO). The character turned to <b>competition through imitation</b> by following steps for formulating RSPO. There is also a character of competition <b>through niche-carving</b> by referring to national regulations related to sustainable palm oil principles.  Often the state developed <b>competition through confrontation</b> as the state officials criticised RSPO in their formal speeches.	There were signs of developing <b>coordination</b> based on Indonesian state actors' awareness of RSPO's international recognition, which ISPO was difficult to gain. The state actors were even enthusiastic about coordination for harmonisation of both standards. However, so far this has resulted in only <b>limited coordination</b> .
Macro-level	<b>Co-optation</b> by non-state actors to the palm oil producing countries is considered a failure in addressing social and environmental impacts.	No interaction	No interaction	Not enough information

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Table 4.2. Governance Interactions between the Indonesian State and IPOP: from Coordination to Competition, and from Competition to Chaos, and from Chaos to Co-optation

	Agenda setting	Rule formation	Implementation	Evaluation
Period	2014	2015 – 2016	2015-2016	Middle of 2016
Micro-level	No interaction	Lack of support from KADIN figureheads with good relationships with the key state agencies related to palm oil issues	Lack of support from KADIN figureheads that have good relationships with the key state agencies related to palm oil issues	No interaction
Meso-level	No interaction	<p><b>Coordination</b> for developing IPOP as a high-profile initiative at the national and international levels</p> <p><b>Co-optation</b> by the Indonesian state through the key state officials responsible for the development of the palm oil sector</p>	<p><b>Competition through confrontation</b> as IPOP continued operating despite being criticised heavily by key state officials in the palm oil sector</p> <p><b>Competition through threats</b> occurred as key state officials wanted to disband IPOP.</p> <p><b>Chaos</b> as IPOP faced uncertainty due to vocal criticism from key state officials, but it did not have any problems working with ministerial officials from the lower echelons and local government officials; meanwhile, IPOP was unsuccessful in getting clarification of their positions.</p>	<b>Co-optation</b> is the main character as the antitrust investigation became a sensitive issue for member companies; they finally decided to disband IPOP.
Macro-level	<b>Coordination</b> for formulating a pledge between business actors (the sustainable development group of KADIN), state actors (REDD+ Taskforce and BKPM), and civil society actors (environmental NGOs)	No interaction	<b>Chaos</b> as IPOP faced an antitrust investigation from KPPU	No interaction

Table 4.3: Governance Interactions between the Indonesian State and InPOP: staying in Coordination

	Agenda setting	Rule formation	Implementation	Evaluation
Period	2014	2014-2015	2015-now	Middle of 2016
Micro-level	No interaction	No interaction	Dissatisfaction from some state officials with the progress and clarity of InPOP's programs	Not enough information
Meso-level	No interaction	<p><b>Coordination</b> to develop the multi-stakeholder forum involving actors from government, development partners, private sector, and civil society organisations</p> <p><b>Coordination through division of labour</b> between the Ministry of Agriculture and UNDP</p>	<p><b>Coordination</b> in addressing issues relating to smallholders, land, HCV, and inter-ministerial collaboration</p> <p>Further <b>coordination</b> was developed to shift the leadership to the Ministry of Agriculture.</p>	Not enough information
Macro-level	<b>Coordination</b> between an international agency (UNDP) and the Indonesian state (Ministry of Agriculture) motivated by awareness of the importance of the state's role in improving regulation and addressing smallholder issues	No interaction	No interaction	Not enough information

### 4.5.2. Underlying mechanisms of the interactions

The responses, as seen in the table, involve dynamic underlying mechanisms. First, actors from different echelons in a specific agency might also give different responses. In some cases, invalidation might be expressed by state officials from higher positions, and in the absence of further action, the responses given would become the state's formal position. Moreover, the responses at the institutional level might differ with responses at the individual level. In the case of RSPO, personal relationships help to maintain some cooperation. IPOPOP could not rely on such personal relationships with the lack of support from KADIN figureheads to mend the relationships with key state officials. Different responses given by state actors link to the discussion about hidden and public transcripts in avoiding hegemony (Scott 1990). In the same agency, some state actors might support non-state actors to further progress with sustainable palm oil initiatives (in the cases of RSPO and IPOPOP), while some state actors are not necessarily committed to having more progressive steps (in InPOP's case). Different responses by state actors emerged without directly confronting the norms exhibited by their leaders. In the case of resistance to agenda of non-state initiatives, such aversion would not lead to a face-to-face confrontation with the state as long as the non-state initiatives were able to maintain relationships at different levels (micro, meso and macro), while remaining concerned with continued program implementation.

Second, these responses depend on pathways built by non-state initiatives. In these pathways, two factors are relevant to determining interactions, namely (1) positioning of the non-state initiatives, and (2) strategies to communicate with the state. The Indonesian state could not intervene in RSPO too much. On positioning, RSPO had an advantage from its global and market recognition that was difficult for ISPO to match. On communicating, RSPO maintained an image of governance among private actors that made disqualifying statements from state officials less relevant. IPOPOP from the beginning had a position as high-level initiatives with strong support from global organisations, donor countries, and some state officials. However, this position also brought with it a liability in developing communication, as it was accompanied by the perception of having strong linkages with the former presidential administration and the agendas of foreign countries. With this vulnerability, the leading figures in KADIN that potentially had the leverage to open communication with high state officials did not give firm support. UNDP adopted a different strategy by initiating InPOP as a consultative platform with the Ministry of Agriculture. The state was involved step-by-step in its establishment and finally achieved recognition for leading the initiative. The case of InPOP confirms the argument that intergovernmental organisations have the potential to perform significant intermediary roles, encourage new schemes, or support existing ones that advance public goals by leaning on state consent (Bernstein 2011; Abbott 2012).

Third, responses change over time, which we observed in the relationship between these changes and the changing of Indonesia's political-economic situation. The palm oil sector made a significant contribution to the recovery of the Indonesian economy following the 1997 Asian Crisis (Susila 2004). The economic recovery enabled the state to bring back its role in facilitating palm oil sector development, but this time the state faced increasing pressure to address sustainability issues (Pramudya, Hospes, and Termeer 2017a). The reluctance to develop further partnerships within RSPO occurred at the onset of the rising confidence of the state to improve its facilitation roles. In the meantime, Varkkey (2016) mentioned that patronage politics from business had an increasing influence on policymakers, contributing



to the palm oil expansion at the expense of environmental and social needs. Patronage politics partially provided reasons for the objection of the Indonesian state in supporting the disqualification of palm oil producers that could not comply with IPOP's pledges; this was done with the reasoning that it would protect smallholders, yet meanwhile, the state did not provide reasonable solutions directing smallholders towards improved sustainable development practices. The attitude used by InPOP to approach and strengthen the Ministry of Agriculture's role in the sustainable palm oil issue received a positive response as it did not conduct open confrontation with the government.

Fourth, the responses of the state depend on the position and leadership style of the state's administration. The Yudhoyono administration, from 2004-2014, adopted a strong vision for promoting sustainable development that burnished its international image. However, the administration contended with an implementation deficit due to weak leadership, indecisiveness and allowing political financing from natural resource exploration (Anderson, Firdaus, and Mahaningtyas 2015). During these years, the state's responses to non-state actor sustainability initiatives that emerged including modest involvement in RSPO, establishing ISPO but with limited authority under the Ministry of Agriculture, and witnessing the high-profile of pledge signing of IPOP in the Paris Climate Conference. In 2014, with the new government under President Widodo's administration, there emerged an increasing reluctance to entertain foreign interference, promoting economic nationalism, and demanding higher international recognition (Aspinall 2016). However, the Widodo administration exhibited inconsistency with unpredictable responses and ad-hoc management (Warburton 2016). Under this administration, the confusing responses to IPOP occurred alongside a suspicion that it had become a vehicle of foreign interests. Such issues related to sovereignty might stimulate the Indonesian state's strong reaction with could result in repressive approach (Pramudya, Hospes, and Termeer 2017b) However, the humble approach of UNDP in establishing InPOP that has similar programmes with IPOP resulted in a positive response from the state. This situation shows that leadership styles and orientation affect the state's responses, and business that is aware can develop more effective collaboration with the state.

The changing and, sometimes, unpredictable responses from the state raises an issue about what would be a suitable role for the state. Evans (1995) argued that beyond limiting itself to regulation, the state could perform important facilitation of developing the economy by supporting business. However, when the situation changes, then business would have to reorient themselves to contemporary conditions. Rather than leaving it to the market mechanism, the state plays a vital role in preparing enterprises to cope with the changes. The Indonesian palm oil sector itself emerged from active facilitation of the state in the past (Rival and Levang 2014; Anne Casson 1999; Pramudya, Hospes, and Termeer 2017a), and therefore seeing the state as an essential agent for sector transformation is undeniable.

#### **4.5.3. Business implications**

In analysing the implications of business involvement in non-state sustainable palm oil initiatives, we can highlight six points. First, business involvement in sustainability initiatives does not only aim to respond to market demands. Business benefits most from the opportunity to work side-by-side with other stakeholders and public agencies to address sustainability issues. In the Indonesian palm oil sector with regulation complexity, political sensitivity, and the participation of small-scale producers, such collaboration becomes an important strategy.

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By participating in non-state sustainability initiatives, business can develop collective action in closer interaction with policymakers. Companies that are involved in non-state sustainability initiatives have opportunities to share their challenges, and together with the initiatives, lobby policy makers for regulatory changes or even for the state's support in facing international pressure. This proximity, however, demands better engagement with state agencies and officials. Particularly during the political transition, companies have to read the situation and not remain stuck in obduracy. The lack of careful attention to domestic political transition would result in failure regardless of the extensive support provided by donor countries and NGOs.

Second, business needs to be aware of the variety of orientation and political positioning across governmental levels. In the case of IPOP, business assumed strong political support in the pledge signing witnessed by the President, in the presence of high-level officials from key ministries at IPOP events, and in the keynote speech by high-level state officials at the Management Team's launching ceremony. However, all of these proved insufficient when communication with the Directorate General of Plantation, the leading authority in the plantation sector, was not developed well. IPOP was not aware that the presence of ministerial officials did not always automatically means that their superintendents agreed. Indeed, with their absence, some state's high officials might feel that they were not involved.

Third, initiatives at the individual company level are important. Beyond demonstrating a commitment to self-improvement, individual company initiatives might become a survival strategy in developing multilevel interactions with the state. When a company engages in multilevel interactions, the tension and conflict in the level that involves more stakeholders could be mitigated by developing relationships at the level where fewer stakeholders are involved, or by further isolating the interaction between the individual company and the state officials. IPOP member companies, rather than stubbornly involving themselves in a conflictual situation with the state, decided to refer back to companies' individual pledges. The implementation of individual pledges can address concerns over their commitment to improving business practices rather than elongating political tensions.

Fourth, non-state sustainability initiatives can reduce the risk for direct conflict with the state by developing internal capacity for maintaining the relationship at the personal level, despite times of intensified conflict with the state. One way to build such capacity is to hire persons that have good personal relationships with the state officials, as we see in RSPO. However, this was not the case with IPOP where KADIN officials did not want to liaise with the government. Maintaining relationships at the personal level can reduce the risk of direct conflict with the state.

Fifth, in arranging non-state initiatives, third parties might play important roles in facilitating state engagement. In the case of InPOP, UNDP provides an excellent example of this task. The Indonesian state could not simply block the path of UNDP in developing such an initiative, due to its position as an intergovernmental organisation. On the other hand, UNDP seemed to know how to engage the state effectively from the beginning and at the time gave the Indonesian state a bigger responsibility in progressing the InPOP agenda.

Lastly, the participation of business in non-state sustainability initiatives often comes with the expectation that they will perform beyond legal requirements. This can be seen in our cases,

where NGOs often brought suspicion and mounted pressure on business without considering the needs of business to adjusting their operations and learn from past mistakes. One needs to be aware that business becomes pro-active in their participation for sustainability governance if they perceive the initiatives are fair and offer sufficient benefit, such as distinguishing themselves from competitors, providing access to markets, or anticipating regulatory change (Rondinelli and Berry 2000; Abbott 2012; Kordos and Vojtovic 2016). On the one hand, an awareness of business limitations does not need to limit the scope of commitment to improving sustainability. On the other hand, companies need to look beyond a business-as-usual approach and have a basis on concerns about the urgent actions for saving the planet. Business should not limit itself relying on a narrow CSR agenda and searching for regulatory loopholes (Gillespie 2012; Weyzig 2009; Azhar et al. 2017). Moreover, rather than asking for additional protection from the state, business could contribute to public-private partnerships through providing material resources, managerial authority, and expertise where they excel, according to Abbott (2012).

#### 4.6. Conclusion

Business, in its involvement with non-state sustainability initiatives, needs more than straightforward ways to deal with the pressures of addressing environmental and social impacts. Analysis of governance interactions that generate responses from the state towards non-state sustainability initiatives plays important roles in formulating and implementing business strategy. Our cases show that these responses are not stable but are changing dynamically. Between the Indonesian state and RSPO, the character started as co-optation (from the non-state actors' side) and changed to coordination. This coordination later changed to competition and then to coordination, albeit limited coordination. With IPOP, the character turned from coordination to chaos, and finally to co-optation. The character of interaction between InPOP and the Indonesian state persisted as coordination. Dynamism is also observed within the state, across governance levels, and regarding personal levels compared to institutional levels. Across time, this dynamism is also present in pathways developed between the Indonesian state and the non-state initiatives.

These changing responses depend on underlying mechanisms within the governance interaction. Such mechanisms include dynamic interactions between the state and private governance arrangements, the varying positions of actors, the internal dynamics within state agencies, the pathways of the non-state sustainable palm oil initiatives, and the political economy. Beyond the dynamism outlined in the TBGIF by Eberlein et al. (2014), these interactions are not only different from one governance arrangement to another, but also alter over place and time within one arrangement. Since the nature of Indonesian state – non-state initiatives is highly dynamics; it is reasonable to expect that the current configuration is not final, and further changes are likely.

The cases presented in this article show that business has to develop an effective strategy in participating in non-state sustainability initiatives. Business might apply flexible positioning in facing political transition, identifying and checking whether good communication has been developed with key state actors, developing multilevel playing fields from institutional to individual and personal levels, and seeking third-party assistance in facilitating communication with the state.

