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World Development Vol. 40, No. 3, pp. 555–569, 2012

0305-750X/$ - see front matter

doi:10.1016/j.worlddev.2011.07.012

Swimming Upstream: Local Indonesian Production Networks in "Globalized" Palm Oil Production

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Summary. — When agricultural commodities in developing countries experience an economic boom, they offer potential pathways out of poverty while creating environmental and social problems. While recent research provides insights into the governance of international supply chains, it provides less analysis of the local production networks creating critical problems. Indonesia is now the world's largest exporter of crude palm oil. This paper analyses processes of oil palm development in three oil palm districts. It considers how policy models, regime interests, and agribusiness strategies shape local production networks, generate local outcomes, and affect the possibilities of tackling issues associated with this boom.

Key words — production networks, agriculture, oil palm, agricultural governance, supply chains, Indonesia

1. INTRODUCTION

The production of lucrative crops in developing countries, such as palm oil, offer potential pathways out of poverty for many. However, they also raise significant environmental and social questions. In Indonesia, the center of global production of the world's most traded vegetable oil (World Bank Group, 2010), analysts have linked oil palm development with both widespread economic development alongside extensive deforestation and pollution, and conflicts over land use (Colchester et al., 2006; Laurance et al., 2010; McCarthy & Zen, 2010; Rist, Feintrenie, & Levang, 2010). Oil palm has been associated with complaints of extensive "losses of land by indigenous people and a failure to achieve sustainable livelihood improvements for small farmers," which it is anticipated will lead to future poverty for many (CAO, 2009, p. 20). In response to these problems prominent international campaigns have increased the pressure on palm oil investors, buyers and producers across complex production networks. Consequently, during 2009–10, Unilever, the world's largest buyer of palm oil, "blacklisted two major Indonesian members of the Roundtable on Sustainable Palm Oil (RSPO) for engaging in 'unsustainable' practices" (Anon, 2010). Nestle, the world's biggest food and beverage company, announced it would also withdraw from another key Indonesian supplier. Earlier, the World Bank Group also ordered a complete moratorium on investment in palm oil (Jia, 2009). To date, attempts to address these problems by improving the governance of global production networks have met considerable obstacles. [1] The most significant are located at the upstream end of palm oil production in districts where there is little pressure to meet international social and environmental standards, and where the Indonesian state has less capacity to regulate or hold local state actors to account.

To be sure, the literature on global value chains (Gereffi, Humphrey, & Sturgeon, 2005; Humphrey & Schmitz, 2002) and global production networks (Coe, Dicken, & Hess, 2008) has provided a framework for analyzing shifts in global governance structures and networks useful for studying these problems. However, while identifying the need to examine the key dynamics of global production networks at both the national and local levels, this literature has only begun to analyze the national and local dynamics that shape them (Fold, 2008; Murphy & Schindler, 2009; Neilson & Pritchard, 2009). [2] In order to address this need, this article draws together insights from the literature on global value chains and global production networks, combining it with the literature on state formation and fiscal sociology (Eriksen, 2005; Moore, 2004). In exploring the variation in the political-economic dynamics shaping outcomes, we follow (Tsing, 2005) who noted that "global forces are themselves congeries of local/global interaction." By analyzing what happens as global processes articulate with local dynamics, we provide a corrective

* The Australian Research Council and a grant from the Australian Indonesia Governance Research Partnership funded this research. Thanks to RISTEK and the University of North Sumatra for supporting this research. We are grateful to district and provincial governments as well as the many communities and oil palm farmers who hosted us during fieldwork in West Kalimantan, Riau and Jambi for their generous advice and assistance. Thanks to Jeff Neilson, Tania Li, Derek Hall, Adrian Wells, Ross McLeod, Lia Fadliya, Zulkifli Lubis and Wendy Miller for providing valuable information or comments on previous versions as well as four anonymous reviewers for their insightful remarks. Any shortcomings in the final are of course our responsibility. Final revision accepted: June 27, 2011.

to more structural accounts that privilege transnational forces that have a tendency to overlook local agency and difference.

This article advances two sets of arguments. First, we find that local regime interests and agribusiness strategies—as articulated through particular business and policy models that reflect the workings of power laden relationships in specific political-economies—largely determine outcomes at the upstream end of global production networks. [3] Changing regime interests, state policies and agribusiness agendas are mutually constitutive, cumulatively shaping local production networks. The way these work together in a particular location affects the developmental pathway there. In large part these also determine the degree to which integration into the global palm oil economy leads to increased concentration of land ownership, smallholder marginalization, social conflict and/or the "upgrading" of smallholders into more lucrative forms of production.

Second, in the final section, we consider the implications of this study for how the problems associated with this crop might be regulated. Lead firms have responded to the risks to their reputations when they buy from problematic local production networks. They have supported internationally recognized forms of product certification elaborated under the Roundtable on Sustainable Palm Oil (RSPO). Regulatory approaches such as these, however, tend to be methodologically blind to the way regime interests, state capacities, and plantation business agendas work together to shape outcomes. Further, they tend to have a less compelling effect on nonlead local firms who predominately sell to India and China (McCarthy & Zen, 2010). [4] Adjustments to the certification programs are needed to make them more effective and improve the market and regulatory environment where certification processes function are pertinent (Dauvergne & Lister, 2010). However, this article suggests the need to go further to address the underlying problems in upstream production networks.

Using qualitative, case study methods (Burawoy, 1998; Flyvbjerg, 2001; Small, 2009), this paper draws its conclusions from research conducted in three districts. These cases were selected to elucidate contrasting situations within Indonesia's agrarian mosaic. [5,6] Using decentralization as an opportunity for "focused sub national comparisons," this study analyzes the relationships between specific institutional changes, social action and outcomes (cf Fox, 2007). By considering spatial and temporal variation, we have sought to understand the causal mechanisms linking district regimes, state policy, corporate strategies and agrarian change. We draw conclusions regarding how state-society-agribusiness configurations evolve, and how this affects processes, leading to a diversity of outcomes.

In the first site (a district in Jambi province), the research studied the transition from state-led to a laissez-faire development, characterized by minimal state engagement in smallholder development. This contrasts with a second district, located in West Kalimantan, where a resource-poor district government facilitates oil palm development through a policy model offering the most attractive terms to investors. [7] In the third site, a district in Riau province, returned to an earlier era of developmental planning, one where the state used oil palm production as an instrument of pro-poor policy. Rather than generalizing out from a specific case, cross-case comparisons enables us to contrast the dynamics and processes affecting the evolution of governance-policy regimes. Further, this allows us to analyze, amidst enormous variability, the emergence of paradigmatic dynamics and processes providing characteristic pathways of inclusion into this global production network. [8]

The article will proceed in three sections. The first section links our empirical investigation with theoretical considerations. The second section presents our three case studies, and the third offers our conclusions.

2. GOVERNANCE STRUCTURES, AGRIBUSINESS RISK, AND REGIME INTERESTS

With large retailers, merchandisers and buyers dominating decentralized, global-scale modes of organizing production, a literature has emerged that focuses on the factors that shape governance structures within global value chains (Coe et al., 2008; Gereffi et al., 2005; Humphrey & Schmitz, 2002). A critique of the earlier Global Value Chain (GVC) approach suggested that, as well as analyzing the actors within a GVC, it is important to understand the wider institutional context and its dynamics. This suggests the need for better analysis of how the relative power of actors within global production network shifts over time, in turn affecting governance structures (Coe et al., 2008). Further, critics identified a need for more careful study of the national and local sections of global production networks (GPNs)—where localized networks of power and interest coalesce and articulate in specific ways. Rather than assuming the dominance of lead firms then, it is necessary to analyze specific "tactical and strategic alliances" working in national and local domains (Fold, 2008).

Humphrey and Schmitz (2002) earlier noted that, where the state has limited capacity, "policy networks" can work as "mechanisms of political resource mobilization," especially where policy resources and capacity are "distributed or dispersed among private and public actors" or are "context (or actor) dependent." "Upgrading" into more productive systems of agricultural production here may depend upon a type of "industrial policy" where the state builds a coalition—or "partnerships"—across the public–private divide. As we will discuss further, Indonesian policy depend on such "partnerships." Consequently, understanding the way such partnerships operate is critical to the analytical focus of this research.

