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“Development on the margin”

Transactions and Institutional Arrangements in Oil Palm Production Promoting Land Conversion and Deterioration of Rural Livelihoods in Indonesia

EVA ANGGRAINI¹, PHILIPP GRUNDMANN²

¹*Humboldt-Universität zu Berlin, Agricultural Economics, Germany*

²*Leibniz Institute for Agricultural Engineering, Technology Assessment, Germany*

Abstract

The expansion of oil palm cultivation by smallholders is increasingly taking place at the interface between the forest and farming land in Indonesia. The decision of smallholders to convert land into palm oil plantation establishes a long term path dependency with many implications. This paper aims to analyse how transactions among actors involved in oil palm production and market influence decision making of smallholders to convert forest and farmland into oil palm plantations; and to analyse the impact of the current institutional arrangements on the livelihood of the smallholders as well as food supply in rural communities. The finding is that land conversion undertaken by farmers is not only determined by the determinants related to land use, but in fact it is also strongly shaped by institutions and governance on oil palm market. By means of the prevailing institutional arrangement and smallholder's production pattern, growing palm oil does not improve the livelihood of smallholders and even endangers the food supply for household consumption as well as rural communities. Therefore, improving the institutional arrangement at the product market is necessary to be performed to enforce the minimum quality standard of oil palm fruit. We argue that improving the institutions and governance at the buyer level (mills) is a crucial point and presumably realisable in order to endorse the middlemen to apply standard sorting and furthermore encourage or urge farmers to devote their resources to improve the productivity rather than expand the plantation. By increasing the quality of product presumably could promote the sustainability of farmer's livelihood as well as hold the farmland and forest conversion.

Keywords: Farmland and forest conversion, governance, institutions, livelihood, oil palm