This research on governance interaction has been limited in four ways: the time-span of the observation (until 2016), the space for describing activities of the non-state sustainability

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initiatives, the availability of comprehensive evaluation of the initiatives, and resources available (including time and finances) to support the implementation of the research. Rather than becoming a stumbling block in understanding the topic of governance interaction, these limitations open opportunities for further research. First, as the current configuration between state and non-state initiatives is not final, researchers in the future can look further into the dynamism developed after 2016. Second, the willingness of the state to capitalise on expertise generated from involvements in these initiatives could be explored. Third, the network of innovation and improvement created from the interaction of individual company commitments to non-state sustainability initiatives could be examined. Finally, reflections by business actors on the interaction between the state and non-state sustainability initiatives could be surveyed.

# Chapter 5

## **Internal coordination of the Indonesian state to manage forest, land and plantation fire: A Fraternal Rivalry?<sup>12</sup>**

### **Abstract**

Forest, land and plantation fire (FLPF) is a strategic and politically sensitive issue for Indonesia. FLPF causes health, economic and social impacts, complaints from neighbouring countries, domestic political tension, and international pressure on tropical forest destruction and global warming. In this paper, we analyse the role of the state in managing FLPF by focusing on national level coordination, and on the roles of forestry and plantation authorities. The central question of this paper is: what are the challenges faced by the Indonesian state to develop internal coordination in managing FLPF, and to what extent have bureaucratic politics complicated these coordination efforts? The paper concludes that Indonesia faces persistent challenges to develop internal coordination in managing FLPF. Bureaucratic politics complicates the internal coordination with power plays and competing agency ideologies between the forestry and plantation authorities. The limited funding availability exacerbates the challenges. In recent years, President Widodo administration has adopted a leadership style and approach that have contributed to a reduction of the scale and coverage of FLPF. However, we argue that concluding that FLPF has been managed successfully by the Indonesian state needs more observation in the future.

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<sup>12</sup>The first version of this chapter has been published as Pramudya, Eusebius Pantja, Otto Hospes, and C.J.A.M. Termeer. 2017. "Brother Against Brother: The Tale of Two Ministries in Managing Landscape Fire." In *Re-Examining Governance: Strengthening Citizenship in the Changing World*. Proceeding of the International Conference on Contemporary Social and Political Affairs (ICoCSPA) 2016, edited by Novri Susana and Sulikah Asmorowati, 182–94. Surabaya, Indonesia: Faculty of Social and Political Science, Universitas Airlangga.

### 5.1. Introduction

FLPF (forest, land and plantation fire, or karhutlabun/kebakaran hutan, lahan dan kebun) is a challenging issue for the Indonesian state. Sumatra and Kalimantan have a long history with FLPF. There are indications that FLPF has occurred since prehistoric times, and there were some incidents reported in 15th century (Dennis 1999). The first report of FLPF after Indonesian independence was in 1961, in eastern parts of Sumatra and Kalimantan, with reported haze in Malaysia and Singapore (Heil 2007). Since the decade of 1980, fire incidents happened more frequently (Gellert 1998; Dennis 1999). The 1980s was also a time of increasing forest exploitation to generate non-oil revenues (Booth 1998; Hidayat 2016).

Before the 1990s, FLPF was dominantly within the domain of the forestry sector, as it occurred from clearing lands for swidden agriculture by traditional communities and its unintended spread due to climatic conditions. Later, with the increase use of forest resources and the conversion to plantations, fire incidents were also caused by clearing for commercial purposes and social conflict (by locals who were evicted by the concessionaries or as retaliation for land grabbing conducted by big investors) (Tomich et al. 1998; Jones 2006). Until the late 2000s, the term of forest fire was commonly used. The change of the term to FLPF signalled an awareness of the multi-sectoral character of FLPF. The use of fire for clearing lands to open plantations had escalated, which had been pushed by the surging demands of palm oil in the middle 2000s. Plantation expansion was also stimulated by the increasing practices of illegality in post-Suharto Indonesia, resulting from a weakened enforcement of regulations because of patronage politics, the increasing use of peatlands as access to mineral lands had decreased, and the limited capacity of the state to facilitate financial schemes and assistance for propagating agricultural best management practices after the crisis (Vayda 2006; Bakker 2015; Pramudya, Hospes, and Termeer 2017a; Varkkey 2016). Moreover, land-clearing by fire involves huge economic rents that attracted many people from business, government, the security apparatus, local communities, and indigenous communities (Purnomo et al. 2017). In recent years, hotspots have been increasing in the areas where plantation expanded, such as in South Sumatra, West Kalimantan and Central Kalimantan (Direktur Pengendalian Kebakaran Hutan dan Lahan 2016; Endrawati 2016; Panjaitan 2015).

For Indonesia, FLPF is an alarming issue. Since 1993, the use of fire for land clearing has been declared illegal; indeed regulations on fire were issued even earlier, after the 1982-83 large forest fire incidents (Tay 1998). The issuance of the Environmental Act No. 32/2009 strengthened the sanctions. Perpetrators can be imprisoned for at least three years or penalised between three and ten billion rupiah. However, the Environmental Act allows the use of localised fire in indigenous community swidden agriculture specifically in areas of a maximum of two hectares per household, encircled by firebreak to prevent fire propagation.

Consecutive ruling administrations in Indonesia framed FLPF as a security threat (Edwards and Heiduk 2015). The Suharto regime in the 1980-90s repeatedly stated that FLPF was a serious security problem caused by swidden farmers. The Habibie Administration (1998-1999) expressed that fire incidents threatened human security in Indonesia and neighbouring countries. The Ministry of Defence during the Megawati Administration (2001-2004) mentioned fire issues as threats to national security. President Yudhoyono in 2006 declared a “war on haze”, and in 2014 led a large non-war military operation to fight fire incidents (Associated Press, March 14, 2014; Mongabay, March 17, 2014; Tempo, March 17, 2014). The Widodo Administration, in office

since 2014, waged war on illegal land burning and committed to reduce plantation expansion into peatlands (Guardian, October 29, 2015; Star Online, September 7, 2014; Jakarta Globe, November 27, 2014).

These strict regulations and high-level administration attention do not immediately provide enabling conditions for reducing the scale and coverage of FLPF. The most obstructive factor is the lack of internal coordination in governing the environment and managing FLPF, as has been discussed in various literatures (Achyar, Schmidt-Vogt, and Shivakoti 2015; Nasrul 2013; Herawati and Santoso 2011b; Arnscheidt 2009; Warren and Elston 1994; Simarmata 2010; McCarthy and Zen 2010). Until 2014, the ministerial coordinator appointed was the Ministry of Environment that did not have power to oversee the agricultural and forestry sectors, while the provincial governments did not have sufficient courage, power or willingness to discipline the district governments (Tay 1998). Furthermore, state officials were often reluctant to organise stringent action, as they were often under the influence of owners of big plantations and forest concessionaries (Cotton 1999; Varkkey 2016). Such huge challenges to develop effective internal coordination has attracted the attention of scholars interested in the state's capacity to manage FLPF (Herawati and Santoso 2011a; Quah and Johnston 2001; Purnomo et al. 2017; Barber 2002; Simorangkir and Sumantri 2002; Tacconi and Vayda 2006; Gellert 1998). In a bigger domain, the capacity in the Southeast Asian region to manage transboundary haze was also under question (Sulaiman, Ibarahim, and Hooper 1998; Jones 2006; Cotton 1999; Lee et al. 2016; Nurhidayah, Alam, and Lipman 2015; Tacconi, Jotzo, and Grafton 2008; Florano 2007; Nguitragool 2011; Litta 2012; Beeson 2010). Despite the extensive literature available on the topic, the analysis of internal coordination in managing FLPF is very limited.

In the current structure of the Indonesian government, internal coordination is conducted by: (1) the president and the coordinating ministries appointed for national coordination, (2) the Ministry of Environment and Forestry (which resulted from the merger of the Ministry of Environment and the Ministry of Forestry in 2014) or formerly the Ministry of Forestry (prior to October 2014) assuming sectoral coordination, and (3) the Ministry of Agriculture, particularly at the Directorate General of Plantation for supervising the plantation sector. Instead of mentioning these ministries directly, we refer to both as authorities. This because the authorities for the forestry and plantations sectors do not consistently stay in the same position in the Indonesian state structure. Until 1964, both authorities were under the agriculture ministry (J. A. C. Mackie 1961). The separation started in 1964 by the establishment of the Ministry of Forestry and the Ministry of Plantation (Woonkyung 2016). In 1968, both forestry and plantation authorities stood as directorate generals under the Ministry of Agriculture until 1983 (Badrun 2011; Gellert 2003). In 1998, both authorities were merged for a new Ministry of Forestry and Estate Crops (Sunderlin 1999). In 2002, the Directorate General of Plantation became a subordinate of the Ministry of Agriculture (J. Mackie 1999). However, in some provinces and districts, the office (*dinas*) of plantation stayed together as *dinas* forestry and plantation (*Dinas Kehutanan dan Perkebunan*) (Ekawati 2010). During our field research (2015-2017), we identified that some local governments managed to separate the *dinas* of forestry and plantation.

The objective of this paper is to contribute to the debate about the role of the state in managing internal coordination of FLPF. The question of this paper is: what are the challenges faced by the Indonesian state to develop internal coordination in managing FLPF, and to what extent have bureaucratic politics complicated these coordination efforts? To answer this question, we would

like to unravel the evolving roles of the state in developing internal national coordination and ministerial coordination in the forestry and plantation authorities.

In analysing the challenges to develop internal coordination to manage FLPF, we use the bureaucratic politics theory. One might assume that ideally bureaucracy is insulated from politics so that each can focus solely on complementing their duties and using their knowledge to contribute to achieving common goals. However, bureaucrats more often compete with each other, work at cross-purposes, resulting in coordination problems because of power bargaining, resources competition and different agency ideology. These problems are worsened when there is a lack of coordination from senior political leaders.

This paper is organised into several sections. After this introduction, we present the theoretical background and methodology sections. Then, we discuss the role of the Indonesian state in managing FLPF from the coordination efforts at the national level, and at the ministerial level in the forestry and plantation authorities. That section is followed by a discussion of the challenges of the Indonesian state in managing internal coordination to manage FLPF and the effect of bureaucratic politics. The concluding section summarises the challenges for managing FLPF and identifies areas for future research on the extent of fire.

### 5.2. Theoretical Background

Internal coordination, which ensures agencies and actors of a state work towards the same direction in efficient, consistent and predictable manners, is indispensable for achieving legitimacy on laws, rules and regulations (Allen 2004; Gerth and Mills 1946; P. Evans 1995). Coordination enables bureaucrats to develop a concentration of expertise based on technical knowledge, and then to enforce rational legal authority that demands all people comply, without any groups or persons receiving unreasonable privilege (Allen 2004; Bourdieu, Wacquant, and Farage 1994; Reay and Hinings 2009; Peters 2001). The coordination is expected to address three dimensions of a state (Hunt 2005), namely cross departmental (across agencies in the same level), cross governmental (between different levels of government nationally and locally), and cross sectoral (including actors both from inside and outside the state). If there is a lack of internal coordination, state agencies would work at cross-purposes, involve themselves in politics against another, appropriate the budget and its control, and finally result in state decisions being based on patron-client ties and pressures from interest groups (Chibber 2002; P. B. Evans 1989; Bouckaert, Peters, and Verhoest 2010).

Bureaucratic politics affects efforts to improve internal coordination. The first is the bargaining game involving state actors that struggle to acquire and retain power (Allison 1971; Clifford 1990; Welch 1998; Bendor and Hammond 1992; Rhodes 1994). The bargaining game could also emerge from differences in opinions over functional and expert staff, an underestimation of the roles played by outside actors, and the influence of ideology (Dawisha 1980; Hart and Rosenthal 1998). The second is the clashed agency ideologies where bureaucrats compete on arguing for approaches based on their specific expertise while lacking an appreciation of expertise outside of their field (Peters 2001). The state has an important role in developing universal values to ensure all state actors work coherently despite having different power and bringing different agency ideologies (Bourdieu, Wacquant, and Farage 1994). These universal values are more likely to be achieved where actors collaborate. The third is the competition for resources where bureaucratic



agencies compete to secure their allocation from the state budget (Chibber 2002; Peters 2001). The third is the competition for resources. Referring to Peters, bureaucrats already have office and are unlikely to lose it, but they do not have money (Peters 2001). To get the budget, the bureaucratic agencies compete with each other, where state agencies might develop reasons for employing non-cooperative strategies and be in tension with the state's central policies (Chibber 2002). The state might benefit from this resources competition in that it allows the state to choose the best proposals, but too much of this competition would work against efforts for coordination. The fourth is leadership from senior political leaders (the president, prime minister, governors, mayors) that plays important roles in interpreting, manipulating and altering the institutional rules in collective policymaking (Clifford 1990; Preston and Hart 1999).

Bureaucratic politics is exacerbated by external political interferences from interaction with other government officials or unofficial political actors to advance their interests (Peters 2001; Giessen, Krott, and Möllmann 2014; Clifford 1990), which expose bureaucrats to unrealistic expectations, inappropriate decision-making strategies, and pursuance of narrow benefits other than those pursued by the state. These external factors are unavoidable since bureaucrats are generally circumscribed in social and political environments where political actors compete to influence the direction of the state (Stonet 1983).

Enabling conditions for achieving transition require politicians and bureaucrats to work closely but with significant autonomy for the bureaucracy (P. Evans 1995; Dasandi 2014). The state that insufficiently develops coordination might fall into predatory practices where high costs are incurred from the inability of state agencies and actors to communicate well among themselves, and with actors outside the state (Rock 2002).

### 5.3. Methodology

The research is based on an interpretive methodology. In interpretive methodology, researchers make sense of human action and their meaning in everyday life contexts by interpreting what they see, hear and understand based on their knowledge of context, history, backgrounds and prior understanding, guided by objectivist ontological assumptions, and not by a constructivist-subjectivists approach (Creswell 2009; Ahrens 2008; Bournois and Bourion 2009). The interpretive research commonly begins with informed puzzles or senses of tensions grounded in research literature and prior knowledge in a study setting, which enable the researchers to engage in the questions of how power arises without being constricted by a predefined hypothesis and a-priori theory testing (Yanow and Schwartz-Shea 2006).