The GVC literature argued that firms tend to favor governance structures that minimized risks such as supply chain failure and damage to brand reputation (Humphrey & Schmitz, 2002; Vogel, 2008). This observation remains important to understanding Indonesian oil palm production. Indonesian policy makers faced a hiatus in new investment in the early years of this century. This was due to the increased salience of questions of risk and opportunity, the ascent of new, more market based policies, and the state's reduced power to dictate the terms of agribusiness investment (Casson, 2000). These questions framed the context for a debate among policy makers and plantation investors over the direction of industrial policy (Zen & Barlow, 2005). This was resolved when a new settlement emerged that effectively re-set the terms of investment in the palm oil industry in favor of investors.

In considering the dynamics shaping state-based interests in remote agrarian regions following decentralization, we can distinguish between regimes and states. A regime consists of three elements: The dominant socio-economic coalitions; "the political and economic institutions through which power is acquired and exercised;" and "the public policy profile" that provides broad, political, and strategic directions (Pempel, 1997). In contrast, the state refers to the second, narrower set of political institutions: The "public institutions that govern between elections," a set of institutions meant to represent society as a whole (Fox, 2007). Dominant socio-economic coalitions can manage the state, using it to promote the interests of private individuals and specific social forces. Given that the state comprises of a set of institutions through which power is exercised, and upon which a regime's power ultimately depends, these coalitions may also promote state formation to increase regime power. As theorists of predatory regimes in Africa note, while regime continuity can depend on the strength of the state, we cannot assume that state formation is compatible with regime consolidation (Eriksen, 2005, p. 339). The key point here is that the position of state based elites is often shaped by a simple question: What do they need to do to survive politically? (Grabowski & Self, 2006).

There are those that argue that more effective states tend to emerge when the state depends on the revenue it can extract from its populations. This creates a need for the state to interact with and bargain with its citizenry about the conditions and means of taxation (Moore, 2004; Ross, 2001; Tilly, 1975).[9] In such cases, as the state develops the "infrastructural power" required for the emergence of what is known as a "fiscal state" (Mann, 1988), it tends to develop negotiating arrangements that ensure its legitimacy. Such processes constrain state power, creating structures of accountability over time. This can lead to legitimate, participatory and institutionalized civic processes replacing more coercive forms of governance (see Bates, 2001). Further, where state based elites have vested interests in a rural industry, they are likely to invest in building infrastructure. They may also develop institutions to secure state power and its revenue base while at the same time pursuing regime consolidation and their economic interests (cf Erikson, 2005, p. 404). Here, improved rural development can occur because regime interests coincide with a desire to strengthen the state's capacity to support smallholder development schemes in marginal areas.

In contrast, those states that have autonomous sources of finance, and the means of obtaining the critical resources required for regime endurance, have less incentive to respond to their citizens. When regimes enjoy this type of autonomy, the state is unlikely to impose predatory taxes. They are also less likely to develop processes for listening to citizen requests, allow influence over policy, or invest scarce administrative resources in promoting broad economic development (Moore, 2001). In other words, in these circumstances state based elites may afford to ignore their citizens, or just relate to them coercively. Regimes, such as these, that depend on state control of commodity export surpluses may keep rural populations quiescent in areas integral to the functioning (or expansion) of the commodity export economy, rather than developing agriculture to improve rural welfare. In such contexts the civil service may be ineffective, with little interest in developing either complex tax systems, state control mechanisms or supporting smallholder agriculture. With few incentives for civic politics, patronage networks are more likely to capture public finances.

On the one hand, districts may obtain large revenues from oil or mineral resources or from lucrative export commodities. On the other hand, districts may have subsistence orientated or low productivity agriculture and will depend upon fiscal transfers from the center.[10] In both cases, this logic suggests that state-based elites will look elsewhere for the resources required for their endurance. Accordingly, they will have little incentive to develop agriculture or look after the welfare of poor agriculturalists (Grabowski & Self, 2006). In both cases, despite different political economies, small farmers will tend to have low bargaining power.

(a) *The Indonesian case*

The above considerations frame our discussion of Indonesia as the global center of palm oil production. During the Suharto period (mid 1960s–98) the state supported the development of large domestic agribusinesses while insisting that these agribusinesses include small farmers in what were known as Nucleus Estate Schemes (NES or PIR) (Larson, 1996).[11] During this time the state provided agribusiness plantations with subsidies and free land under a production model that integrated smallholder producers while reducing the risk of supply chain failure.[12] It did this by tying smallholders to the plantation marketing chain, insisting that these "plasma" farmers must sell their fruit directly to the "core" estate mills as a condition for obtaining credit (Zen, Barlow, & Gondowarsito, 2005). This policy granted the estates considerable control over smallholder suppliers under monosponistic arrangements (Fairhurst and McLaughlin, 2009; McCarthy & Cramb, 2009).

From the mid-1980s, multilateral donors widely criticized state led smallholder development and transmigrant schemes (CAO, 2009). Policy approaches now favored market based approaches and much less state involvement. As a result, the state adjusted its policies, gradually withdrawing from directly supporting smallholder inclusion.

Following the East Asian crisis in the late-1990s, state subsidies for the newest (KKPA) schemes declined (Zen et al., 2005).[13] In many cases smallholder cooperatives tied to estates had performed badly, while plantations faced widespread conflicts with surrounding communities. This, together with the emergence of independent palm oil mills that bought fresh fruit bunches from formerly tied smallholders increased the risk of supply chain failure for plantations.[14] Without state subsidies and direct state support, domestic banks were reluctant to provide credit for smallholder inclusion, and plantations were reluctant to guarantee loans to smallholders.[15] In this context plantations were unwilling to invest. This effectively ensured that the state needed to liberalize development policies to attract palm oil investment. Subsequently, the "Partnership" model relaced the obligatory 70:30 land split under the earlier (PIR and KKPA) models in favor of participating smallholders with a minimum 20:80 split in favor of the plantations (see Table 1).[16]

Plantations also had a clear motive for increasing direct control over production. As one report noted, "a best practice plantation's value added per unit crop was only 44% of that earned by a best practice [Crude Palm Oil] CPO mill, illustrating the value of the product captured in the downstream processing" (CAO, 2009, p. 15). Consequently, by directly controlling much larger areas of production, plantations could maximize profits by maximizing the input of high quality fruit to their mills. Taken together, these factors created significant incentives for companies to minimize their dependence on the supply of fresh fruit bunches from smallholder peripheries.

The logic of fiscal sociology described above pervaded over large areas of rural Indonesia. Fiscal decentralization returned a higher proportion of taxation revenues to sub-national governments. However, these governments remain heavily dependent on fiscal transfer from the center. Indeed, on average, 90% of district revenues derive from fiscal transfers from the central government, with districts only investing on average 4% of district budget in agriculture and 1% in environment (World Bank, 2007a). At the same time, as the central government decentralized key aspects of plantation licensing to the districts, district state based actors gained enormous local

Table 1. *Smallholder development schemes in oil palm.*

Type	Smallholders	Land & benefit sharing arrangements	Funding/credit arrangements
Nucleus estate (NES or PIR) schemes (1977–85)	Initially local farmers, later, transmigrants only, and including a proportion for local settlers in later iterations	Typically 70% of land development provided for smallholders.[a] Each settler allocated 2.0 ha of oil palm. Local farmers offered large areas of land to the core estates as condition for inclusion; later schemes included 1.0 ha food crops, incl. house area[b]	Earlier schemes part funded by WB & ADB; Other NES schemes funded by Indonesia govt. typically30% of palm oil production deducted to pay Subsidized interest (12%). Additional charges for inputs and services
PIR*Trans* & KKPA, from 1986–2000	For both transmigrants & local smallholders	Included villagers who provided land to estate core as a condition for inclusion. Under KKPA no area provided for food crops and housing.	Indonesian government, subsidized; after state subsidies withdrawn interest on KKPA loans raised to 16%
Partnership (Kemitraan) schemes (from 2005)	Predominately private estate	Villagers provide land in return for inclusion. Benefit sharing and land arrangements depend upon village-estate negotiations. At least 20% of the total development area allocated to smallholders	No state subsidies
Plantation revitalization scheme (post 2006)	State & private estate	Same as above	Government subsidy for replanting older plasma areas[c]

Source: Zen et al. (2005).

[a] Initially the proportion of core estate in the total nucleus estate area was 20%, but rose to 30% for many years, before finally rising to 40% after 1998, reducing the estate risk and enhancing economies of scale (Zen et al., 2005).

[b] Estates typically had responsibility for clearing, planting and development up to for four years, after which the land would be turned over to smallholders. Upon repayment of debt, smallholders would receive land certificates for *plasma* plots.