In analysing the challenges to developing internal coordination, we use policy documents issued by the national government, forestry authority and plantation authorities. The analysis and further information related to the policy documents are collected from academic journals, books, reports, news media, and interviews. We interviewed state actors and non-state actors both from the central governmental and local governmental levels (at the provincial and district levels). We identified these interviewees by using snowball methods, for which we used initial information to identify knowledgeable people from their social networks (Heckathorn 2011; Goodman 1961). We conducted 15 semi-structured interviews in Greater Jakarta, Jambi and Riau. The interviewees are listed in Appendix 1. The interviews were conducted between April 2015 and July 2017.

The data analysis follows five steps suggested by Kvale and Brinkman as cited in Mann (2005): (1) reading through the whole interview to get a sense of the whole, (2) determining the unit of analysis, (3) restating the unit of analysis as simply as possible, (4) interrogating the unit of analysis in terms of the specific purpose of the study, and (5) drawing out the non-redundant themes of the entire interview.

We use the term FLPF (forest, land and plantation fire) instead of forest fire that is commonly used. The terms FLPF is relatively new but represents a growing public concern that the fire is not limited to forest fire, but involves fires in forests, non-commercially used lands outside forest zones (including peatland and unused land), and plantations.

Lastly, the state is not a monolithic agency, and therefore different interpretations, positions and implementation on an issue or regulations released related to an issue are possible.

### 5.4. Internal Coordination in Managing FLPF

In this chapter, we would like to discuss the measures to develop internal coordination for managing FLPF at the national level, and in both key ministerial authorities on forestry and plantations.

#### 5.4.1. The internal coordination at the national level

At the national level, the President functions as the highest coordinator of FLPF management. The president relies on the roles of three coordinating ministries in the fields of economic development, national security and social welfare (Interview 1). The extensive internal coordination efforts for managing FLPF has improved significantly when the then President Yudhoyono issued Inpres (Presidential Instruction) No. 16/2011. This *Impres* instructed the Coordinating Ministry of Social Welfare to coordinate 15 state agencies, i.e. the forestry, agriculture, environment, research and technology, internal affairs, foreign affairs, finance and national development planning ministries, together with the attorney general, the commander of armed forces, the chief of national police, the chief of BNPB (National Agency for Disaster Management), the governors and the district heads. The forestry and plantation authorities were responsible for their sectors, while the environment ministry focused on international cooperation and restoration of areas destroyed by FLPF.

In 2014, the newly elected President Widodo had to deal with a huge FLPF incident several weeks after his inauguration. Responding to this situation, Widodo issued Inpres No. 11/2015 to improve coordination in managing FLPF. The Presidential Instruction assigned the Coordinating Ministry of Political, Legal and Security Affairs the coordination of 25 state agencies. Compared to the Presidential Instruction No. 16/2011, there were ten additional state agencies mentioned, i.e. ministries of health, education and culture, religious affairs, social affairs, communication and information, state-owned enterprises, agrarian and spatial planning, public works and housing, together with BMKG (Indonesian Agency for Meteorology, Climatology and Geophysics) and other government agencies considered important. This more extensive coordination aimed to shift the paradigm of FLPF management from mitigation to prevention, since focusing on prevention would reduce costs to a third of those costs associated with mitigating fire incidents (Interview 1).

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According to Inpres No. 11/2015, the forestry and plantation authorities assume three main functions. These functions are regulating and coordinating regulation implementation, firefighting operations, and implementing compliance audits. In terms of regulating and mitigating, MoEF has a greater licensing power compared to MoA. MoEF issues permits to whoever wants to develop a forestry business, while in the plantation sector, most of the licenses are issued by district governments (Interview 2 & 3). In coordinating firefighting operations, the forestry authority has a fire brigade to protect conservation zones, whereas for commercial concessionaries and plantations both authorities have to rely on fire brigades coordinated by district governments. The audit compliance came out as a new monitoring mechanism introduced by the Presidential Unit for Development Monitoring and Oversight (UKP4) in 2014. Compliance Audits are managed by a joint team from MoEF, MoA and some other state agencies (Kementerian Kehutanan RI et al. 2014). The Joint Team collects information and develops recommendations for managing fire incidents and preparedness for providing capable human resources, reliable equipment and adequate facilities.

Beyond the forestry and plantation authorities, FLPF management involves various ministerial and non-ministerial agencies at the national level. The Ministry of Home Affairs is responsible for the national level coordination of fire brigades. The Ministry of Health takes care of the health impacts caused by fire and haze. The Ministry of Social Affairs manages the attention to people that are impacted by FLPF. The haze of FLPF frequently covers neighbouring Southeast Asian countries, which demands the role of the Ministry of Foreign Affairs. The Ministry of Finance manages budgetary allocations and ensures finance is available for the firefighting operation. The Ministry of Transportation manages the impact of haze on the transportation sector. The National Development Planning Agency (Bappenas) gives recommendations on the management of the FLPF. BNPB assumes responsibility for disaster mitigation operations once FLPF becomes difficult to control and is declared a disaster. BMKG provides data and observation related to meteorology, climatology, air quality and geophysics. LAPAN (the Indonesian National Institute of Aeronautics and Space) provides high resolution remote sensing satellite imagery for observing hotspots. BIG (the Geospatial Information Agency) provides geospatial data on fire location and coverage. The Armed Forces joins the firefighting operations as fire locations are often difficult to reach and in the harsh environment. The National Police ensure ex ante and ex post law enforcement.

Under the coordination of the national state, the provincial and district governments have to ensure the implementation of regulations and are subject to Compliance Audits. District governments are also responsible for disaster management conducted in their administrative areas by the *dinas* of fire brigade. The fire brigade *dinas* received support from provincial governments. In 2016, the fire brigade *dinas* was transferred to the provincial/district disaster management agency (BPBD).

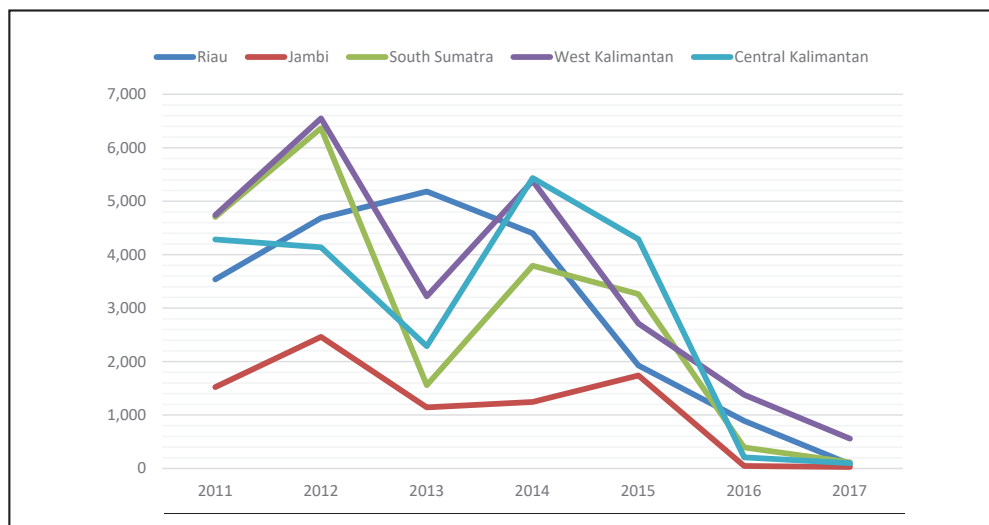
Despite the more extensive coordination efforts, FLPF incidents worsened in the first year of Widodo's administration. From June to October 2015, the worst FLPF in Indonesian history occurred, affecting 2.6 million hectares of lands (The World Bank 2016). The most affected province was South Sumatra, which contributed 23% (608,000 hectares) from the overall area, followed by Central Kalimantan (16% or 429,000 hectares), East Kalimantan (15% or 388,000 hectares), South Kalimantan (11% or 292,000 hectares), Papua (10% or 268,000 hectares), and West Kalimantan, Riau and Jambi (17% or 440,000 hectares), and other provinces (7% or 186,000 hectares). This incident has caused economic losses of around US\$16 billion, which

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was double the estimated value added from gross palm oil export in Indonesia (US\$ 8 billion). The visit of the President during the fire, and the meetings conducted with district heads and governors in the provinces affected by fire was not successful in reducing the scale of FLPF. Responding to this crisis, as advised from the meeting of MoEF high officials and the head of Presidential Staff Office (KSP), in January 2016 President Widodo called the governors and the provincial heads of the army and police officers to the Presidential Palace in Jakarta (Interview 3). In the meeting, President Widodo warned that the provincial heads of the army and police officers could lose their position and might be demoted. The stronger message sent to the security officers improved the field monitoring of hotspots, as confirmed during the field visit in Riau in early 2017 (Interviews 4 and 5).

The various coordination efforts mentioned above shows three changes in approaches to coordination in managing FLPF between 2011 and 2017: (1) coordination with a lower scope (2011-2015), (2) coordination with a higher scope (2015-2016), and (3) coordination with a more security approach (2017-now). The impacts of these different coordination efforts can be seen in Figure 5.1 shows a significant decrease of hotspot in the last two years.

Figure 5.1. Hotspot Recorded in Five Provinces Severely Affected by FLPF



Provinces	2011	2012	2013	2014	2015	2016	2017
Riau	3,536	4,686	5,182	4,400	1,927	891	81
Jambi	1,523	2,462	1,144	1,244	1,740	46	28
South Sumatra	4,705	6,367	1,558	3,794	3,264	394	115
West Kalimantan	4,740	6,550	3,221	5,381	2,711	1,377	558
Central Kalimantan	4,285	4,139	2,288	5,434	4,289	209	100

Source: Sipongi Karhutla Monitoring System (<http://sipongi.menlhk.go.id/home/main>), Direktorat Pengendalian Kebakaran Hutan (2015), Endrawati (2016) and Panjaitan (2015).

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Although the data shows significant reduction of hotspots, however in term of areas the data only shows significant increase of areas during the peak of El Niño Southern Oscillation.

Table 5.1. Areas (000 ha) Affected by FLPF in the Five Main Provinces

Provinces	2011	2012	2013	2014	2015	2016
Riau	74.5	834.0	1,077.5	6,301.1	4,405.5	1,928.3
Jambi	84.5	-	484.15	8,504.9	19,528.0	36.8
South Sumatra	89.0	11.3	199.10	3,470.6	30,985.0	266.49
West Kalimantan	-	565.7	22.70	3,556.1	3,192.0	1,859.1
Central Kalimantan	22.0	55.15	3.10	4,022.9	122,882.9	912.89

Source: Sipongi Karhutla Monitoring System (<http://sipongi.menlhk.go.id/home/main>), Direktorat Pengendalian Kebakaran Hutan (2015), Endrawati (2016) and Panjaitan (2015).

The Indonesian state is struggling with financing the prevention and firefighting operations. MoEF only provides funding for FLPF occurring in conservation zones (Interview 3 & 6). Beyond the forest zone, FLPF management is the responsibility of local governments (Herawati and Santoso 2011a). The recent effort to involve security officers has added another complexity, as costs incurred from this mobilisation were not sufficiently covered in the routine budget of the armed forces, police or local governments; this has made MoEF prefers to limit security official involvements to police officers with the addition of marines during emergency situations (Interview 6). Declaring FLPF as national disaster has also had budgetary impacts, with huge expenses as BNPB needed to rent equipment, especially helicopters. These helicopters have to be rented from private companies related to powerful elites that made it difficult to bargain on leasing costs (Interview 6).

Since 2014, the government has promoted the development of community-based initiatives for managing FLPF. It came with the big expectation that village governments would have capacity to support this through the use of Village Funds (Dana Desa) as stipulated under Law No. 6/2014 (with further stipulations via Government Regulation No. 8/2016 on Village Funds from State Budget). Under this regulation, the village governments receive funds for local development under the supervision of the Village Consultative Body (according to the Government Regulation No. 43/2014). The Minister of Villages, Disadvantaged Regions and Transmigration and the Coordinating Minister for Political, Legal, and Security Affairs stated that the government allowed the use of Village Funds to strengthen FLPF management at the village levels (Jong 2016; Primus 2015). However, many villages prefer to use Village Funds to improve physical infrastructure while they are reluctant to use these funds for managing FLPF amidst a lack of clear technical guidance (Sinurat 2017).

During the field research, it was observed that these community-based initiatives relied on the funding provided by CSR programs. This high dependency might exclude some communities living in the areas that do not get priority for CSR funding like areas that are too remote or are not located nearby the specific companies (Interview 6 & 12). The support from CSR

program is frequently also managed as a one-time project; once the equipment is deteriorated the replacement is not readily available (Interview 4 & 5). Some community that received supports from a CSR project was also asked to help the firefighting operation if the fire happened in the company's zone with the minimum incentive (only getting meals) (Interview 4). Therefore, relying too much upon private sector funding is problematic.

### 5.4.2. The Role of the Forestry Authority

In the coordination and law enforcement role, the Ministry of Forestry is the focal line ministry for managing FLPF. The forestry authority performs four roles: (1) coordination and law enforcement, (2) firefighting operations, (3) supervision and (4) community empowerment.

Related to coordination and law enforcement, the Indonesian state shows an increasing awareness as reflected in the position of the FLPF management unit in the organisational structure. In 1983, the Ministry of Forestry established the Forest Fire Section in the Directorate of Forest Security (Simanjuntak 2011). As the incidence of FLPF increased, in 1994 the section was promoted to become a Sub-Directorate under the Directorate of Forest Security. Also in 1994, the Forestry Ministry established fire brigades at the national, provincial and district levels. In 2000, the Forest Fire Sub-directorate was further promoted to become the Directorate of Forest Fire Management. This shows the increasing importance of FLPF management expressed in the organisational structure of the forestry authority.

The coordination went further in the implementation of the presidential instruction issued for improving FLPF management. Presently, in implementing Inpres No. 11/2015, MoEF issued Ministerial Regulation No. P.32/Menlhk/Setjen/ Kum.1/3/2016 to strengthen coordinating and operation. The coordination team is in the National Task Force, an ad-hoc team headed by the Minister of Environment and Forestry. The Task Force have members from BNPB, Ministry of Agrarian and Spatial Planning, Ministry of Health, Indonesian National Armed Forces, Indonesian Police Department, BMKG, LAPAN, and some others. The Task Force acts as a crisis centre at the national level (Interview 1). The Coordinative Fire Mitigation Organisation was also established at the provincial and district levels with members from local government offices. The official arrangement for coordination was improved further by the establishment of a WhatsApp group and the implementation of a more integrated reporting system (Interview 6). This has made a big difference compared to the management under the previous Forestry Minister (2009 – 2014) that was reluctant to organise coordination meetings at the ministerial level (Interview 6).

In its operational role, the Forestry Ministry manages Manggala Agni, the fire brigade unit assigned to manage fire at conservation zones. Manggala Agni is well equipped and employs highly trained officers in managing FLPF (Herawati and Santoso 2011b). Manggala Agni was established in 2004 and led by the Director General of Forest Security of MoEF, who also supervised the unit overseeing some conservation units.

In the supervision role, audit compliance becomes the most important tool. However, not all concessionaries are well equipped and Manggala Agni is often asked to assist firefighting operations in company areas (Interviews 7, 8, 9 and 10). In emergency firefighting operations, Manggala Agni's equipment was frequently borrowed; often this equipment was returned in a

condition poorer than when it was lent (Herawati and Santoso 2011b, Interview 3).

The fourth role in community empowerment was developed recently by assisting community groups to generate prevention and early response capacities. The approach began with a pilot project starting in 2014 by the Ministry of Environment to assist the communities from two villages (Sepahat in Bengkalis District, Riau and Rasau Jaya in Kubu Raya District, West Kalimantan). Both villages are located in peatlands; fire occurred easily and the subsequent haze covered Singapore and Malaysia (Interview 11). A unit of MPA consists at least of two teams with 15 members each from the local community. MPA received technical assistance and equipment from the government, and from CSR programs of the nearby forestry or plantation companies (Interviews 4, 5 and 9).

The management of FLPF is also mentioned in the national standard for timber legality assurance (TLAS or SVLK). In SVLK principle 4, the companies have to comply with the environmental and social aspects in logging, which demand the availability of appropriate management and monitoring systems to mitigate impacts in the field. SVLK has been applied nationally since 2013, where the trading of forest products had to be accompanied by SVLK certification. The inclusion of the FLPF concern has strengthened the basis for coordinating FLPF management along timber commodity chains.

### 5.4.3. The Role of the Plantation Authority

The focal point of the management of FLPF in the plantation authority (Directorate General of Plantation of MoA) is the Sub Direktorat Dampak Perubahan Iklim dan Pencegahan Kebakaran (Sub Directorate of Climate Change Impacts and Fire Prevention) under the Direktorat Perlindungan Perkebunan (Plantation Protection Directorate). This sub-directorate was established in 2012 following a change in the strategy of the Ministry of Agriculture. The establishment of this unit happened under the change from protecting cultivation from heavily based on technical perspective to protect plantations against risks like pests into more a integrated approach for mitigating FLPF (Direktorat Jenderal Perkebunan Kementrian Pertanian 2010; Direktorat Jenderal Perkebunan Kementrian Pertanian 2015). The officials of the sub-directorate explained that by establishing this unit the plantation authority could respond to the criticism of ignoring the FLPF issue, especially from MoEF officials (Interview 13).

According to the Agriculture Minister's Regulation No. 47/Prementan/OT.140/4/2014, the plantation authority managed three key functions: prevention, mitigation and post-fire management. In its preventative function, Brigade Api (the fire brigade of the agriculture ministry) at the district level observed hotspots, socialised information for land clearing without burning, and provided fuel and equipment to ensure land clearing would be done without burning. In its mitigation function, Brigade Api at the district level managed fire on the first three days; if fire incidents continued until the seventh day, then the Brigade Api at the provincial level would lead; in the case fire exceeding seven days, then Brigade Api from the central level would lead. Brigade Api works in cooperation with firefighting units from companies and farmer groups. Post-fire management consists of land and plant rehabilitation, which are conducted by growers under the supervision of dinas of agriculture and the MoA.

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Brigade Api at the district level facilitates farmers to establish KTPA (Kelompok Tani Peduli Api or Fire Care Farmer Group). Each KTPA has 10-15 farmer members and is supervised by the village government. Until 2015, 51 Brigade Api and 123 KTPA groups were established; they formed groups, prepared equipment, established organisations, and provided some practical training; in fire mitigation operations they received financial support for honorariums and fuel (Interview 14).

ISPO (Indonesian Sustainable Palm Oil) included the management of FLPF in Principle 2 on the practice of cultivation and harvesting and Principle 4 on environmental management and monitoring. Both principles require plantations to develop guidelines for preventing and mitigating fire, records of its implementation since 2004, human resources, infrastructure, organisation and emergency response systems, and prevention strategies to prevent and mitigate fire.

Although much more recent than in the forestry authority, the management of FLPF has covered detailed aspects. However, the plantation authority perceived that they were not strong enough since the majority of plantation licensing is in the hands of local governments (Interview 13). In many places, local governments were easily influenced by plantation businesses or political elites, or involved in corrupt practices either for personal or political purposes (Varkkey 2012; Environmental Investigation Agency and Telapak 2002). Plantation authority officials expressed their concerns on implementing stricter regulations, which affect the decline of plantation business growth and contradict their role to ensure the economic contribution of the plantation sector (Interviews 15). Furthermore, they expressed a lack of knowledge of land clearing without burning areas of large coverage, as examples given were mainly practicable to a limited scope (Interviews 14). Officials from other state agencies perceive these concerns as reluctance to engage in constructive discussion to improve FLPF management (Interview 1 & 3).

## 5.5. Discussion

The Indonesian state, rather than becoming an incapable agency, has shown its increasing awareness to complexity and urgency of FLPF management. Such awareness can be seen in three ways. First is the terms used, which evolves from forest fire, and up to now forest, land and plantation fire. Second is how the state organises the management of forest fire as discussed above. In the national level, the state applies more integrative approaches that mainly seen from numbers of agencies involved under the coordination. In sectoral authorities, this can be seen from the position of the unit managing FLPF that got higher positions across the year. The third, since 2011, we have identified three approaches to FLPF management in Indonesian, namely coordination in a rather limited way (2011-2014), coordination with more extensive coverage (2014-2015), and coordination with intensive involvement of security officers (2016-now). The changes have marked different styles and approaches of various Indonesian administrations since 2011. This, in some extent, shows that the state learns from time to time to improve its internal coordination in managing FLPF.

The coordination efforts faced challenges by bureaucratic politics. Regarding power bargaining, the forestry authority showed an indication for retaining its power over land definitions and the coordination role in managing FLPF. Some plantations were considered illegal since the



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areas have not been through sufficient procedures to be released from forest status (Pramudya, Hospes, and Termeer 2017b). Power bargaining also occurred from the position of the forestry authority to protect the conservation areas where it tended to strengthen its claim in forest protection duties and criticised the plantation authority for not managing properly the governance of plantation expansion causing further forest degradation. On the other hand, the plantation authority tried to bargain by emphasising their role in supporting plantation expansion for economic development. Based on the sectoral economic contribution, the power of the plantation authority has increased significantly since the decade of 2000 when the palm oil sector steadily grew, while forestry business continuously declined.

At the local government level, power bargaining between both authorities is less when they are coordinated under the district or provincial heads. However, at the local governmental level, another power bargain happens, which is between the national and local governments; sometimes national government laws and implementation were contested by local governments (Simarmata 2010; Bettinger 2015; Potter and Badcock 2001; Casson 2001).

There is also an indication that competition among different agency ideologies exists. The forestry authority, based on their powerful position in licensing, assumed that the plantation authority had similar ways for arranging licenses; this perception strengthened after the merger of the forestry ministry with the environmental ministry. Based on such a perception, the forestry authority firmly assumed that the plantation authority had similar knowledge and preparedness. The lack of response from the plantation authority was considered as an unwillingness to contribute optimally to prevent FLPF incidents. On the other hand, the plantation authority, which has a strong root in framing FLPF under its function to protect the plantation sector, emphasises a technical approach for managing FLPF issue. Only recently has the plantation authority shown an increasing awareness to see FLPF in relation to climate change. These different stances, by emphasising each specific sector's expertise, have become the challenge in improving coordination. Though, the growing awareness to address FLPF included in the national standards of SLVK and ISPO shows that an emphasis on technical expertise, although being organised in specific sectoral approaches, would contribute to the improvement of FLPF management.

In terms of resources, overall the Indonesian state faces a common issue in the availability of funding for developing sufficient capacity in managing FLPF. With such a limitation in resources, the expectation for business to contribute financially faces some criticisms with the tendency of businesses to play around regulation loopholes and linkages to the political elites (Gillespie 2012; Varkkey 2016). Meanwhile, the expectation to shift the budgetary constraint to the availability of Village Funds and companies' CSR donations has not really become a solution.

In our case, leadership at the national level has an important role. The government change from President Yudhoyono and President Widodo brought a very different approach; the former was relatively reluctant to involve itself too much in coordinating the state agencies, while the latter has been inclined to use a more state-centric approach (Aspinall, Mietzner, and Tomsa 2015; Anderson, Firdaus, and Mahaningtyas 2015; Warburton 2016; Aspinall 2016). More intensive coordination also happens in the forestry authority, with the style of leadership of the forestry minister being actively involved and coordinating the director generals and directors.

The mobilisation of security forces in controlling FLPF has received criticism for bringing authoritarianism back, particularly among Indonesians concerned with the possibility of the country stepping back to an authoritarian regime. Applying a more authoritarian approach corresponds to the practice of eco-authoritarianism, which received support in some countries with authoritarian experiences in the past (Beeson 2010; Han 2017; Han 2015). However, the Indonesian state also promotes community-based landscape fire mitigation that improves the coverage of FLPF management. The participatory approach marked the emergence of green state concept, which develops environmental policy upon a democratic system and strong citizen participation (Eckersley 2004; Dryzek et al. 2003; Duit, Feindt, and Meadowcroft 2016). This shows that the Indonesian state uses both eco-authoritarianism and green state to strengthen its management of FLPF. Eco-authoritarianism has partly showed its contribution by strengthening FLPF prevention through controlling the incidents at the first stance. However, both approaches suffer from a lack of financial support.

To some extent, we observe the reliance of the Indonesian state on the regulatory state concept. In the regulatory state concept, the state relies upon standards and procedures used as tools of governance to secure development, and to assess the quality and capacities of both government and governance (Jarvis 2012; Majone 1999). The inclination to a regulatory state is indicated in the emphasis given to compliance audits, the development of national standards, and the efforts to solve the overlapping land use through the implementation of the One-Map Policy. These standards and procedures, although urgently needed, are managed upon the overestimation of government capacity and power, especially at the local level. In this lack of capacity and power, the reliance on the regulatory state concept would lead to an implementation deficit.

The ultimate issue is whether the significant decrease in the scale and coverage of FLPF can be maintained. Looking to the factors of bureaucratic politics contributing to FLPF, we argue that the challenges to develop internal coordination persist in terms of power bargaining and a clash of agency ideologies. Funding issues remain a lingering problem. The most determining differences come from the different approach and style brought by the current national leadership under President Widodo. However, not enough information has been available to analyse whether the progress is sustainable since it depends on the weather and political changes particularly after the election in 2019. It might also be the case that the same leader would have a different approach in managing internal state affairs.

## 5.6. Conclusion and Future Research

FLPF is a highly strategic and politically sensitive issue for Indonesia since a lack of management would reflect on the legitimacy of the Indonesian state. The Indonesian state faces challenges in developing internal coordination to manage FLPF. The capacity of the Indonesian state increases as can be seen on its improved awareness to manage FLPF. We observed that the Indonesian state experiences changes in developing internal coordination ranging from limited coordination, extended coordination, and improved coordination with the mobilisation of security forces. Bureaucratic politics affects internal coordination by power bargaining and agency ideologies where forestry and plantation authorities compete and persist to perceive FLPF problems based on their own narrow scopes. In terms of resources, rather than observing competition for resources, we observed the challenge for financing the integrated action in mitigating FLPF. We also noted that leadership matters a lot in ensuring

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effective coordination for improving the management of FLPF. The current progress in reducing the numbers of hotspots and the coverage of FLPF has indeed emphasised the role of national leadership.

For an analysis as to whether there has been progress in reducing the coverage and scope of FLPF, more information is required. The assessment of current achievements is based on data from the past two years, during which there might have been a contribution from friendlier weather conditions. Whether the real capacity to manage FLPF has been improved needs an analysis over a longer time that covers the next El-Niño cycle and an administration transition following the 2019 presidential election.



# Chapter 6

## Conclusion and Discussion

### 6.1. Introduction

In Indonesia, the expansion of the palm oil sector has contributed to economic growth and recovery but has also caused many negative environmental and social impacts. International and domestic actors have increasingly put pressure on the Indonesian state to address the negative impacts of palm oil expansion. As a result, the Indonesian state has faced many dilemmas in balancing economic development, environmental protection and social equity. This thesis aims to provide a better understanding of the ways in which the Indonesian has coped with these dilemmas by analysing different roles of the Indonesian state in governing sustainable palm oil: the roles of the state in finance, enforcement, external coordination and internal coordination.

This research in general gives a more nuanced picture about the role of the state rather than seeing the state as simply outdated or not having the capacity to address sustainability issues. In this concluding chapter, we present that nuanced picture in three sections. In section 6.1, I answer my main and specific research questions. In section 6.2, I review my use of the multiple theories approach and the methodology. In section 6.3, I reflect on future research on and for the Indonesian state that can strengthen its abilities to conduct various balancing acts in governing the palm oil sector.

### 6.2. Answering the Research Questions

#### 6.2.1 Answering the Research Sub-Questions

##### 6.2.1.1 The role of the state in arranging finance schemes

Research sub-question 1:

What roles has the state played in governing the development and sustainability of the palm-oil sector by arranging various finance schemes since 1945?

The Indonesian state has arranged various finance schemes for facilitating the development of the palm oil sector. The historical analysis of these schemes shows that the Indonesian state has played different roles in different periods of time:

In the first period (1945-1967), the state played a custodian role and refrained from intervention: the state focused on regulation that restricted investment in the plantation sector in general and in the palm oil sector in particular.

In the second period (1967-1990), the state wanted to actively steer development and for that reason adopted an interventionist approach. The state played both a demiurge role (assisting state-owned companies) and midwifery role (assisting private enterprises including smallholders). In the field of finance, the Indonesian state arranged soft loans for companies and organised credit for smallholders that were linked to estate companies. The central

bank steered the banking sector to provide liquidity credit for developing nucleus-estate smallholder plantations. However, foreign investments were restrained.