[c] Under this program, farmers would receive a state-subsided loan but only 20% of the income generated from their revitalized smallholding. Smallholders have been reluctant to take on this debt for such limited benefits (Kompas, 2009a; Kompas, 2009b). Interviews during 2008–9 also revealed that banks were requiring that "core" estates provide security for loans for developing smallholder areas before offering lines of credit. "Core" estates were also reluctant to take on such liabilities for loans that they argued were insufficient to subsidize the costs entailed in developing plasma areas. Consequently, the realization of revitalization schemes has been held back.

discretionary power.[17] Although palm oil production generates large revenues to the center (especially from export taxes), district governments do not get a direct share of palm oil taxes.[18] Incentives take the form of the significant funds state-based actors obtain through "informal" means for permits and licenses.[19] For instance, it is well known that these state-based actors personally receive shares or land in agribusiness developments within their districts and otherwise provide benefits to actors within supporting socio-economic coalitions.

Under the new arrangements, state agencies remain critical: Large plantations can only obtain access to land through state provided concession licenses under Indonesian land law. But now district government sort out initial land arrangements, and oversee micro-level processes, with only limited monitoring and control from the center. Consequently, the key relationships became increasingly *local*—between the company, participating smallholder cooperatives and the district government. With districts competing to attract agribusiness investments, the district governments were induced to commit to the most favorable policies for investment under the new partnership model. Plantations expected a sympathetic hearing when seeking local government support in negotiating arrangements for greater plantation direct control over production in smallholder peripheries. Under these more hierarchical or direct modes of governance, plantations gained greater direct control over production.[20]

Under these new arrangements, the process of "freeing" up the land and entering into production sharing arrangements occurred through direct negotiations between plantation companies and participating communities. These negotiations were conducted under district regulations rather than under the conditions set by the central state. As plantations companies directly negotiated the terms of smallholder inclusion, this allowed them to retain control over smallholder peripheries in a similar fashion to the "konsep baru" policy in neighboring Malaysia (Cooke, 2002; McCarthy & Cramb, 2009).[21] It is this "freeing up" of plantation arrangements that sets the context for the comparison between the three district cases that follow.

In the following three cases studies, there are particular factors that shape the emergence of district regimes. First, different areas are at distinct temporal stages in the transition from diverse forest–agroforest into plantation-agribusiness dominated landscapes. Second, variations in the availability of land and the provision of infrastructure to support oil palm development creates different sets of dilemmas and opportunities for the dominant socio-economic coalitions and their state based allies, as well as potential investors and local smallholders in each location. Further, there is considerable variation in state capacity in each district, particularly fiscal resources—Gross Regional Domestic Product (GRDP) Per Capita, fiscal revenue/capita, and poverty headcounts (see Table 2, below). These factors all affect the capacity of the state to underwrite credit arrangements for smallholder peripheries and to develop the administrative capability to implement smallholder development policies. In the discussion that follows we will analyze the link between these contextual factors, the position of key actors, and the particular political economy of oil palm that emerges.

Table 2. *fiscal transfers and gross regional domestic product figures by district*

District	Fiscal transfers from the center (Rp million)[a]	GRDP per capita (in Rp million)[b]
Siak (Riau)	4.34	48.41
TanjungJabang (Jambi)	1.89	7.82
Sanggau (West Kalimantan)	1.31	6.25

[a] "Balancing" transfers from the center (excluding own source revenue), 2007, in Rp million. Source: Directorate General of Fiscal Balance Office, Ministry of Finance.
[b] Gross Regional Domestic Product Regencies/Municipalities 2003–7, BPS-Statistics Indonesia, 2008.

3. RESULTS SECTION

(a) *The jambi case: The shift to laissez faire*

In the hilly Sumatran districts of Tanjung Jabang, during the state development period (under the former Suharto regime) the state had implemented the NES and the KKPA smallholder development schemes discussed earlier. These, together with the expanding industrial timber plantations, meant that there were only limited areas of village land now available for oil palm expansion. The area had experienced large scale agro-industrial development. [22] However, World Bank statistics revealed that the district combined a significant fiscal capacity and a high GRDP per capita with a high poverty headcount (World Bank, 2007a).

Fieldwork in this district concentrated on a particular subdistrict where the various smallholder schemes had injected credit, technical assistance, and agribusiness inputs. The "nucleus" estate mills provided for new channels for marketing fresh fruit bunches. Smallholders, primarily transmigrants from the island of Java, had obtained access to credit, oil palm technology and certified land entitlements under the first round of the PIR-Trans schemes. Those who were able to hold on through the early lean years—before the oil palm smallholdings matured and became fully productive—obtained highly productive oil palm smallholdings, and the schemes led to the emergence of a class of independent smallholders. However, the PIR-trans scheme worked at odds with the cultural and land use practices of the indigenous *Melayu.* [23] As most of the *Melayu* farmers invited to join the early schemes opted out, they remained poor farmers outside the oil palm economy. A second phase of smallholder development schemes, known as KKPA, targeted *Melayu* landowners *in situ*. However, given variations in state involvement, village leadership and landowner agency over time and space in the second phase, the outcomes of these schemes were highly uneven (McCarthy, 2010; Potter & Lee, 1998; Zen et al., 2005).

During the course of these developments the more affluent villagers, together with the sub-district and the district elites, and successful transmigrants had either obtained or bought up highly productive oil palm entitlements. [24] These farmers had greater resources and/or access to social networks that enabled them to access to planting material, fertilizers, credit and marketing networks. This led to differentiated agrarian landscapes, with significant gaps emerging between the majority of *Melayu* villagers on the one hand, and those with productive high quality oil palm holdings on the other. [25]

After decentralization, the opportunities to be obtained from expansion of private oil palm holdings attracted the coalitions that dominated the local state. With little land available to expand large scale plantations, these coalitions focused on developing intermediate-sized holdings ranging from 5 to 10 ha and extending up to 200 ha. Local government and business networks used their power and finances to buy up oil palm entitlements. Local state-based actors set out to enlarge their landholdings, drawing village elites into accommodative arrangements that allowed them to expand their holdings. At the same time these local coalitions exploited opportunities for developing collusive arrangements with the oil palm estates.

Despite the implementation of political decentralization in the early years of this century, Indonesia's election system still provides only limited means of effecting accountability (Sherlock, 2004). Ten years after the decentralization reforms, villagers in this district had not mobilized in a way that was politically effective or that ensured state accountability. Even though small farmers made repeated requests to the district government for development assistance to help smallholders during routine village development meetings (*Musrengbang*), established district level networks of accommodation and exchange continued to shape decision making processes (McCarthy, 2008). In this context other pressing political agendas eclipsed the priorities of the poor farmers who wished to be included in the oil palm economy. The district agricultural budget also remained very limited. Following the effective withdrawal of the state from providing inputs and credit for small farmers, in line with the fiscal sociology argument, there were very few initiatives to support state investment in the smallholder sector.

The liberalization of agricultural policies during the East Asia crisis allowed for free standing mills to emerge. In this period, the district saw the spread of channels to market fresh fruit bunches produced by independent smallholders outside of the tied arrangements that had formerly bound smallholders to estate mills. Participants in the earlier schemes had gained oil palm technology and knowledge and the ability to use their certified landholdings to borrow from banks to expand production. Rural elites, incoming groups and entrepreneurial smallholders had better access to knowledge and capital. Accordingly, they responded to the booming market by engaging in a race to extend their smallholdings and plant oil palm. [26]

With a lack of safety nets as well as access to credit for ordinary *Melayu* villagers, distress land sales occurred as farmers were exposed to economic shocks. As land prices spiralled and large sums of money were offered for land, many rubber farmers sold off their land to pay for a child's wedding, meet a pressing debt, or to fulfil consumer desires. Five years earlier there were only a handful of landless farmers. By 2009, however, an estimated 30% of villagers in this more remote location were now landless (McCarthy, 2010). A village teacher described this as a process of creating "coolies"—day laborers without any secure livelihood. [27] This culminated in an irreversible shift in the ownership of agricultural land from marginal farmers to those with the capacity to buy land and to operate with the oil palm economy. Village micro-processes working in a context of insecure land tenure facilitated these rapid changes in land tenure and access to land. Here the historical legacy was one where land unencumbered by registered title—particularly areas formerly used for swidden rice production—was subject to ambiguous "fuzzy" rights. In the absence of effective land governance, village headmen had substantial discretionary power. In this new milieu, Village lands that were previously owned collectively were privatized and transferred through informal payments to third parties.