In the third period (1990-1998), the state reduced the midwifery role due to the decline of state income: credit to smallholders was limited. However, the state did give more room for the capital market to finance companies. Furthermore, the state organised the central bank to takeover non-performing loans from the finance schemes arranged previously.

Impacted severely by the 1997-98 East Asian crisis, the Indonesian state stepped back to a custodian role in the fourth period (1997-2006). This custodian role was to some extent imposed by the IMF through its Reform Package that demanded the withdrawal of central banks from direct development financing. However, the state's finance schemes continued to use the remaining budget of the liquidity credit that was run by a state-owned financial company.

From 2006 to today, that is, after the Indonesian economy had recovered from the crisis, the state re-introduced its own finance schemes. The state started to perform midwifery and husbandry roles by arranging credit for plantation replanting, enabling the use of small and medium enterprise credit for smallholders, arranging subsidy and credit for biofuel development, and planning to support ISPO certification by smallholders. The midwifery and husbandry roles not only aim to facilitate palm oil expansion but also to improve the performance of entrepreneurs in addressing sustainability and coping with price fluctuations.

The shifts in roles have been influenced by various factors. First, the availability of resources either mobilised internally (from national income) or externally (from foreign investments) changed considerably over the time periods. Second, the ideological orientation was either shaped domestically (for instance, the perception of the plantation sector as a legacy of colonialism) or externally (for instance, the submission to the IMF Reform Package). Third, there were variations in the level of direct intervention of the state. Fourth, the power of the state relative to the society was not constant: if the state was relatively weak, then it was difficult to adopt an interventionistic role because of political contestation, civil mobilisation, frequent changes in administration, and law enforcement problems. Fifth, the preferences of high government officials varied in accordance with other political changes. An example of this was the arranging of credit for plantation revitalisation in 2006-2014 that did not continue after the change of the government.

In spite of the different roles played by the Indonesian state in arranging finance schemes in the palm oil sector, the emphasis on promoting economic development has been persistent from 1967 onwards. The state did pay attention to social equity, particularly in the long period of the Suharto regime (1967-1990), but this was also to prevent disruption of economic progress. The concerns about environmental sustainability only moved to the forefront after the pressure exerted by the international community in the 2000s, although environmental standards had been introduced two decades earlier.

### 6.2.1.2. The role of the state in enforcement of regulation

Research sub-question 2:

What roles has the state performed in developing disciplinary actions to reverse illegal oil palm plantations in areas preserved for conservation and food security?

In general, the Indonesian state has weakly enforced regulations against illegal palm oil plantation expansion. Therefore, the disciplinary actions of the Indonesian state to curb such expansion is striking: though on a limited scale compared to the scale of illegal plantations, the state has ordered and organised tree razing, property demolition, seizures and raids by the armed apparatus of such illegal plantations since 2006. The main drivers of these disciplinary actions were security problems, pressure from non-state actors, state humiliation, challenges to legal authority, and also collective trauma. If the state had not responded to security problems, non-state pressure, state humiliation and challenges to its legal authority, the state would run the risk of losing legitimacy.

The disciplinary actions have hardly resulted in state transformation and institutional change in terms of strengthening law enforcement and often did not go beyond the level of incidental action or response. This limited effect was due to different tensions and unresolved issues: a lack of clarity due to overlapping official and customary laws, different positions taken by state officials from different agencies and different levels of government, a lack of consultation and coordination between state agencies, a lack of consent and engagement of local communities in critical phases of decision-making, and a reluctance by local communities to comply with regulations when the state starts to take disciplinary action.

On the one hand, the disciplinary actions can be seen as expression of eco-authoritarianism and as a legacy of authoritarian rule in Indonesia. The disciplinary actions taken tend to emerge from the state that tries to fight for its legitimacy. On the other hand, the disciplinary action in some cases was paired with listening to and collaboration with non-state actors, which means that the Indonesian state can also be qualified as a green state. However, the limited scale and late timing of the disciplinary actions as well as the absence of state transformation after disciplinary actions suggest that the Indonesian state hesitates to increasingly and systemically act like a green state, since it would hurt economic interests of the illegal palm oil plantation owners.

### 6.2.1.3. The role of the state in external coordination

Research sub-question 3:

In what different ways has the Indonesian state responded to the emergence of non-state governing initiatives to promote sustainable palm oil, and what are the underlying mechanisms of these responses?



Both at the global level and at the national level, non-state actors have established governance arrangements with a view to contribute to more sustainable palm oil production in Indonesia. I have focused on three arrangements: the Roundtable on Sustainable Palm Oil (RSPO), the Indonesia Palm Oil Pledge (IPOP) and the Indonesian Palm Oil Platform (InPOP). The Indonesian state has responded in different and changing ways to these three governance arrangements. Using the Transnational Business Governance Interaction Framework (TBGIF), the following patterns can be observed: the interaction between the Indonesian state and RSPO started as co-optation (from the non-state actors' side), evolved into coordination, then changed to competition and finally again into some limited form of coordination. The interactions between the state and IPOP changed from coordination to chaos, and finally to co-optation. The interactions between the state and InPOP have not been conflictual, possibly also due to the transfer of leadership of the initiative to high officials responsible for the plantation sector. These different and changing characters of interaction show that we cannot make easy assumptions on the positioning of the Indonesian state vis-a-vis non-state governing initiatives. The general idea that the Indonesian state is not willing to engage with non-state initiatives is too simplistic.

Environmental and social concerns about the expansion of palm oil prompted non-state actors to establish the RSPO, IPOP and InPOP. Meanwhile, the Indonesian state has consistently emphasised the importance of the palm oil sector for economic development. The different and changing character of interaction between the Indonesian state and these three non-state governing initiatives shows that the state is balancing between engaging with and distancing from these non-state initiatives, whilst favouring economic development for improving welfare over environmental protection and social equity.

### 6.2.1.4. The role of the state in internal coordination

Research sub-question 4:

How has the state coordinated at the national level, and in the authorities of forestry and plantation to manage forest, land and plantation fire, and to what extent have bureaucratic politics affected these coordination efforts?

In the period 2000-2016, the frequency and scale of forest, land and plantation fire (FLPF) in Indonesia increased. Different ministries worked on various FLPF issues but were not able to organise concerted action to effectively address the issues. Bureaucratic politics complicated coordination in different ways. First, power competition between the forestry and plantation authorities due to overlapping and conflicting mandates of these two authorities hampered coordination: the forestry authority has the mandate to protect forestry areas from infringement by palm oil expansion whereas the plantation authority sees it as their task to promote palm oil expansion as a motor for national economic development. Second, agency ideology and approach to solutions in each authority is each based on a different knowledge field and exposure to networks outside the state. Both the power competition and ideological tensions worsened due to limited financial resources available to manage FLPF issues.

From 2011 onwards, internal coordination has been intensified under presidential leadership. The state began to broaden national coordination by involving more state agencies in FLPF

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issues. The Ministry of Environment and Forestry and the Ministry of Agriculture started to actively coordinate their activities horizontally at the national level and vertically with local governments. From 2016, security forces were mobilised to ensure that fire was not used anymore for land clearing. In the last two years, the frequency and scale of FLPF issues has decreased.

Similar to the case of disciplinary actions in which the state is open to input from non-state actors, the case of FLPF shows that the state mixes an authoritarian approach with participatory approaches in managing the issue. The management of FLPF also shows that the state has to organise internal coordination to effectively to address the non-economic aspect of the palm oil plantations. Still, addressing this non-economic aspect is not easy because of the complexity related to the division and interaction between the forestry and plantation authorities. This puts high demands on leadership.

### 6.2.2. Answering the Main Research Question: the balancing act

Main research question:

To what extent and through which governance mechanisms has the Indonesian state sought to balance environmental protection, social equity and economic development in governing the palm oil sector?

In facilitating the development of the palm oil sector, the Indonesian state performs various roles. In arranging finance schemes, the state was able to create enabling environment for the growth of palm oil sectors through state-owned enterprises, private sector plantations and smallholder plantations. In organising disciplinary actions, the state to some extent shows the steps towards regulation enforcement although being conducted as its legitimacy was under threats. In interacting with non-state actors, the state developed different responses from action-reaction with various non-state sustainable palm oil initiatives. In developing internal coordination across state agencies, the state arranged different ways for coordinating.

Whilst the roles of the state in governing the palm oil sector are historically contingent and have swung between regulatory and interventionist to reflect changing ideological courses and economic orientations, my analysis of the use of the four governance mechanisms shows that the Indonesian state has constantly sought to promote the palm oil sector as an engine for economic development. But not alone. The state has also constantly promoted and governed the palm oil sector to realise other major objectives at the same time. For instance, during the more than three decades of the New Order (1969-1990), the state twinned the objective of economic development to the objective of social equity and smallholder development in particular. Even during the financial crisis in 1997-1998 and its aftermath in the early 2000s, the state sought to secure funds to selectively support smallholder development.

In the present era, the Indonesian state is facing a two-fold challenge to enhance its economic development focus. First, the Indonesian state wants to keep using the palm oil sector as an engine for economic development, but at the same time address both social equity and

environmental sustainability concerns. Second, the Indonesian state wants to do so whilst working on possibly an even bigger challenge, the transition from an authoritarian regime to a democratic regime. My analysis of the four governance mechanisms illustrates how the state is struggling with this two-fold challenge.

The state wants to elevate smallholders to become modern entrepreneurs and to provide the proof of the balancing act of the state in economic development, social equity, and environmental sustainability. For this purpose, the state has introduced finance schemes for plantation replanting and helping smallholders to meet new entrepreneurial challenges alongside the national sustainability standard.

Under the transition from an authoritarian regime to a democratic regime, the Indonesian state has become more sensitive to the concerns of non-state actors, that for instance, have been one of the triggers of disciplinary action towards illegal plantation. Yet, the disciplinary actions themselves show that the state is struggling with its legacy of authoritarianism. Also, the limited scale of the disciplinary action compared to the large number of illegal plantations suggests that the Indonesian state has difficulties in balancing the interests of communities vis-a-vis those of companies.

Under its transition from an authoritarian regime to a democratic regime, the Indonesian state has clearly practiced a participatory and consultative role. Feeling that it wanted to keep or regain control over the promotion of palm oil and the sustainability issue, the state did not leave the initiative and powers with non-state actors to govern the palm oil sector. The state learnt that it had to adopt a more assertive or orchestration role, deciding itself how to balance economic development, environmental sustainability and social equity. The interactions with non-state actors under more democratic rule prompted the state to adopt a new kind of authoritarian approach.

The bureaucratic fights between the Ministry of Forestry and Environment and the Ministry of Agriculture over FLPP issues in the first place show that the Indonesian state wants both environmental and economic interests to be taken care of by public authorities. The state wants to advance its economic development focus by allowing a forest and environmental authority to have the same status as an agro-economic one. With the transition to a democratic regime, the two ministries have to balance their authority with each other. A bit ironically and reflecting authoritarian rule, presidential intervention has been necessary to induce more coordination between the two ministries.

Due to the transformation from an authoritarian regime to a democratic regime, the balancing acts of the Indonesian state have involved a greater number and a greater variety of actors, both internally and externally. Internally, the state has to balance mandates and powers of public authorities at different levels, while externally the state has to balance concerns, claims and interests of various non-state actors: big companies, smallholders and local communities. Engaging with these different actors, the state tries to newly balance an authoritarian and top-down approach with a participatory and bottom-up approach.

### **6.3. Reflections on the Theoretical Approach and Methodology**

#### **6.3.1. The Multiple Theories Approach**

The use of the multiple theories approach has both advantages and disadvantages. The first advantage that I experienced was the opportunity to use and develop theoretical concepts that can best help to analyse the roles and governance mechanisms of the state. The second advantage was that by using different theoretical concepts, one can better capture the complexity of the state and governance interactions involving state actors. The third advantage was that the use of specific theoretical concepts was helpful in attracting and winning the interest of editors of journals. This consideration has been important for the publication approach used for my PhD trajectory, which requires that the PhD researchers publish the empirical chapters in academic journals.

The multiple theories approach has also disadvantages. First, the scope for deepening reflection on each theory is limited. Second, the theoretical concepts used in the four empirical chapters of this dissertation are each embedded in a specific scientific debate and discourse. Though all concepts relate to roles of the state or governance mechanisms, it is difficult to integrate the concepts into one framework. Some theories and concepts (such as those of Evan's on roles of the state or the concept of eco-authoritarianism) are rooted in a tradition of political economy or political ecology. They are biased towards a macro-level or historical analysis of the state. Other theories and concepts (such as transboundary governance interactions and bureaucratic politics) are rooted in governance studies. They are biased towards a meso-level or micro-level analysis of the state (in terms of institutions and actors).

#### **6.3.2. The Methodology**

Researching the role of the state in Indonesia during the era of the Reformasi (that is, the period of democratisation after the ending of Suharto's New Order authoritarian regime) is like shooting at a moving target. The policies and position of the state, the relationships between different state agencies at different levels, and the relationships between state actors and non-state actors constantly change in relatively short periods of time. Changes in bureaucratic and political leadership at different levels adds to the complexity. Without following up cases closely, information collected by a researcher can be outdated quickly since new interactions and agreements between actors (sometimes taking the form of a compromise) might lead to new roles and relationships. Such new roles and relationships do not miss impacting on the way in which the state governs the palm oil sector. Recording and analysing these changes is not an easy task, not to mention seeing patterns or predicting changes. To study the complex nature of the Indonesian state as a dynamic object, I used a flexible approach and used an interpretive methodology. I could not work with a research design that was final from the very beginning but let the study sites, respondents and cases influence and shape my specific methodology for studying specific governance mechanisms.

In data collection, knowledge about the issue is important. Resource persons might choose to reveal or conceal information based on their trust in the interviewer. Trust can be built by demonstrating an appreciation of the state actors, an awareness of the history of a specific program or state agency, an awareness of the challenges faced by the resource persons and their affiliations, and a connectedness to the relevant network. By gaining trust, the resource

persons were comfortable to tell their stories and to share their perceptions on specific issues, which often went beyond formalistic or normative answers. Furthermore, the resource persons connected me (as the interviewer) to other people and bigger networks. The open relations to bigger networks enabled me to get a more comprehensive narrative or idea of a specific phenomenon.