These dynamics—shaped by power laden relationships within the district—created a transitional situation that supported rapid agrarian differentiation. The transition occurred in the spaces between large scale timber and oil palm plantations. Here, large numbers of prosperous oil palm farmers emerged with the expansion of intermediate size oil palm landholdings under the control of influential village and district actors. Meanwhile, large numbers of poor farmers and landless laborers were losing less productive rubber gardens. As in other cases, processes of accumulation by some are accompanied dispossession of others (Harvey, 2003).

(b) *The West Kalimantan Case: A new form of partnership*

At the turn of the century the hilly district of Sanggau in West Kalimantan still had considerable hinterland areas including former production forest. Under Indonesia's dualistic land tenure system, during the New Order regime large areas of the Sanggau district had been zoned "state forest land." These were areas that villages also considered to be under "customary" land rights and subject to Dayak "traditional" agriculture. Despite the advent of large scale forest concessions and oil palm estates, the World Bank statistics classified this district as one with low fiscal revenue and GRDP per capita (World Bank, 2007a; World Bank, 2007b).

In the past decades oil palm estates were established across the core area of the district, sometimes with considerable success. For instance, a range of actors acknowledged that one plantation opened more than ten years ago (under earlier policies) was the "best example of a Sanggau plantation." Due to effective village leadership and collective action during negotiations at the time when the new plantation was being established, villagers received a 50:50 land division between company and plantation. A desire by the district to attract investment by demonstrating that plantation development could be developed even during a period of political uncertainty and conflict supported this outcome. With an effective cooperative, the provision of inputs, effective marketing and training and high oil palm prices at the point of harvesting, the plantation obtained substantial profits and most small farmers were able to pay back their credit within several years after planting (Gillespie, 2010).

More recently, because of the possibilities available under the new partnership model in Sanggau district, land division ratios between plantations and local landowners have shifted.[28] In 2004, a newer plantation company established an estate under the new "partnership" policy in an area previously peripheral to oil palm development. Here, the company argued for an 80:20 landholding arrangement in favor of the core estate. These were the most generous terms allowable under central government policy. The company involved argued that anything less than an 80% arrangement in its favor under the "partnership model" would make it uneconomical for them to invest in such a remote location. Consequently, the company obtained the consent of the district administration for a partnership model that offered smallholders the minimal possible landholding ratio allowed under national law prior to entering into negotiations with landowners. The company reinterpreted the 80:20 land division stipulations in plantation law as a share-holding relationship with smallholders. In other words, rather than the company returning the 20% plasma area to smallholders when the oil palm matured, the company would offer smallholders the share of the production from the 20% plasma area which the company would retain under its own management.[29]

This company embarked on a "socialization" process and recruited community leaders to inform people of its intention and to convince them to participate in the "partnership." Given that the plantation company had already received district commitment to the 80:20 arrangement prior to community consultations, the village deliberations required under district legislation were highly circumscribed. Even though the company did not force or coerce local landowners into joining the scheme, under the pre-fixed terms villagers could only choose between joining and opting-out. In providing compensation for alienating *de facto* local lands from farmers to the core plantation estate, the company contractors used a customary term, *Derasah*. Rather than indicating outright sale, this term signified a traditional payment for the cutting of trees on borrowed land. Accordingly, many of the villagers believed they were lending land that would later be returned to them rather than selling it for perpetual alienation under a state plantation concession (HGU). The district government sanctioned this process: A district government administrative decision set out the schedule for compensating the *de facto* land rights of the Dayaks. Processes like these do not meet RSPO's standards of informed consent. They do, however, allow companies to obtain estate land with a nominal payment (e.g., 25 000 Rupiah) for each productive tree growing on the land rather than for purchasing the land itself.

While district plantation legislation provided for the right to access information regarding credit arrangements, several smallholders insisted that they had granted land to the scheme without being informed of the specifics of the credit arrangements. A farmer's group operating under a cooperative set up by and dependent upon the company would control future credit and benefit sharing arrangements. Under this system, participants would receive their land certificate after they paid off their debt. In the intervening years, landowners might well remain unaware of how much they owed, and when their land would be returned. The plantation estate would retain direct control over agricultural production in the "plasma" area for an indefinite time. Clearly the absence of effective forms of villager representation and deliberation in the consent process, together with the cooption of village leaders and the lack of forceful guidelines and supervision, contributed to this lack of clarity. In the initial stages, there villagers lacked both the means to control the process or supervise the cooperatives' processes for distributing benefits. In addition they lacked an independent oversight protocol, and an independent plantation advisory body to supervise the process. Indeed, at the time of writing, the formal advisor for the cooperative is a full time salaried employee of the plantation.

At this point, it makes sense to pause to compare the distributional outcomes relating to land and the benefit sharing arrangements under this "partnership" scheme with the earlier (KKPA) scheme in Jambi district discussed earlier. The KKPA 70:30 land formula favored landowners, with participants receiving back 70% of the land that they had contributed as plasma entitlements. With 30% of the monthly plasma yield deducted for repayment of smallholder credit and 20% subtracted to meet other costs, villagers obtained approximately 50% of the yield from their plasma lands. Now, under Sanggau's 20:80 "partnership" model, the smallholder would retain nominal ownership of only 20% of their land that was included in the development. They would also receive an unspecified percentage of the monthly yields to cover production costs and credit repayments. To understand this, a village survey of production arrangements was carried out in a neighboring plantation that already operated under Sanggau's "partnership" arrangements. Here, under a 30:70 production sharing arrangement in favor of the estate, local farmers received only 30% of the monthly yield from their smallholdings, due to further deductions for plantation costs and credit repayments. However, when compared to plantation arrangements that operated under the Suharto government, the later "partnership" arrangements introduced in Sanggau district represented a significant step backwards for small farmers in terms of land division ratios, and the benefits that smallholders obtain directly from oil palm production. Arrangements such as these will lead to reduced landownership in the next generation of smallholders. In this respect, Sanggau's partnership arrangements conflict with the UN Special Reporter's minimum principles and measures to address the human rights challenge of large-scale land acquisitions and leases. These hold that investments that aim to increase agricultural productivity should—as much as possible—take place in a fashion that does not reduce the rights over the land of marginalized households (UN Special Rapporteur on the Right to Food, 2009).

While on paper the Sanggau district's plantation legislation provided for limited forms of "free, prior and informed consent," the substance of these provisions remained absent during implementation, particularly in regards to the requirement for informed consent and independent third party monitoring and sanctioning. Even though district legislation facilitated the creation of cross-agency teams to provide "continual guidance," an effective supervisory capacity is yet to materialize. In contrast to the top-down models of the past, the "partnership" policy enabled communities to negotiate directly with investors and in this way ensure their rights were converted into benefits. However, asymmetrical power relationships shaped the institutional contexts in which negotiations occurred and consent was granted. These uneven power relationships combined unfavorably with the insecure nature of indigenous land tenure to weaken the local landholders' bargaining position (cf Cotula, Dyer, & Vermeulen, 2008). While district policy appeared to offer a consultation process that would enable village communities to negotiate with investors in order to convert their *de facto* land rights into benefits, the process for translating informal rights into formal legal entitlements left landowners vulnerable to manipulation by land brokers and consultants working on behalf of the plantation company.

In Sanggau district, ineffective procedures in these "partnership" schemes combined with a lack of accountability towards the central state as well as from producer organizations. According to state statistics the number of "marginalized smallholders" (*petani gurem*) outside the island of Java with less than half a hectare of land encompassed 30% of households (Badan Pusat Statistik, 2004). As this process of enclosure increased pressure on land, it raised the questions of access to land and future livelihood and food security, creating poor distributional outcomes and grievances that will be difficult to resolve. This will inevitably sow the seeds for future conflict.

A developmentalist discourse dominated Sanggau's public policy profile, shaping the district's plantation policy. District policy documents suggested that oil palm was the key to developing impoverished rural communities, extending the capacity of the local state across the remote corners of the district, developing infrastructure and improving community welfare. Yet this district had to compete with other districts seeking to attract oil palm investment. From a local government perspective, the logic was clear. As one senior advisor with the Sanggau district government ruefully noted:

> We don't have anything else to bargain with investors except land. We can't argue for infrastructure, a good and educated workforce, a steady supply of electricity, quick access to overseas markets—we have none of these things. So the only thing we have currently is land to offer investors, and it is the only thing they are interested in. [30]

Accordingly, the district administration used the authority it had gained under decentralization to issue land development and plantation permits for rapid oil palm expansion, providing permits for more than 240 000 ha of new oil palm in just a few years. This policy for expansion was pursued under the national "partnership" policy where smallholder inclusion in the oil palm economy would occur through a "partnership" with a plantation investor.