A contextual methodology has evolved as a key characteristic of my research. The ability to develop sound interpretations of a phenomenon depends on an understanding of multiple contexts. This is first of all about situating issues and processes in a historical context. Second, this is about understanding power relations and how interactions are shaped by different ideologies and political rationalities.

On the basis of the research that I have done, I would like to offer the following food for thought on how to conduct research on the state, research that can also be relevant for the state. During data collection, I experienced that state actors are clearly aware of the need for addressing the social and environmental impacts of palm oil expansion but have limited abilities or even outdated knowledge on non-state governing initiatives of business and NGOs. Instead of disqualifying their inabilities or outdated knowledge, it has been better to appreciate them and try to understand their challenges to manage complex problems in implementing sustainable development. Secondly, certainly some state actors have become wary of meeting researchers, yet again, when they never hear anything of the result of the research or when they feel that they are just an object for data collection. In approaching them, researchers should be keen on developing constructive arrangements by seeing to it that the interview becomes a learning event in which concerns of the interviewed state actor are taken seriously. Also, researchers should be keen on giving feedback and sharing research products.

Having said this, I propose that researchers and policymakers together engage in a discussion on the relevance of the following topics and how to address them through research that can be relevant for policymakers to prepare and conduct various balancing acts.

### **6.4. Future Research and Policy Issues to be Addressed**

My investigation of the different roles of the state in governing the palm oil sector through various governance mechanisms has provided me with insights into a wide range of problems, dilemmas, tensions and challenges of the Indonesian state. Based on these insights I would like to share eight main topics for future research and policymaking and four specific ones related to the four governance mechanisms that I have investigated.

#### **6.4.1. Strengthening governance capabilities**

The first main topic is about how to strengthen the governance capabilities of the Indonesian state and develop trajectories needed for enabling implementation of sustainable development. Governance capabilities is the ability to observe problem and take action by policymakers and the governance system (Termeer et al. 2015). This can first and foremost require policymakers and administrators to explore and learn from history and more specifically understand how the state has conducted balancing acts in the past. My thesis shows that this history of the

different roles of the state and its use of governance mechanisms is rich and contains many useful lessons. Indonesia would not have evolved as the number one palm oil producer and exporter in the world without the facilitation by the state in the past. Second, strengthening governance capabilities is also about learning 'in the present' from newly evolving networks, information and approaches. Addressing non-economic aspects of development requires that the state mobilises these new 'knowledge sources', which also requires learning and institutionalisation across different divisions, layers and actors.

### **6.4.2. Modernising Legality**

The second main topic is about how to improve legality to address different sustainability demands. In recent years, the Indonesian state has increasingly relied on state-based legality by arguing that sustainability in the palm oil sector can be primarily achieved based on an extensive set of official regulations that have to address a variety of issues, including plantation, forestry, environment, trade, business licensing and regional autonomy concerns. Indonesian state actors often argue that state-based legality is the only way forward for Indonesia as a sovereign country and cannot be substituted for by non-state regulations that are perceived to express and secure foreign interests. On the one hand, the many different regulations have together covered about all aspects related to activities along the palm oil commodity chain. On the other hand, the production of the many and very diverse regulations has had a boomerang effect; the Indonesian state faces the lingering problem of implementing and enforcing these regulations. Moreover, these regulations are sometimes insufficiently updated to the newest governance issues such as high conservation values (HCV) and free prior informed consent (FPIC). Also, public authorities are not always crystal clear about the use and position of customary laws. The persistence on emphasising state-based legality might lead to the conclusion that the Indonesian state is reluctant to listen to input from non-state actors to improve its regulations.

Rather than seeing this situation as an obstacle, future research could explore how confusion created by different state laws and regulations can be reduced and how synergy with customary laws and non-state regulations can be strengthened at the same time.

### **6.4.3. Understanding and Learning from Political Transitions**

The third main topic is about understanding and analysing of impact of political transitions to sustainable development. Different administrations have adopted different approaches toward sustainable development. This provides great opportunities and challenges for identifying and developing trajectories of sustainable development. The Indonesian experience with conflicts that occurred at the onset of political transitions might become an important study to consider how political transitions can constrain and enable sustainable development.

### **6.4.4. Identifying Institutional Conditions Beyond Individual Leadership**

The fourth main topic is to identify institutional conditions that enable sustainable development across different styles and approaches of the national leadership. The coming of a new leadership might create or destroy conducive conditions in implementing sustainable development. Achieving sustainable development needs conditions beyond individual leadership as their new policies and programs might be phased out by their successors.

### **6.4.5 Working with the Private Sector**

The fifth main topic is related to the increasing role of the private sector both in governing commodity chains and providing financial support for development activities. One cannot assume that companies are always ready to develop programmes for development purposes. Companies that have engaged in CSR projects often consider the costs and benefits of these projects for their businesses both in terms of reputation and profit. Research on strategies to develop the constructive engagement of the private sector for achieving developmental objectives for improving the sustainability of the palm oil sector might give valuable insights for both policymakers and businesses.

Working with the private sector also requires the state to identify different ways to facilitate different kinds of enterprises. The palm oil sector has enabled the development of various kinds of enterprises based on business scope (plantations, mills, manufacturers of food, manufacturers of biofuels, energy producers from palm oil effluents, and consumer goods producers), business advancement (based on conventional approach, medium or high technologies), and level of investments (branch of big businesses, subsidiary of big businesses, joint venture with local actors, owned by local actors, or enterprises developed by graduated smallholders). Research on identifying different ways to facilitate these different kinds of enterprises might generate a sound basis for developing strategies of the state in improving partnerships with the private sector, particularly related to the challenge of upgrading business to meet new sustainability challenges.

### **6.4.6 Strengthening Smallholder Organisations and Smallholder Inclusion**

The sixth main topic is about how to strengthen smallholder organisations. To start with, several specific challenges for improving engagement of smallholders can be distinguished. The first is about how to deal with the current challenges in organising smallholders in Indonesia. The majority of cooperatives and farmer groups in Indonesia lack leadership and management capacity to ensure that their organisations are transparent and accountable. Promises of financial support to these organisations by candidate politicians during election time have undermined the strengthening of smallholder organisations. Pressure from government officials to spend the budget at the end of fiscal year has also not been helpful. The weaknesses of cooperative and farmer organisations provide a two-fold challenge to the state, to strengthen leadership and management capacity of smallholder organisations, and to prevent political abuse of these organisations.

Another series of issues for research is about smallholder inclusion and relates to models for partnerships of smallholders with companies. Looking to the history of the palm oil sector in Indonesia, the presence of smallholders, who contribute to more than 40 per cent of the total plantation area, has been the result of a series of state-driven smallholder partnership programs under various schemes. However, in some smallholder inclusion models, the smallholders tend to become an instrument for achieving corporate objectives. In some cases, smallholders lose their access to their land in the process of estate development, which has made them poorer. There were also cases where smallholders who joined inclusion programs were not the most needy but were civil servants and security officials. In other cases, smallholder groups were not sufficiently prepared to deal with bank credit. They received perhaps too much credit because the banks wanted to show their commitment to participating in government

programs. Finally, the smallholder organisations selected to receive assistance were basically established to fulfil requirements from mills that only bought fresh fruit bunches (FFB) from registered cooperatives or farmer groups. The research on models and enabling conditions for smallholder inclusion could generate important insights to improve the benefits for smallholders.

A particular issue on inclusion is how smallholders can comply with stringent technical and fiscal regulations. For instance, there are technical issues related to the requirement for plantation registration, implementation of best management practices, and compliance with sustainability standards. With regard to taxation, the increasingly stringent tax regulations have created confusion for smallholders and their cooperatives. Understanding the challenges and constraints of smallholders to improve their compliance with technical and fiscal requirements could help improve government strategies and build support from businesses and NGOs.

### **6.4.7 Working with Civil Society Organisations (CSOs)**

The seventh main topic is on how the state could develop and benefit more from the emergence of governance approaches. Although Indonesian state actors have been involved in various international networks and contributed actively in global orders, interacting with CSOs is relatively new to them. Some Indonesian state actors tend to conceive CSOs as interference by foreign interests that threaten Indonesia's sovereignty. Such suspicion might become a major obstacle in developing constructive engagement in networking with CSOs.

In global debate and consultations dominated by CSOs, Indonesian state actors could potentially play a role as advisors on non-state sustainability governance, particularly in respecting national and local laws. Indonesian state actors can learn from Indonesia's experience in various international initiatives that fruitfully voiced the concerns of developing countries (with the most notable experience in initiating the Non-Aligned Movement in Bandung Conference 1955), and then contextualise such experience in the currently increasing need to engage with civil society networks. Reflecting on this experience and contextualisation would contribute to improving state strategies in promoting sustainable development.

Another research topic is about the ways in which the state can interact with different types of civil society organisations (CSOs). In my research, I observed different kinds of CSOs, such as international NGOs and their partners in Indonesia, local NGOs that implement their projects, local NGOs that become part of a national network but are not connected through projects, local community organisations, indigenous community groups, and student movements. These different CSOs work with different orientations; some focus on environmental issues, others on agrarian reform, and again others on empowerment or advocacy. Besides, they use different models in engaging with communities. Research that generates insights into the interactions between the state and these different kinds of CSOs could contribute to the formulation of state approaches and communications for working together with civil society.

### **6.4.8 Diversification from Palm Oil**

The eighth main topic is to identify ways of strengthening the resilience of local economies and local communities by diversifying agricultural and other economic activities, by seeking ways to minimize dependence on monoculture plantations that threaten or pose risks to



the environment, and by capitalising on biodiversity and the repertoire of plant production systems. In these topics, one should take into account international acknowledgement for Indonesia as one of the Mega-biodiverse Countries that is home to the majority of Earth's species and high numbers of endemic species. Biodiversity - rather than being perceived as a liability disrupting seizure of global market opportunities for achieving national prosperity – needs to be a national priority strategy particularly by reflecting on the successful example of the Indonesian state's facilitation which introduced palm oil to Indonesia's private sector and smallholders in the 1980s.

### **6.4.9 Specific Topics Related to Governance Mechanisms**

With regard to the four governance mechanisms, I suggest the following specific topics. First – related to the arrangement of finance schemes – is the study of governance arrangements and the impact of green banking policies promoted by Indonesian banking regulators. A related finance topic is the rise of new financial technologies for financing sustainability. Another topic is related to the increasing inclination of the financial sector under the phenomenon of financialisation which has seen services oriented towards making business out of finance itself, which has left productive economic activities struggling to access the financial market.

Second – related to regulation enforcement – is the review and analysis of the impacts of the disciplinary actions in the six studied cases as well as other cases of disciplinary action in Indonesia. The disciplinary actions are very dynamically shaped by actions-reactions between the state and community, CSOs and business. The research not only covers an update on the recent situation, but also an analysis of how various actors change their strategies and approaches, and how these changes are informed by learning from disciplinary actions conducted previously and in other places.

Third – related to the interaction of the state with the non-state sustainability initiatives – is the development of new partnerships of state and non-state actors in promoting sustainability at the landscape level. Moreover, analysing challenges met by non-state sustainability initiatives other than RSPO, IPOP and InPOP might give a more detailed picture about the interaction of the Indonesian state with non-state actor networks.

Fourth – related to the internal coordination for managing FLPF - the prospects for sustaining the current achievements of the state in managing FLPF in the next administration, either led by the current president or a new one, could be explored. Research could also reflect on how interaction between the state and non-state actors shaped the Indonesian state's strategies in managing FLPF.

To conclude, my general idea is that new knowledge and insights on these eight main topics and four specific ones can educate and enable the Indonesian state to conduct a new, diverse and somewhat assertive orchestra consisting of internal and external players, both state and non-state actors, with different demands and expertise. Future research on and also for the Indonesian state can enable this learning process.



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# Appendices

## Appendix A

## Appendix A1: Sources consulted, per period

Period	Publications	Policy Documents	Interviews
1. 1945-1967: Post-independence	Furnivall (1976), PASPI (2014), Mackie (1961, 1971), Booth (1988), Arndt (1971)	-	-
2. 1967-1990: Suharto's interventionist state	Hirawan (2011), Casson (2000), Paoli et al. (2013), Booth (1988), Crouch (2007), Gwyer and Avontroodt (1974), Zen et al. (2005), Badrun (2010), Vermeulen and Goad (2006), Casson (1999), Rich (2002), Feintrenie, et al. (2010), McCarthy (2010), Rival and Levang (2014)	-	-
3. 1990-1998: economic liberalisation	Priyadi (1996), Hill (2010), Badrun (2010), Pincus and Ramli (1998), Bennett (1999), Gellert (2005), Casson (2000)	-	Interview 1
4. 1998-2006: economic crisis and its aftermath	McLeod (1999), Grenville (2004), Casson (2000), Garnaut (2015), Rosner (2000), Zen et al (2005), McCarthy (2010), (Caroko et al. 2011), (Sheil, et al.,2009)	The 1945 Constitution of the Republic of Indonesia (First Amendment of 1999 and the Second Amendment of. 2000)  BI Decree No.30/97/KEP/DIR Banking Law No. 23/1999 BI Decree No. 6/26/PBI/2004 BI Dist. Ltr. No. 3/2/BK Plantation Law 18/2004	Interviews 2, 3, 4, 5, 6, 7, 8, 9
5. 2006-present: economic revitalisation	Susila and Setiawan (2007), Badrun (2010), Prawiranata (1996), Gillespie (2012), McCarthy (2010), Ashari (2010), Potter (2010), Cahyadi and Waibel (2013)	Plantation Law 39/2014  Agr. Min. Dec. No. 57/Permentan/KU.430/7/2007 33/Permentan/OT.140/7/2006 19/Permentan/OT.140/3/2011 11/Permentan/OT.140/3/2015  Estate Crop Development Directorate General No. 192/Kpts/RC.110/6/2013  Fin. Min. Dec. No. 198/PMK.05/2010 117/PMK 06/2006 48/PMK.05/2009  Pres. Instr. No. 6/2007 Krishnamurti (2016)	Interviews 1, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32