In this way, clientelism has shaped the implementation of oil palm policies in Sanggau. Several respondents described how district decision-makers, including the district head and the head of the regional assembly, held shares in plantation companies, producing a conflict of interest that affected administrative supervision. Key actors exercised powers to influence processes so that they served their interests as well as those of their corporate partners, thereby altering district government processes. There was no incentive for lower level officials who might otherwise be expected to take up a critical supervisory role. An official at the Ministry of Plantations office confided that:

> "We are faced with an impossible situation here at the Plantations office, underpowered and unable to really play our role in any proper capacity. If we try and take things further, then there will always be a phone call from a senior official in Jakarta that will put pressure on us to back off and just do our jobs 'properly'. This kind of phone call always comes, telling us not to be personal in our attack on a given company and stick to the regulations. The message is always clear". [30]

Sanggau district's public policy profile correlated with a particular constellation of interests. Dominant politico-bureaucratic interests coalesced around plantation expansion. With large areas available for plantation development, state-based actors received extensive benefits from entering into accommodations with investors, and offering the most attractive conditions for oil palm development. In the process they generated informal payments for implementing administrative functions such as issuing licenses and permits and providing supervision. These payments in turn provide electoral advantages. With poor development budgets, and operating in a remote area lacking basic infrastructure, the local state lacked the managerial capacity or political interest effectively to implement existing legal procedures. Ill-equipped bureaucracies, poorly trained local police, and pro-plantation district legislation worked together to constitute a politico-legal nexus that produced pro-plantation outcomes (Gillespie, 2011).

Under the "partnership" model implemented in the Sanggau case, the local state provides an "enabling" environment for private sector actors who directly manage the periphery with little state control and support. Here the "partnership" mode corresponds to a form of governmentality "imbued with aspirations for the shaping of conduct in the hope of producing certain desired effects and averting certain undesired ones" (Rose, 1999, p. 52). These desired effects included the maximum expansion of estates through circumscribed, instrumental forms of participation (Kapoor, 2005). While this "guided participation" rarely provided local landowners with the means to make considered and informed decisions about the consequences of becoming "partners," it worked to diffuse conflict and minimize the potential disruption to plantation production and expansion. These desired effects also extend to developing state infrastructure into remote areas and producing "multiplier effects" in the local economy, all the while supporting the clientelism that sustain district politico-bureaucratic actors.

(c) *The Riau case: Reapplying the hand of the state*

In Siak district in Riau province (neighboring Jambi province), a number of contextual factors shaped the emergence of a quite distinct regime-state-agribusiness configuration.

Following fiscal decentralization, the central government now allocated back to the district a significant proportion of Siak's oil revenues. This endowed the district with high fiscal revenues, absolving it from the revenue hunger that affected Sanggau policy (World Bank, 2007a). The district had emerged as a newly created jurisdiction. Yet, significant numbers of indigenous ethnic *Melayu* resided in impoverished enclaves squeezed between oil palm and timber plantations.

Riau's political context contrasts markedly with the other two districts discussed earlier. After 1997, in the wake of a nascent movement for Riau separatism, the problem of the marginalized Melayu emerged as a politically charged issue, culminating in the re-division of oil revenues and the provision of large provincial and district development budgets (Wee, 2002). In the coastal district of Siak, landowners requested assistance for smallholders during routine village development meetings. The administration reacted with an oil palm scheme to aid marginal Malay farmers under the same national "partnership" policy that was implemented in Sanggau district to such different effect.

A number of factors worked together to allow for the autonomy of development-minded state managers and planners, the public policy profile and the state capacity required to implement a program that favored the poor. First, it is important to note that not all local elites are corrupt. In this case, a charismatic and committed district head (Bupati), a technocrat with a background in district administration, demonstrated the willingness and ability to develop the pro-poor policies alongside the structures, and the administrative apparatus required to implement and to supervise a smallholder scheme. Second, as a new jurisdiction created from above, at least one observer argued that Siak district regime remained somewhat autonomous from the rent seeking elite and predatory pressures that affected the other two cases.[31]

Siak's fiscal capacity provided the district regime with largesse to provide patronage while also pursuing developmental objectives. For instance, the district could afford to recruit the best professional, technical and managerial expertise available and offer them performance based bonuses for achieving developmental objectives. With a low poverty headcount, the district could also subsidize smallholder loans. With participants only paying half the commercial interest rate, the scheme could avoid the crisis sales that happened in other schemes (such as in the Jambi schemes discussed earlier) in the period before the oil palm became highly productive that had affected earlier schemes (Zen, McCarthy, & Gillespie, 2008).[32] Where it lacked required capacity, the Siak district administration could hire the required resources and technical skills through strategic partnerships. The Indonesian Oil Palm Research Institute in Medan provided design expertise and guidance and periodically monitored the progress, while the state-owned oil palm enterprise (PTPN 5) was the contracted land developer. Taken together these factors led to a combination of regime interest and state capacity, leading to a reversion to conditions of state development where the state could embark on a project of connecting smallholders to globalized palm oil markets while strengthening their competencies and overcoming the barriers to effective inclusion in the oil palm economy.

Nevertheless, despite these positive elements, the scheme faced significant challenges. With such large areas already allocated to timber and oil palm estates, land shortages limited the number of poor people the project could assist: Some target villages and households were left out, and in other cases participants only received one and a half to two hectares. In the other two districts, processes of registering land rights for conversion into oil palm entitlements within schemes worked to intensify the vulnerability of the poor. In large part this was a consequence of problems of representation and accountability within village structures, cooperatives and the local state agencies overseeing scheme development. The Siak scheme had anticipated this problem by developing a land inventory, identifying the poorest villagers, prioritizing resident landless individuals, listing those with clear, locally recognized land entitlements, measuring the land, and verifying entitlements through village-based processes. This, together with an opt-out option for villagers who chose not to participate, provided for a measure of "free prior and informed consent". Methodical, hands-on processes for collecting data, for accessing land, and preventing landowners from selling land entitlements in crisis sales, limited the accountability problems and ensured that large scale conflicts were avoided. Nonetheless, the project faced significant administrative delays, leading to large areas of smallholder land becoming overgrown with weeds. Accordingly, at the time of writing, the district was yet to distribute the oil palm entitlements to participating farmers, and it is too early to avouch for the success of the project.

The Siak district scheme raises four significant issues. First, as in the other two districts, the horizontal networks of civil engagement or community based organizations that might provide countervailing demands from below tended to be weak.[33] As in the other two schemes, plantation authorities drove the scheme from above. Even though the early results appeared promising, arguably, the scheme remained vulnerable to capture by the vertical and clientelist networks operating in land development schemes and village level institutions in Indonesia. Second, the Siak district administration had made little systematic attempt to write into law operational procedures—such as those that would provide free, prior and informed consent—under which the scheme operated. This might arguably make the scheme vulnerable to changes in the district administration should there be a significant shift in economic or political circumstances. While Siak district had yet to frame such procedures so clearly in law, Sanggau's laws were more clear on this account. This contrast revealed the primacy of regime characteristics—rather than the formal legal formulations—in determining outcomes.

Third, the Siak scheme reveals the limitations of trying to implement pro-poor policies without including more encompassing land reform policies. Plantation and timber corporations owned most of land and resources in Riau (Wee, 2002), and the pattern of land ownership bequeathed from the past limited the scope of the scheme. A land reform program would be required to support more extensive smallholder schemes with strong poverty alleviation objectives. Finally, and perhaps most importantly, smallholder development schemes of this type require large subsidies. It remained unlikely that resource poor districts such as Sanggau could attain the fiscal capacity to use oil palm development to support poverty alleviation in this way (Barlow & Tomich, 1991).

4. DISCUSSION

The analysis of transnational commodity networks offers a framework for understanding the "the governance of transnational trading networks in terms of political-economic power and authority in supply chains" such as those associated with oil palm (Hughes, Wrigley, & Buttle, 2008). However, these frameworks have tended to neglect the workings of specific institutional contexts and the dynamics that shape them (Fold, 2008; Murphy & Schindler, 2009), losing the "analytical traction" provided by concepts and methods previously used to explore localized agrarian processes (Vandergeest, 2008).[34] As Coe et al. (2008) observe, global production networks are "quite literally, *grounded* in specific locations" both in material terms—through "fixed assets of production"—as well as through "localized social relationships and distinctive institutions and cultural practices." While recognizing the institutional power of local states within multi-scalar systems of governance and regulation (Coe et al., 2008), very few studies apply the epistemological and methodological tools required to link "changes in commodity production and the regulatory processes associated with these changes" with the workings of local developmental contexts (Vandergeest, 2008, p. 224; Murphy & Schindler, 2009). In contrast, in exploring contrasting local contexts, we aim to expose the processes linking district regimes, state policy, corporate strategies and agrarian change that lead to the diversity of outcomes found in these three districts.

We have seen how governance structures have evolved over time. The previously dominant model entrenched in Indonesian plantation law depended on social-private, cooperative-agribusiness arrangements. This involved an exchange where small scale farmers were included in plasma schemes, gaining access to technology and development capital as well as access to markets in exchange for providing significant areas of land to "core" plantations under state tutelage. The withdrawal of state interventions in agricultural peripheries, and the liberalization of markets, shaped the subsequent evolution of this model over the last decade. In the absence of a developmental state capable of supporting or compelling plantation interests, firms linked into global markets are less inclined to support the inclusion of smallholders on favorable terms. Indeed, with a heightened risk of supply chain failure, as a condition for investment plantations successfully required more "productive" development policies that involve much greater direct control over production as a condition of investment. The move from 30:70 to 80:20 company/landowner land sharing arrangements occurs alongside the withdrawal of the central state from direct engagement in smallholder schemes. Ironically, despite the shift away from highly criticized, top-down models associated with the earlier period, the terms under which smallholders engage with oil palm under an apparently decentralized and more democratic regime in general have significantly deteriorated.

As noted in the introduction, the fiscal sociology literature suggests that regimes that have more fiscal autonomy, and therefore are less accountable to their citizens, are less likely to focus on smallholder welfare.[35] This is not uniformly true however: With temporal and spatial variations in state capacity and interest, available resources, investor interests, donor policy and aid flows, as well as smallholder agency, there is considerable variation in the local conditions that affect how sub-national elites engage with local populations. Prior to the turn of the century, the Suharto government developed specific agricultural policies for this lucrative crop. On the one hand, these policies allowed for the accumulation of revenue and taxation at the center while maximizing estate expansion, particularly for corporate clients close to the regime. On the other hand, the Suharto era policies can be considered as neo-populist approaches that, while nurturing widespread predatory practices and corporate expropriations, in particular instances favored smallholder inclusion. Such approaches provided a form of "defensive modernization" that set out to minimize agrarian unrest (Bello, 2009).

Following decentralization, districts continued to depend upon fiscal grants from the central government, to a large degree freeing district regimes from citizen demands. Here we can expect district politico-bureaucratic actors to focus on the exigencies of maintaining the socio-political coalitions upon which their political power depends. Smallholders seeking improved agricultural extension and the provision of high quality planting material are likely to remain in a mendicant position. Meanwhile, palm oil commodity exports generate large rents, and with districts competing to attract investment, there are strong economic pressures to pursue rapid plantation development. The extension of agribusiness plantations and the development of private oil palm estates offer significant opportunities to a range of actors. With voters having a weak ability to discipline district regimes, this pressure tends to outweigh demands from below for using scarce state resources for broad economic development or pressures from social movements for curtailing environmental problems.

In the Jambi case, in the context of expanding commodity markets for palm oil, the accumulation strategies of strategically placed players focused on controlling the smaller parcels of oil palm land available between existing estates. This largely shaped the characteristics of this district's developmental regime. The *lassiez faire* scenario in Jambi favored "progressive farmers" who could increase their assets (Zen et al., 2005). In the Sanggau case, opportunities offered by the extension of plantations with minimal smallholder components attracted the powerful socio-economic coalitions at the heart of the district regime. Sanggau district government policy involved reducing landownership to 20% of the area included in each development to ensure the largest possible landownership by the investors. In both these cases oil palm was inserted into already differentiated social landscapes where strong asymmetrical power relationships shape outcomes. Here, socially embedded relationships and the insecure nature of local land rights under state law combined to weaken the bargaining position of local landholders in dealing with outside investors and the opportunities offered by the palm oil economy. Consequently, with the prospect of manipulation by strategically placed actors, the probability of highly uneven distributional outcomes increased.

While these two cases support the fiscal sociology argument, the Siak case shows the limitations of this reasoning. Here, a developmental regime emerged that was supportive of smallholder-friendly initiatives. Here, a constellation of stars had came into alignment. State capacity—in this case a Weberian style bureaucracy autonomous of a rent seeking elite with the administrative capacity to implement the program effectively—combined with the particular developmental interests of a committed, charismatic district leader. Here the district government took the initiative to include landless farmers in the "partnership" scheme (initially 2–3 ha/family). Thus, the Siak administration used the loose "partnership" arrangements to pursue pro-poor outcomes in ways that sought to increase rather than reduce to land ownership among marginal farmers.

The circumstances surrounding the emergence of a developmental state that has both the capacity and desire to develop pro-smallholder policies are "not made to order" (Leftwich, 2007). Mostly, we find a less positive transition in developmental regimes. This correlates with liberalization policies, the withdrawal of a central developmental state from supporting smallholder development schemes, and the enhanced bargaining power of oil palm companies vis-à-vis district regimes.

Decentralization, coupled with recent iterations of the "partnership" models of agricultural development, has emerged as the central state disengages from funding and managing smallholder schemes. The result was that outcomes were more dependent upon district regimes. This reflects a wider shift over the last decade towards decentralized-localized community-based negotiations. In such contexts negotiations are easily manipulated and large-scale violations continue despite codes of conduct and legal innovations that provide for elements of "free, prior and informed consent." This is because too often the local actors—including community leaders and the state—who play a mediating role in such processes have an underlying interest in ensuring that land acquisitions go ahead (Borras & Franco, 2010). If the state is spatially diverse (Bavinck, 2003), following decentralization, outcomes are even more contingent upon the characteristics of the local regime. This creates a problem because at the district level international pressures to meet social and environmental standards are weak. In addition, in these peripheries vertical forms of accountability are limited. The post-Suharto reforms, including decentralization, suggest there has been an improvement over what were seen as excessively top down authoritarian approaches. Yet, ironically, it is difficult to find a district functioning like a developmental state able to offer the resources, the administrative capacity, and the vertical accountability required to support the inclusion of the poor in the oil palm economy. This supports the wisdom of reapplying the "visible hand of the state" to provide "core public goods, regulating natural resource management," and "securing desirable social outcomes" (World Bank, 2007b, p. 2).[36] Governance problems require a more careful balance of local discretion and central oversight, as well as the provision of mechanisms that provide for improved checks and balances (Cotula et al., 2008; Zen et al., 2008).

Other researchers working on Indonesia have found that most of the rural agricultural poor that exit poverty "still do so while remaining rural and agricultural." Consequently, the impact of policy on agricultural prices, wages and productivity remain critical to moving people out of poverty (McCulloch, Weisbrod, & Timmer, 2007, p. 1). The UN Special Rappouteur on the Right to Food maintains that investment needs to occur in a fashion that works to the maximum benefit of both investors and farmers (UN Special Rapporteur on the Right to Food, 2009). From this perspective, alienation of land to investors on a large scale is ill-advised where it involves significant opportunity costs for the majority of rural landowners. As smallholders are typically less able to compete with large production units in the absence of supporting agricultural policies, policies that involve substantial land alienation can worsen the position of already marginalized producers. Further, by boosting the local market for land, as in the Jambi case, such investment practices can increase pressure on smallholders to sell land, supporting land alienation and the privatization of common pool resources. Thus, such policies can exacerbate livelihood insecurity among those farmers who are further turned into net food buyers and/or landless or quasi-landless agricultural workers on near subsistence wages. In contrast, polices (such as those in Siak) that support smallholder production of oil palm—where the benefits of investment can be achieved without major changes being made in smallholder rights over land—are more conducive to the realization of the right to food (Schutter, 2011).