## Appendix A.2: List of interviewees

No.	Interviewee(s)	Location of Interview	Date
1	Regional consultant of central bank	South Kalimantan Prov.	23/01/14
2	Former Minister of Agriculture	Greater Jakarta	19/02/14
3	Former governor of Bank Indonesia	Greater Jakarta	06/03/14
4	Finance company officer 1 (3 people, interviewed in group)	Greater Jakarta	20/01/14
5	Non-governmental organisation 1	Greater Jakarta	07/10/13
6	Farmer union 1 (national)	Greater Jakarta	07/10/13
7	Ministry of agriculture officers (2 people, interviewed in group)	Greater Jakarta	02/12/13
8	National plantation research institute researcher	Greater Jakarta	03/12/13
9	Former minister of economic affairs	Greater Jakarta	13/09/13
10	International finance institution officer	Greater Jakarta	24/07/13
11	Staff member of international non-governmental organisation 2	Greater Jakarta	30/07/13
12	Former regional director of central bank	Greater Jakarta	16/08/13 14/01/14
13	Non-governmental organisation 2 (3 people, interviewed in group)	Jambi Province	18/12/13
14	Farmers' union representative 2	Jambi Province	19/12/13
15	Government officer at the provincial estate development office	Jambi Province	19/12/13
16	Bank officer 1	South Kalimantan Prov.	23/01/14
17	Bank officer 2 (5 people, interviewed in group)	South Kalimantan Prov.	23/01/14
18	Bank officer 3	South Kalimantan Prov.	24/01/14
19	Business association 1	Greater Jakarta	14/10/13
20	Company top executive 1	Greater Jakarta	14/10/13
21	Company top executive 2	Greater Jakarta	25/10/13
22	Ministry of Agriculture officer 2	Greater Jakarta	18/06/14
23	Ministry of Economic Affairs officer 1	Greater Jakarta	18/06/14
24	Ministry of Economic Affairs officer 2	Greater Jakarta	19/05/14
25	University researcher	Greater Jakarta	04/09/13
26	Finance company officer 2	Riau Province	10/02/14
27	Government officers at the central bank 1	Greater Jakarta	08/10/13
28	Government officers at the central bank 2	Greater Jakarta	09/10/13
29	Farmers and intermediary traders	South Kalimantan Prov.	25/01/14
30	Farmers (around 20 people, interviewed in group)	South Kalimantan Prov.	24/01/14
31	Non-governmental organisation 3 (3 people, interviewed in group)	Riau Province	05/02/14
32	ISPO Commission coordinator	Greater Jakarta	25/01/16

## Appendix A.3: Plantation area and production per historical period since 1967

### A.3.1. Plantation Area Since 1967 (in ha.)

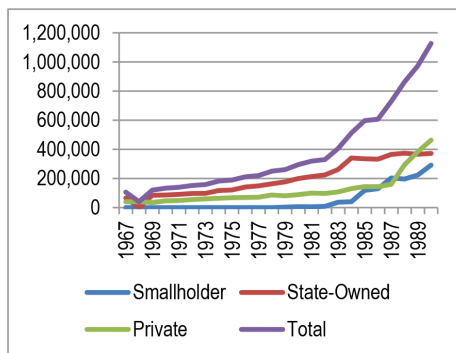


Chart A.3.1.1. Plantation Area 1967-1990

Chart A.3.1.3. Plantation Area 1998-2006

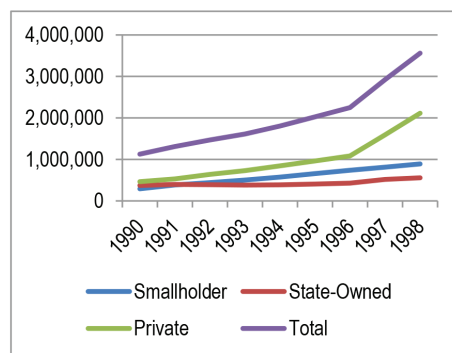
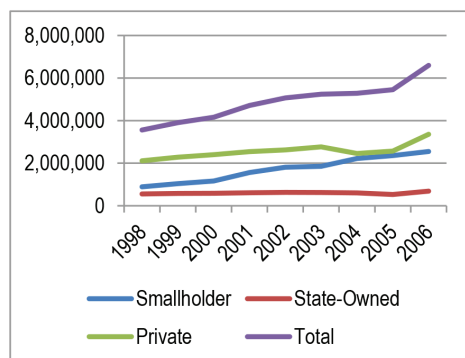
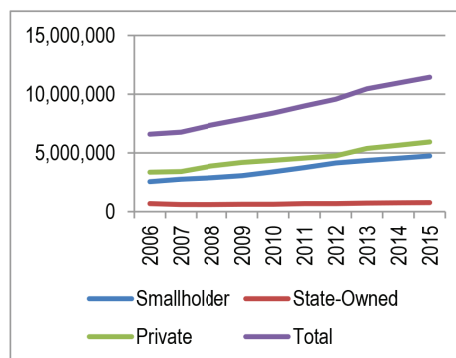


Chart A.3.1.2. Plantation Area 1990-1998

Chart A.3.1.4. Plantation Area 2006-2015



Source: Directorate General of Estate Crops (2015).

### A.3.2. Oil palm production since 1967 (in thousand tons)

Chart A.3.2.1. Production 1967-1990

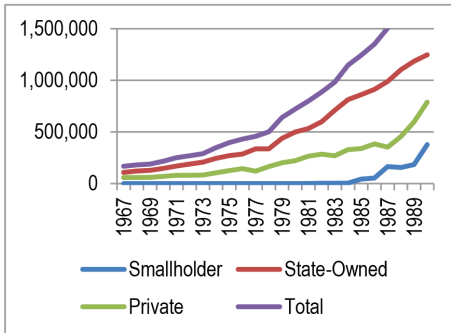


Chart A.3.2.2. Production 1990-1998

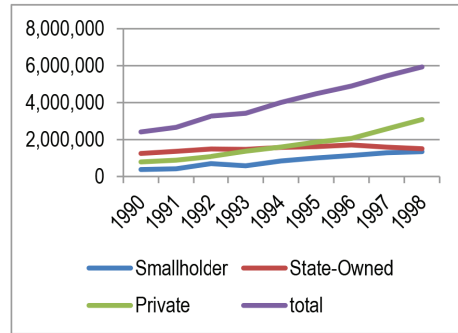


Chart A.3.2.3. Production 1998-2006  
Source: Directorate General of Estate Crops (2015).

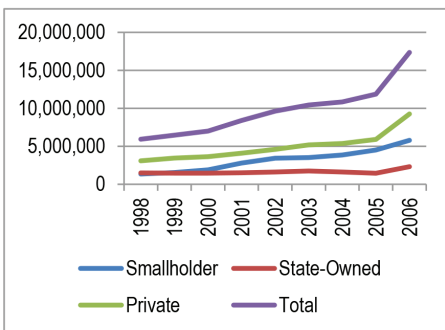
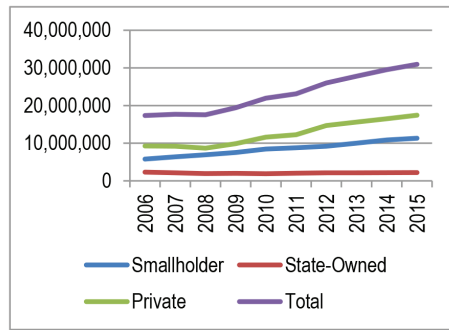


Chart A.3.2.4. Production 2006-2015



## Appendix B

### Appendix B.1. Disciplinary actions to illegal plantations

No.	Disciplinary actions	Location	Years
1	The cracking down of illegal palm oil plantations in Area VI - Gunung Leuser National Park (GLNP) (2012)	North Sumatra Province	2006 – 2011
2	The effort for eradication of palm oil plantations encroaching Bukit Suligi protected forest in Rokan Hulu District	Riau Province	2008
3	The cutting of illegal palm oil plantations in protected area of Aceh Tamiang District	Aceh Province	Since 2009
4	The eradication of palm oil expansion into food production area in Bungaraya – Siak	Riau Province	2009
5	The cutting of palm oil plantations owned by Malaysian citizen in the Indonesian part of the Indonesia-Malaysia border	West Kalimantan Province	2009
6	The cutting of illegal oil palm plantations in Tesso Nilo National Park (TNNP)	Riau Province	2010, 2013
7	The cutting of palm oil plantations in the Tenayan Industrial Estate – Pekanbaru	Riau Province	2011
8	The cutting of palm oil plantations encroaching Danau Dendam Tak Sudah Natural Reserve in Bengkulu	Bengkulu Province	2012
9	The actions against illegal palm oil plantations in Harapan Rainforest (HRF)	Jambi Province	2012
10	The cutting of illegal plantations in South Bengkulu District's protected forest	Bengkulu Province	2012
11	The seizure of illegal palm oil business in Register 40 – Padang Lawas	North Sumatra Province	2015
12	The cutting of palm oil trees encroaching Karanggading - Langkat Timur Animal Sanctuary	North Sumatra Province	2015
13	The disciplining of illegal plantations encroaching mangrove forest in North Sumatra	North Sumatra Province	2015
14	The cutting of illegal palm oil plantations in the area of production forest and Maninjau Nature Reserve, Agam District	West Sumatra Province	2015
15	The cutting of plantations owned by PTPN V in a forestry company's concessionary in Kampar District	Riau Province	2016



## Appendix B.2. List of Interviews

Interviews	Interviewees	Location	Date
1	NGO activist 1 (local)	Pekanbaru – Riau	18/04/2015
2	Oil palm smallholders	Pekanbaru – Riau	18/04/2015
3	NGO activist 2 (local)	Pekanbaru – Riau	19/04/2015
4	NGO activist	Jakarta	12/01/2016
5	Villagers	Aceh Tamiang – Nanggroe Aceh Darussalam	26/04/2015
6	NGO activist 3 (local)	Aceh Tamiang – Nanggroe Aceh Darussalam	27/04/2015
7	NGO activist 4 (local)	Aceh Tamiang – Nanggroe Aceh Darussalam	27/04/2015
8	NGO activist 5 (local)	Jakarta	09/04/2015
9	State actor - 1	Aceh Tamiang – Nanggroe Aceh Darussalam	26/04/2015
10	Politician	Aceh Tamiang – Nanggroe Aceh Darussalam	27/04/2015
11	State actor – 1	Medan – North Sumatra	24/04/2015
12	State actor – 2	Jakarta	24/01/2016
13	State actor – 3	Langkat – North Sumatra	28/04/2015
14	Villagers	Batanghari – Jambi	14/04/2015
15	NGO activist 6 (local)	Siak - Riau	23/04/2015
16	Villagers	Siak – Riau	19/04/2015
17	NGO activist 7 (local)	Pekanbaru - Riau	23/04/2015
18	State actor – 4	Siak - Riau	21/04/2015

### Appendix C

#### Appendix C.1. List of Interviews

Interview	Interviewees	Mode of interview	Date
1	Former Official of the Ministry of Agriculture	Direct meeting	03/03/2015
2	ISPO Commission Chair (then)	Direct meeting	29/07/2015
3	ISPO Commission Chair (now)	Direct meeting	29/01/2016
4	Palm Oil Association	Direct meeting	29/01/2016
5	International NGO	Direct meeting	19/02/2016
6	IPOP Member Companies 1	Teleconference	01/05/2016
7	IPOP Member Companies 2	Teleconference	01/05/2016
8	InPOP Consultant	Teleconference	06/05/2016
9	IPOP Management	Teleconference, Group interview	20/06/2016
10	Coordinating Minister of Economic Affairs Official 1	Direct meeting	29/12/2016
11	Former Indonesia Trade and Industry Chamber Staff	Direct meeting	04/01/2017
12	Coordinating Minister of Economic Affairs Official 2	Direct meeting	10/01/2017
13	Ministry of Agriculture Official	Direct meeting	14/11/2016
14	Ministry of Environment and Forestry Official	E-mail	09/03/2016
15	Ministry of Agriculture Officials	Direct meeting	14/11/2016
16	RSPO officials	Direct meeting	20/05/2015

## Appendix C.2. IPOP Stakeholders

Sector	Organisation
Government	Ministry of Agriculture, Coordinating Ministry of Economic Affairs, Indonesian Sustainable Palm Oil Secretariat (ISPO), Ministry of Environment and Forestry, The National Development Planning Agency (Bappenas), The National Land Agency (BPN), Ministry of Cooperatives and SMEs, Representatives from local government: Riau, South Sumatra, West Kalimantan
Development Partners	United Nations Development Programme (UNDP), United Nations Children Fund (UNICEF), Swiss Secretariat for Economic Affairs (SECO), Solidaridad, The Netherlands Development Organisation (SNV)
Private Sector	Wilmar International Limited, Indonesian Palm Oil Producers Association (GAPKI), Indonesia Palm Oil Board (DMSI), IKEA, Mondelez International, Sucofindo, Tuv Rheinland, PT Astra Agro Lestari Tbk, PT Sinar Mas Agro Resources and Technology Tbk (SMART), Asian Agri Group, Cargill Indonesia, Goodhope Plantations, ANJ Group, The Roundtable on Sustainable Palm Oil (RSPO)
Civil Society	Sawit Watch, World Wildlife Fund (WWF), The Nature Conservancy (TNC), Climate Policy Initiative (CPI), Sustainable Trade Initiative (IDH), Conservation International, Earth Innovation, Zoological Society of London (ZSL), Estates Strategic Sustainable Development Forum (FP2SB), Oil Palm Smallholders Union (SPKS), Indonesian Center for Agricultural Land Resources Research and Development (ICALRRD), Center for International Forestry Research (CIFOR), Indonesian Oil Palm Society (MAKSI), Indonesian Palm Oil Board (DMSI), Bogor Agricultural University (IPB), LPP Yogyakarta Polytechnic College

## Appendix D

### Appendix D.1. List of Interviews

No	Interviewee	Date	Location
1	An official of the Economic Coordination Ministry	10/01/2017	Greater Jakarta
2	Legal officials in the Plantation Authority	05/01/2015	Greater Jakarta
3	A FLPF official in the Forestry Authority	18/11/2016	Greater Jakarta
4	MPA in Riau 1	17/01/2017	Riau
5	MPA in Riau 2	16/01/2017	Riau
6	An advisor to the Forestry Minister 1	13/04/2015 07/07/2017	Greater Jakarta
7	The district level FLPF official in Jambi	14/04/2015	Jambi
8	A NGO activist in Jambi	13/04/2015	Jambi
9	Local community in Jambi	11/03/2015	Jambi
10	Local community in Riau	16/04/2015	Riau
11	An advisor to the Forestry Minister 2	23/03/2015	Greater Jakarta
12	A peatland restoration official	14/07/2017	Greater Jakarta
13	A FLPF official in the Plantation Authority 1	07/01/2015	Greater Jakarta
14	A FLPF official in the Plantation Authority 2	14/11/2015	Greater Jakarta
15	A FLPF official in the Plantation Authority 3	05/01/2015	Greater Jakarta

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# Summary

Indonesia has become the world's leading producer and exporter of palm oil. This dissertation is about one of the most unexplored and underestimated legal and political entities behind the growth of the palm oil sector: the Indonesian state. It provides a multi-faceted and dynamic picture of how the Indonesian state has sought to balance economic development with social equity and environmental sustainability, whilst coping with different demands from international and domestic actors.