Consequently, regardless of the rhetoric of "partnership," there is a need to avoid as much as possible exacerbating the problem of what Indonesian policy makers call "marginal farmers" (*petani gurem*).[37] This entails rethinking investment policies to rework arrangements that succeed in terms of the efficiency of production but that provide for poor distributional outcomes. It seems counter-institutive to expect private investors to provide for scheme designs that produce better distributional outcomes but reduce their profit margins. Donors and state policy need to take the key role in resetting the conditions for smallholder engagement in a more equitable direction.[38]

This research concludes that changing regime interests, state capacities and agribusiness agendas are inextricably entwined and mutually constitutive. Each evolves under the influence of the other, yet neither is solely caused by the other. In other words, the way that dominant socio-economic coalitions coalesce with state policy and agribusiness agendas will determine whether oil palm is used to pursue clientelist agendas and private sector accumulation, or as an instrument for helping rural people, or both. This will affect the possibility of a particular location settling into a more positive developmental pathway—or a pathway that increases land concentration and rural marginalization. The "upgrading" of smallholders into more lucrative forms of production represented by oil palm is more likely to occur when policy improvements—that work in the interests of strategically placed actors—converge with forms of state capacity, leadership and economic interests that favor pro-smallholder policies, along with effective village institutions and landowner agency.

5. IMPLICATIONS FOR CIVIC REGULATORY APPROACHES

In advanced retail markets such as Europe the major suppliers of products with significant palm oil content are facing increased risks to their reputations due to their association with the upstream production processes outlined above. Banks and financial institutions with significant palm oil investments are in a similar position. According to one explanation, civic regulatory processes are increasingly being developed to solve the collective action problem within these markets. Alternatively, analysts have discussed the emergence of these multi-stakeholder governance initiatives as "a political settlement and institution building project" that social movements, international NGOs and states have pursued out of concern for the large scale social problems and environmental externalities engendered by global production networks (Bartley, 2010).

Civic regulation provides lead firms with a pragmatic means of ameliorating reputational risk by participating in multi-stakeholder regulatory processes. Ethical campaigning by global NGOs can focus on the failure of civil and state regulatory processes, providing a form of countervailing power in specific places (Hughes et al., 2008).[39] Further, some NGOs may use RSPO to expose the need for deeper policy and legal reforms and to provide room for local actors to challenge the cleintelistic regimes that currently work against their interests.

Subsequently, membership of the RSPO has emerged as a primary form of transnational regulation and a badge of corporate responsibility. To date the RSPO tends to conform to forms of corporate social responsibility partnerships that rely on standards rather than targets, and are characterized by weak reporting, monitoring and enforcement mechanisms (Reed & Reed, 2009). In the absence of an effective system to monitor and enforce compliance at the micro level (Laurance et al., 2010), to date the RSPO's capacity to affect micro-processes in upstream production networks remains weak.

This suggests three particularly salient issues. First, civic regulation is a form of normatively orientated knowledge and practice that provides methods, procedures and rules for dealing with transnational supply chains. The focus is inevitably on the development and implementation of principles and criteria. Certification processes may over time ground governance and force the state-agribusiness-regime complex to take rural citizen's welfare more seriously. There are, however, still many challenges to developing civic regulation in this sector, not least of which is that of developing the regulatory capacity to reach upstream into remote rural contexts where the problems emerge. W.C. Fields once quipped that "a dead fish can float downstream, but it takes a live one to swim upstream." It remains to be seen to what degree civic regulatory approaches can swim upstream.

Furthermore, a focus on civic regulatory knowledge and practice may lead to premature "problem closure."[40] This may be because civic regulatory practices provide only one way of conceptualizing the problem—as a regulatory issue. A narrow focus on the technical problems of civic regulation may displace attention from alternative highly political considerations. These include the business-policy models and *locally* embedded strategic coalitions that co-produce the processes driving outcomes. Despite its advantages, civic regulatory knowledge and practice on its own tends to be methodologically blind to the complex, embedded socio-economic relations and practices that frame social and environmental outcomes as revealed in this article.[41] As these problems originate in local production networks, however, reflection on the root causes of these problems may help provide alternative ways of thinking, and acting that can complement civic regulatory approaches. Progress here depends upon addressing these underlying problems by reconsidering state policy and plantation business models, together with agribusiness investment patterns and donor policy, and supporting the development of new governance and accountability relations in remote rural areas. These issues are, however, largely beyond the discussion of RSPO principles and criteria.[42]

Second, in the case of Fair Trade processes, NGO and corporate partnerships have in some cases generated particular "enclaves of co-production" where reformist state actors, civil society organizations, and producer organizations provide for more environmentally and socially sustainable outcomes (Taylor, 2005). This may be done in ways that incrementally move towards certification principles and criteria.[43] Certification, however, may not deal with the big picture problems, including the lack of market demand for certified products. In the case of palm oil, global branded firms are driving civic regulation, in particular transnational production networks exporting into Europe. Yet, the majority of domestic oil palm businesses tend to be integrated into the production networks that supply India and China. The global market brands dominating the European market have limited purchase in these production networks where there are very limited pressures for civic regulation. Third, it remains uncertain whether such regulatory processes can convert into the forms of structural power—such as that provided by the fear of losing private investments or access to markets—that would be required to institutionalize constraints on regime and company power.

While reforms providing free, prior and informed consent (FPIC) as well as secure land tenure remain critical elements of the certification process, the key problem is that FPIC concepts may be grafted onto contexts where pre-existing socio-political relationships both enable and constrain action in ways that work against FPIC objectives. The key challenge remains that of overcoming asymmetries in knowledge regarding legal understandings, negotiating skills, and power disparities between the parties in the absence of forms of vertical accountability that might be provided by central government (Cousins, 2007; Cotula et al., 2008) and demand from local civil society (Luebke, 2009). Taken together, these would provide the required "social foundations for accountability" (Fox, 2007).

The literature on corporate accountability suggests there is a need to develop more extensive forms of accountability than those provided by corporate social responsibility partnerships. Current discussions focus on hybrid, co-evolutionary approaches that draw on existing international norms, third party independent monitoring and enforcement through civic regulation, as well as including these norms in public policies. In addition to developing social enterprises, social movements and consumers need to be mobilized. These may best work in cooperation with other "southern" actors, especially in the growing markets of India and China (Reed & Reed, 2009). However, the black hole in many of these discussions – the primary problems we have found in upstream production networks – may be where such promising policy ideas silently disappear.

NOTES

1. Global production networks encompass "the nexus of interconnected functions and operations through which goods and services are produced and distributed." These networks integrate firms into structures that "blur traditional organizational boundaries", they are "deeply influenced by the concrete socio-political contexts within which they are embedded, produced and reproduced." While they are territorially specific, they also "cut through state boundaries in highly differentiated ways," being influenced "by regulatory and nonregulatory barriers and local socio-cultural conditions" (School of Environment, 2011).

2. Forest Peoples Programme (2008).

3. For a discussion of "oil palm development regimes" focusing on smallholder production see Rist et al. (2010).

4. Lead firms selling into Europe face pressure (reputational risks) from buying from local producers and hence support the RSPO. While pressure to conform to RSPO is weak in the large Indian and Chinese markets, some of the CPO trade is channeled through large trading houses (OCBC Investment Research. 2009). While these trading houses and multinational RSPO members (Unilever, Nestle, and Carrefour) have limited exposure to Asian markets, they are sensitive to NGOs. Companies who sell to both Europe and Asian markets (e.g. Unilever and Wilmar) may feel they cannot afford to apply double standards. However, to date only a small fraction of Asia-refined palm oil makes it to the European market. To be sure increased on-sale from China and India of palm oil-containing products to Europe could eventually boost demand for sustainable palm oil in Asia. But at present only a few Asian refineries are supplied with certified CPO which they then sell as certified derivatives to western markets. Consequently, certified CPO could become a niche market in Asia (Interview, NGO executive, May 2011). At present the expenses and constraints imposed by the RSPO system do not sit neatly with many Indonesian palm oil companies. Consequently, for some time a bifurcation may continue to exist between those companies that accept RSPO

certification, and those who prefer to follow the domestic Indonesian Sustainable Oil Palm Standard, or ISPO, which was launched in March 2011 (Menteri Pertanian. 2011). The latter group of firms may continue selling CPO to domestic markets in Indonesia, China and India outside the RSPO into the foreseeable future.

5. Drawing on Flyvbjerg's notion of the "paradigmatic case," the case studies were chosen to represent innovative, interesting and diverse schemes and outcomes (Flyvjberg, 1991, 2006). Research involved qualitative methods during extended fieldwork, combining the review of documents and studies, key informant interviews with district officials, planners, scheme managers and community leaders, focus group discussions with identified groups, including participants and nonparticipants, and a questionnaire survey of landholders. Thorough cross-case comparative analysis, the research drew conclusions concerning the causal processes and mechanism at work by relating the general patterns of outcomes in each case to the salient dynamics and processes at work under each governance-policy regime. For the sake of space, this material appears in a rather compact form. For more extended, more ethnographically rich accounts, see McCarthy (2008),McCarthy (2010), and Gillespie (2007), Zen and Barlow (2008), Zen et al. (2008). Due to limitations of space, and at times, the need to protect the confidentiality of sources, references will not be given in a detailed format.

6. In contrast to existing studies on oil palm, this study combines the insights offered by the GVC/GPN literature with a territorially specific analysis that serves to illuminate how "embedded local conditions" mediate "global processes" (see Murdoch, Marsden, & Banks, 2000).

7. The process of analytic generalisation and comparing and contrasting research sites is a critical part of case study research. For more of the research process (see Yin, 1989).

8. Rather than working from an *a priori* pattern of variables, this qualitative case study approach developed its categories inductively in the course of research. Thus, rather than contrasting a particular set of variables, this research sought to distinguish observed patterns of outcomes corresponding to specific institutional patterns (Eisenhardt, 1989).

9. The relation between taxation and accountability is clearly not simple. Waterbury, 1994 cited is Ross (2001) has argued that taxation does not immediately lead to accountability and democracy.

10. See Fadliya and McLeod (2010) for an analysis of fiscal transfer mechanisms.

11. Nucleus Estate Schemes' (NES or Perkubunan Inti Raykat or PIR) combined the enclosure and leasing of lands for estate "cores" with extensive state support for contract farmers within "plasma" peripheries (White, 1997). In other words, they united the objectives of agribusiness expansion and pro-poor growth that remains controversial to this day (McMichael, 2009).

12. In analysing value chain coordination, analysts have distinguished "quasi-hierarchy," characterized by an asymmetry in favour of one party (e.g. the buyer in contract relations), and "hierarchy," where the lead firm takes direct ownership of a larger range of activities (Humphrey & Schmitz, 2002). This situation described here conforms to a shift from "quasi-hierarchical" towards a "hierarchical" model.

13. *Kredit Koperasi Primer untuk Anggota* or KKPA, "Primary Cooperative Credit for Members,"

14. See McCarthy and Cramb (2009) and Zen et al. (2005) for an account of this history.

15. Interviews, district and provincial agricultural agencies, Jambi May–June 2009.

16. Peraturan Menteri Pertanian No 26/2007.

17. The logic of these arrangements suggests that arrangements that are just in distributional terms but less efficient in economic terms are less likely to emerge without powerful advocacy from coalitions working across the state and civil society divide.

18. The main taxes are PPN or CPO taxes which are not redistricted directly to the districts under law 33/2004 and PP 55/2005.

19. The key permits and licenses issued by district government are principle licence, location license and plantation permits (*ijin princip, ijin lokasi* and *ijin perkebunan*). For an explanation of licensing and permitting (see Colchester et al., 2006).

20. Interviews, district and provincial agricultural agencies, Jambi and West Kalimantan May–June 2009.

21. Under the Malaysian *Konsep Baru* ("New Concept"), landholders assign their land rights to a parastatal who then forms a joint venture company with a private-sector partner. The state then issues a consolidated land title to the joint venture company with the private-sector partner, landholders, and the parastatal holding 60%, 30% and 10% equity respectively. While Landholders receive no land title, they can expect to receive dividends according to the area of land contributed, as well as employment on the estate as labourers (see McCarthy & Cramb, 2009).

22. For further background regarding the history of estate development here, see McCarthy (2008) and McCarthy (2010).

23. Smallholders have reacted to the advent of oil palm in complex ways shaped by local social, cultural and economic dynamics. For instance, in Jambi *Melayu* farmers were initially reluctant to take up oil palm under schemes imposed from the outside because it did not fit existing indigenous land uses and production systems. However, as they witnessed its profitability and faced marginalization vis-à-vis prosperous transmigrant oil palm smallholders, *Melayu* attitudes changes (see McCarthy, 2010). In Sanggau many farmers became increasingly interested in oil palm after witnessing the success of oil palm developments in neighbouring Sarawak. While some eagerly sought to be integrated into oil palm schemes, in other cases farmers wished to integrate oil palm within older diverse production systems and to ensure that oil development occurs on the best terms they could negotiate (Gillespie, 2010; Potter, 2004; Potter, 2008).

24. Entitlements here refer to the claims over resources or benefits that actors can legitimate under existing legal or institutional arrangements (Leach, Mearns, & Scoones, 1999).

25. Transmigration policy amounted to a controversial, state-led resettlement imitative which, in some cases accentuated ethnic tension and conflict (Levang, 2003).

26. This section is based on six months field work—involving extensive interviews with farmers and district government officials—during 2006–9.

27. Village interview, March 2009.

28. This case forms part of a three company study (Gillespie, 2010). For reasons of space we choose to discuss the processes shaping outcomes around a particular company developing under the partnership scheme.

29. See the earlier discussion of Koncept Baru.

30. Interview, Sanggau government official, June 2009.

31. Interview, advisor to the president, May 2006. The president witnessed the Siak smallholder development scheme first hand during a visit to Siak in 2008. According to a range of informants, including this presidential advisor, a number of factors account for the Siak scheme including the ethical commitment of this particular leader, the technocrats he was able to recruit, the ability of the district to offer extra wages to weaken the temptation to engage in corrupt dealings and the special field allowances for diligent officials who carried out their work effectively, as well as a system of control that provides countervailing pressure against the rent seeking so pervasive elsewhere.

32. See Zen, Barlow, and Gondowarsit (2005) (Table 1).

33. In the first two districts, strong NGOs or social movements capable of affecting district policy making tended either to be absent or unable to discipline administrations dominated by more corrupt, predatory political actors (see Gillespie, 2010; McCarthy, 2008). In this third case, the responsiveness of the district administration was analogous to one of the cases studied by Dasgupta and Beard (2007), where, rather than being driven by collective action from below, the possibility of pro-poor outcomes emerged because "local elites were willing and able" to contribute to "facilitate community-level projects and governance" (Dasgupta & Beard, 2007). For further detail, see Zen et al. (2008).

34. For exceptions, see Ponte (2008),Vandergeest (2007) and Neilson & Pritchard, 2009).

35. Before decentralization central government grants provided for the vast majority of district revenues. Accordingly, given the continued importance of central government grants, there is significant continuity with the past. While reforms may have provided new forms of discretionary power and electoral change at the sub-national level, the local state still does not need to intensively interact and bargain with the local citizenry over the conditions and means of taxation. According to the fiscal sociology thesis, this situation is not conducive to the emergence of more legitimate, participatory and institutionalized civic processes.

36. This necessarily entails developing policies that aim to maximize the poverty-reducing impacts of growth in agriculture. This can include assisting smallholder agriculture through the provision of public goods to improve productivity and access to markets, as well as supporting institutional innovations that strengthen the position of small scale farmers, for instance developing cooperatives, providing access to credit and rural extension.

37. The Indonesian government defines *petani gurem* as farmers with insufficient land. In 2008, 55.1% of farmers fell into this category (Kompas, 2009).

38. For further discussions see Cramb and Ferraro (2010) and Li (2011).

39. Civic regulation involves various civil society actors working to influence corporations, consumers and markets, often by-passing traditional state forms of regulation in favour of what they believe to be far more effective strategies (Gunningham, n.d.).

40. Hajer, 1995, p. 22 cited in Forsyth and Walker (2008, p. 12).

41. While forms of civic regulation have more explicitly attempted to address this question by attempting to re-embed markets in social relations (Bartley, 2010), to date this has yet to emerge as an explicit agenda of the RSPO.

42. As Dauvergne and Neville (2010) note, drawing on Migdal (1988) and Putnam (1993), state strength and governance capacity are closely related to the structural relations between states and societies. From this perspective, as bureaucratic and governance structures interact with social and political relationships to produce outcomes, it requires much more than getting the institutions right for optimal outcomes to emerge. Institutional reform may be necessary, but better outcomes ultimately depend upon shifting dominant forms of institutional and societal organization encompassing rent seeking, patronage relations and modes of domination that work across the state-society divide. In isolated locations that have poor infrastructure, and where the local state particularly is eager to attract external company investors, accountability relations are likely to be weak compared to locations with better infrastructure, greater state budgets and a more vibrant civil society.

43. For a discussion of "enclaves of co-production", see Fox (2007).

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