The main objective of this research is to unravel the roles of the Indonesian state in balancing environmental sustainability and economic development in response to the different international and domestic demands. For this purpose, four governance mechanisms have been studied: finance schemes, disciplinary action, external coordination with non-state actors, and internal coordination. These four governance mechanisms have been selected and studied as examples of Hood and Margetts' (2007) typology of resources of the state to achieve policy goals: Treasury (financial resources), Authority (legal power), Nodality (information and persuasion) and Organisation (state agencies).

The main research question is: to what extent and through which governance mechanisms has the Indonesian state sought to balance environmental protection, social equity and economic development in governing the palm oil sector? Four specific questions address the use of specific governance mechanisms by the state: First, what roles has the state played in governing the development and sustainability of the palm-oil sector by arranging various finance schemes since 1945? Second, what roles has the state performed in developing disciplinary actions to reverse illegal oil palm plantations expanded to areas preserved for conservation and food security? Third, in what different ways has the Indonesian state responded to the emergence of non-state governing initiatives to promote sustainable palm oil, and what are the underlying mechanisms of these responses? Fourth, how has the state coordinated at the national level, and in the authorities of forestry and plantation, to manage forest, land and plantation fire, and to what extent have bureaucratic politics affected these coordination efforts?

To address these questions and to analyse data, the thesis has used a multiple theories approach. The theoretical concepts that have been used are rooted in different disciplines, namely: political economy, political ecology, governance studies and public administration. The methodology used is an interpretive methodology to make sense of the role of the state performing the four governance mechanisms. The empirical cases of each governance mechanism are developed based on multiple case studies. Data have been collected from secondary sources (policy documents, academic journals, books, reports and news media) and through interviews. For each governance mechanism, a case study was conducted and is presented in a chapter of the dissertation.

The first case study is about the different roles of the Indonesian state in arranging finance schemes for palm oil development since 1945. The two questions of this study are: what roles has the state played in governing the development and sustainability of the palm oil sector through the use of finance schemes since 1945, and to what extent do these roles reflect the state's priority of achieving a balance between economic growth, social equity, and

environmental protection? To address these questions, a historical analysis of five distinctive periods since 1945 enables us to examine the changing roles of Indonesian state. Each of these periods marks a major change in the post-colonial history of the Indonesian political economy: the post-independence era (1945–67); the Suharto interventionist state (1967–90); the period of economic liberalisation (1990–98); the Asian financial crisis and its aftermath (1998–2006); and the period of economic revitalisation (2006–present). This study shows that the Indonesian state has adopted and combined different roles that reflected different political and economic regimes and their changes. Each role was used to promote economic development, albeit in varying ways.

The second case study is about the upsurge in the use of violence by the state to curb illegal plantations. The questions of this study are: what drives the state's disciplinary action against illegal plantations, and to what extent does such action reflect the rise of eco-authoritarianism? Six cases on disciplinary action were analysed, namely with regard to the Tesso Nilo National Park in Riau, protected forest in Aceh Tamiang, Area VI–Besitang of the Gunung Leuser National Park in North Sumatra, Harapan Rainforest in Jambi, protected forest of Register 40 – Padang Lawas in North Sumatra, and a food production zone in Bungaraya Sub-district in Siak – Riau. I identified five drivers behind these disciplinary actions: security problems, pressure from non-state actors, state humiliation, contestation of the state's legal authority and collective trauma. Rather than reflecting a clear intention to address environmental problems, these drivers show that the state tries to demonstrate its own legitimacy. The outcomes of the disciplinary actions were constrained by a lack of policy coherence, challenges from powerful locals, violent resistance, and a lack of awareness of the development economics context of the Indonesian palm oil sector. The state employed repressive actions, which can be considered as an expression of eco-authoritarianism. However, in some cases non-state actors were also involved in planning and organising these actions, which can be seen as an expression of the green state. The limited scale, the late timing and the limited political-administrative transformation afterwards showed that the Indonesian state found it difficult to practice the green state approach.

The third case study is about various responses of the Indonesian state to the emergence of non-state initiated palm oil sustainability governance arrangements. As the world's largest palm oil producing country, one would expect that the Indonesian state treats every non-state governance initiative as an interference. This was not the case. The two questions of the study are: how has the Indonesian state responded differently to the emergence of non-state sustainable palm oil initiatives, and what are the underlying mechanisms of these responses? The various responses to the different non-state sustainable palm oil initiatives have been analysed with the help of the Transnational Business Governance Interaction Framework (TBGIF). By 2015, the Indonesian state had given different responses to non-state initiatives: limited interaction with RSPO (Roundtable on Sustainable Palm Oil), confrontation with IPOP (Indonesia Palm Oil Pledge), and good collaboration with InPOP (Indonesia Palm Oil Platform). Interestingly, the responses of the state also depend on and differ much per actor constellation, the phases of development of the non-state initiative, and the governmental level involved.

The fourth case study explores the challenges of the Indonesian state to develop internal coordination for managing forest, land and plantation fire (FLPF). FLPF is a highly strategic and politically sensitive issue for Indonesia, which creates pressure from citizens, business,

supranational and subnational NGOs, and neighbouring countries. I address two questions in this study: What are the challenges faced by the Indonesian state to develop internal coordination in managing FLPF? To what have extent bureaucratic politics complicated these coordination efforts? This study analyses policy documents and the information about their implementation from state actors at the national level, and in the forestry and plantation authorities. The intensity and types of actors involved in internal coordination changed over time: from little coordination (2011-2014) to more intensive coordination involving more state agencies (2014-2015) and additional engagement with security forces (2016-now). The forestry and plantation authorities are involved in power bargaining and agency ideology competition. Generally speaking, the Indonesian state is struggling with financing an integrated action to manage FLPF. These show that bureaucratic politics factors persist to complicate internal coordination. The presence of a national leadership willing to act decisively to develop internal coordination contributed significantly to the decrease in the scale and coverage of FLPF in 2016 and 2017.

Based on the findings of the four case studies, the following general conclusions can be drawn on the role of the Indonesian state in governing the palm oil sector: The Indonesian state has been persistently supporting the palm oil sector, changing and adapting its roles under various political-economic regimes. A constant concern, though, has been the promotion of the palm oil sector for economic development. Under Suharto's New Order regime, economic development was balanced with social equity and smallholder development in particular. After the fall of the New Order regime and in particular in the 2000s, the Indonesian state has been facing a two-fold challenge: modernising its economic development focus by addressing both social equity and environmental sustainability concerns, and managing the transition from an authoritarian regime to a democratic regime. Such a transition in political orientation demands the state be more sensitive to concerns of non-state actors. At the same time, bureaucratic politics and in particular the overlapping mandates and power struggles between the forestry and plantation authorities lead to a kind of internal balancing act. Altogether, the balancing acts have involved more and different actors, both internally and externally. In engaging with these different actors, the state tries a new balance between an authoritarian and top-down approach with a participatory and bottom-up approach in governing the palm oil sector.

Based on the analysis of the case studies, the study offers various ideas and suggestions for future research and policymaking, both on issues and specific topics related to the four governance mechanisms.

I propose eight main topics for future research and policymaking: (1) strengthening of governance capabilities and learning from history for this purpose, specifically on how the state has conducted balancing acts in the past, (2) reducing confusion created by different state laws and regulations, and developing synergy between state law, customary laws and non-state regulations, (3) understanding and analysing impacts of political transitions on sustainable development, (4) identifying institutional conditions that enable sustainable development across different styles and approaches beyond individual national leadership, (5) working with the private sector in governing commodity chains and providing financial support, (6) strengthening smallholder organisations, (7) developing and seizing opportunities from the emergence of governance approaches, and improving potential contributions by Indonesian state actors in global debate and consultations dominated by CSOs, and (8) identifying ways

## Balancing dan Counterbalancing

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of strengthening the resilience of local economies and local communities by diversifying away from monoculture plantations and capitalising biodiversity.

Regarding the specific topics related to the four governance mechanisms, I suggest the following topics: (1) exploring governance arrangements and impacts of green banking policies promoted by Indonesian banking regulators, and the rise of new financial technologies for financing sustainability, (2) reviewing and analysing the impacts of the disciplinary actions in the six studied cases as well as other cases of disciplinary action in Indonesia, (3) developing new partnerships of state and non-state actors in promoting sustainability at the landscape level, and (4) identifying prospects of sustaining the current achievements of the state in managing FLPP in the next administration.



# About the Author



Eusebius Pantja Pramudya, or Pantja, is an engaged professional and critical scholar. He has been working in both professional and academic communities in the field of smallholder development and sustainable development.

Prior to the PhD research, he worked in Hivos – Southeast Asia Regional Office from 2006 to 2011 to manage the Sustainable Economic Development programme. Besides his main occupation, he conducted critical research on inclusive development and development financing issues based on the perspective of the political economy of development. Before working for Hivos, he also had experience in several organisations focusing on biodiversity, peacebuilding, economic development and banking. He was involved in the establishment of a respected think tank organisation in plantation issues, Forum Pengembangan Perkebunan Strategis Berkelanjutan (FP2SB).

He also undertook numerous consultancy assignments on the issues of sustainable palm oil certification for independent smallholders, green banking, financing for sustainable development, gender and agriculture, social entrepreneurship for green products, human trafficking in the palm oil commodity chain, and reviewing sustainable development goals and national development strategy.

This PhD research builds upon Pantja's interdisciplinary academic background that has provided him a solid grounding in policy, economics, business and the technical issues of the implementation of sustainable development. He holds Master of Science in Political Economy of Development from the School of Oriental and African Studies – University of London, Master of Management in International Business and Finance from the PPM Graduate School of Management, Jakarta, and a Bachelor (Sarjana) degree in Nuclear Engineering from the University of Gadjah Mada, Yogyakarta. He also followed a fellowship on sustainable development in the international program of Leadership of Environment and Development (LEAD). He also completed several courses in philosophy at the Driyarkara School of Philosophy, Jakarta. During this research, he was granted an affiliation as an Associate Researcher at the Center of Environmental Studies of Sanata Dharma University in Yogyakarta.

From 2012 till 2018 he was a PhD researcher at the Public Administration and Policy Group, Wageningen University and Research. In conducting the PhD research, he has brought together knowledge from various professional fields and an extensive network of actors. An understanding of the challenges across public, private and the third sector has given him a basis for analysing commonalities spanning diverse interests. The professional fields and networks have helped him in acquiring and accumulating knowledge and skills across multiple development issues.

His PhD research was part of the SUSPENSE (SUStainable Palm Oil = Environmentally Sustainable and Equitable) research program geared towards the identification of sustainable pathways for palm oil production, trade and governance. The SUSPENSE research program, coordinated by Dr Otto Hospes and Dr Greetje Schouten, is a joint initiative of four chair groups of Wageningen University: Public Administration and Policy, Environmental Policy, Environmental Systems Analysis, and Plant Production Systems. SUSPENSE is funded by the Interdisciplinary Research and Education Fund (INREF) of Wageningen University.

# List of Relevant Publications

- Pramudya, Eusebius Pantja, Otto Hospes, and C. J. A. M. Termeer. 2017. "Governing the Palm Oil Sector through Finance: The Changing Roles of the Indonesian State." *Bulletin of Indonesian Economic Studies* 53 (1): 57–82. doi:10.1080/00074918.2016.1228829.
- Pramudya, Eusebius Pantja, Otto Hospes, and C.J.A.M. Termeer. 2017. "The Disciplining of Illegal Palm Oil Plantations in Sumatra." *Third World Quarterly*, no. forthcoming. Routledge. doi:10.1080/01436597.2017.1401462.
- Pramudya, Eusebius Pantja, Otto Hospes, and C. J. A. M. Termeer. 2018. "Friend or Foe? The Various Responses of the Indonesian State to Sustainable Non-State Palm Oil Initiatives." *Asian Journal of Sustainability and Social Responsibility* 3 (1). Asian Journal of Sustainability and Social Responsibility: 1. doi:10.1186/s41180-018-0018-y.
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- Klaver, Dieuwke, Bungaran Saragih, Er Ah Choy, Otto Hospes, Rory Padfield, Pantja Pramudya, Greetje Schouten, and Sune Balle Hansen. 2015. "Future Roles of the State in Governing the Global Palm Oil Industry." Wageningen, The Netherlands.



Name of the learning activity	Department/Institute	Year	ECTS*
<b>A) Project related competences</b>			
Law and Public Power, LAW-21306	WUR	2012	6
Designing Innovative Policy Arrangements, PAP-30306	WUR	2012	6
Political Ecology	The Faculty of Science – University of Copenhagen	2013	8
<b>B) General research related competences</b>			
WASS Introduction	WASS	2012	1
Research Methodology: from topic to proposal	WASS	2012	4
Techniques for Writing and Presenting a Scientific Paper	WGS	2012	1.2
Action-Oriented Research	SUSPENSE	2013	0.5
Systematic Literature Review	WASS	2013	2
Interpretive methods and methodologies	WASS	2013	4
Research Proposal	WASS	2013	6
Expert Meeting on Future Roles of the State in Governing the Global Palm Oil Industry	SUSPENSE	2015	2
<i>'Re-examining Governance: Strengthening Citizenship in a Changing World'</i>	International Conference on Contemporary Social Political Affair, Indonesia	2016	1
<i>'Trends and Challenges for developing next generation of business and finance schemes for smallholders'</i>	Next generation of research and development in the field of sustainable agriculture and development, WUR and CIFOR	2017	1
<i>'The Role of the Indonesian State in Governing Sustainable Palm Oil'</i>	Wageningen Indonesia Scientific Exposure, WUR	2017	1
<b>C) Career related competences/personal development</b>			
Information Literacy incl. EndNote	WASS	2013	0.6
<b>Total</b>			<b>44.3</b>

\*One credit according to ECTS is on average equivalent to 28 hours of study load

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