



# Should Network Governance Shape the Collaboration? A Case in Indonesia's Palm Oil Industry

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**Abstract.** As the actor involved in Indonesia's palm oil has increased throughout the years and Indonesia maintained its world dominance over Crude Palm Oil, its complexity of palm oil related policy has increased over time. Its dominance, however, is not guarantee to lead the Indonesian government to be the key player in the world. This research use literature review as method to explain the complexity and direction of governance in the palm oil related policy. The result showed that during Joko Widodo presidency of 2014–2022, network governance has been used by the central government to increase the palm oil related policy effectiveness and efficiency in alleviating poverty as well as increasing overall Indonesia political economy in facing the globalization. The war between Ukraine and Russia as well as Pandemic covid-19 has added to its effectiveness since it increases the awareness of the stakeholders on its effect of palm oil to the domestic and global economy. The key of network governance effectiveness and efficiency in Indonesia's palm oil policy is the ability of the key leadership to direct the collaboration to utilize the economic benefits opportunities that will bring about direct change in their livelihood. As the leader focusing on establishing a continuous effort to empowering the poor which are biggest in term of number, it lead to significant contribution to Indonesia GDP compare to when the policy is aimed to benefit the rich and elite actors.

**Keywords:** Deliberative Process · Covid-19 · Geopolitical Tension · Crude Palm Oil · Refined Palm Oil

## 1 Introduction

The complexity and rapid change have shaped the direction and outcome of public policy. To ease the complexity, participatory and deliberative processes have introduced over recent decades in public administration. It seeks to increase the effectiveness and democratic quality of policy making by involving citizens in policy. However, this proposed solution is not without challenges. The biggest challenge is to create a significant institutional change prior to its implementation, since the industry has been governance as merely tool of the elite to get the most benefits. The systemic and corrupt institutionalism is not easy to turn into positive and merit institutionalism that is important to perform efficient and effective governance.

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F. Hidayati et al. (Eds.): ICoPAG 2022, ASSEHR 761, pp. 239–248, 2023.

[https://doi.org/10.2991/978-2-38476-082-4\\_23](https://doi.org/10.2991/978-2-38476-082-4_23)

Indonesia is the world number one producer of Crude Palm Oil (CPO) where it provides tools to alleviate poverty as well as increase social economic capital as a country. There are multiple actors involved in the industry as a result of increasing and steady price as well as demand of CPO regardless of existence of Covid-19 that has influenced the decreasing demand for food related industry. The covid-19 pandemic took place in 2020 to 2021 has caused massive negative impact on social and economic live since it took a lot of death casualties and also disturb the supply chain all over the world. The negative impact of covid-19 is accelerated by war between Ukraine and Russia, since March 2022, also has worsen the food supply chain as those two countries are the world producer for grain, sunflower oil, and fertilizer as well as the gas and gasoline producer that supply European countries. The prolonged war has exacerbated the need for crude palm oil since both countries is no longer able to provide adequate sunflower oil that is need for industries and individual cooking consumption in European countries. The war is actually sharpened the benefits received by CPO producer countries, since it has lower price of CPO as it more productive compare to other crude vegetable oil and therefore is also highlighted the steady and increasing demand for food, cosmetic and health industries. With the limited and decreased supply of other crude vegetable oil needed for those industries has sharpened the price of CPO. Therefore, the demand and price of CPO has steadily increased and the trend is maintained until now and even predicted to be steady for over years to come in the future. The need Palm oil research has developed very vast, where the scientist has developed a technology to manufacture gasoline and avtur from palm oil. It means that not only food and beauty related industry that is affected by CPO, but also energy sectors in the future.

The Indonesia's domination on vegetable oil has increased the political economy power of Indonesia in global world. However, the problems which has existed within the internal palm oil industry has lowered the potency of Indonesia becoming the world geopolitical power house. Since multiple actors involved and lack of policy coordination in oil palm related policy has institute the oil palm governance since the previous presidents as the top executive leadership has not created a specific reformation in governing the palm oil related industry to increase the strategic position in the world. For example, Indonesia is the top oil palm producer, but the world market CPO price is determined by Malaysia. Moreover, the land productivity in Indonesia is lower than its counterpart in Malaysia, even though Indonesia has largest plantation compare to Malaysia. To add to the complexity, the price of refined palm oil and the supply of CPO in Indonesia is lower than in Malaysia. Not to mention that Malaysia is able to export CPO to more countries since it has lower price compare to Indonesia's CPO and received lower or no tariff from India as the 2<sup>nd</sup> largest importer of CPO. On the time of crisis, Indonesia oil palm industry cannot meet domestic on CPO and refined oil that caused to significant disturbance to its social and economic aspects where many small and informal private institution has faced's severe difficulties in running their food and beverages stall, which its menu offered fried food, since they could not afford the high prices of refined vegetable oil. Individual household also screamed in the time of unaffordable price and scarcity of refined vegetable oil since the Indonesian's common people food cooking method is usually fried. Overall Indonesia's food security has been highly influenced by the oil

palm industry. Therefore, there is an urgent need to speed up the governance reformation to achieved its leading position through the use of deliberative process. This article is aimed to locate how current Indonesian's President mastermind the use of network policy to direct and shape collaboration between actors that will determine of achieving the strategic position of Indonesia palm oil industry in the future.

The deliberative policy process is believed to result in better policy outcome. Since many actors involved, there is imbalance of power present where the dominating actors, the big plantation and CPO processed industries, has dominated the outcome of the industry and therefore, created inefficacy and ineffectiveness of the palm oil governance that led to huge loss of economy political contribution of palm oil industry. This article is aimed to study how deliberative process the palm oil governance to result in better policy.

## 2 Literature Review

Public policy is the core of public administration. Policies can be laws, rules or sets of laws, and rules aim to solve problems [1]. Anne Schneider dan Helen Ingram stated that "Policies are expressed through texts, practices, symbols, and lectures to determine and convey values including goods and services according to rules, status, and others that have positive or negative values" [1]. Those statements ruled out the definition about public policy where public policy is not only existed in regulation but also in public speech and its domain. Therefore, public policy determines a country's current and future position in global world.

Public policy process in modern era and has proven to increase in complexity due to its nature of integrated impacts and rapid change, therefore, innovative means of processing it cannot be avoidable. The existing of innovation is the key of modern policy compare to traditional policy which focused on its rigidity and formality [2]. He also ruled out that innovation must existed both in central and local government where it will contribute to achieved transformation and continuous improvement performed by its leaders and followers. Therefore, public sectors managers must shaped its institution to act as an explorer to find better public policy and to empower its people to work together to achieve their goals [2]. However, the innovation will not be existed if it is not followed by the change in the paradigm process where deliberative paradigm should be used.

Deliberative process is believed to bring about better policy. "And solid work in planning theory demonstrated how planners in concrete situations of conflict relied on interactive and deliberative processes of discovering ends, recognizing other parties, marshalling evidence and giving reasons, exploring the implications of various value positions, and developing joint responsibility in concrete situations. Such deliberative approaches to public policy emphasize collective, pragmatic, participatory, local problem solving in recognition that many problems are simply too complicated, too contested and too unstable to allow for schematic, centralized regulation [3]". This argument ruled out the need of interactive as well as deliberative planning process that led to coherent and solid outcomes since it produced by direct, proactive and continuous actors' involvement as a result of understanding each other needs to form a better solution. Each actor

must initiate the discussion and engage in planning process actively based on similar understanding which are to achieve common goal and not the individual goals. The key of this kind of process is the ability and willingness of each participant to involve in local knowledge sharing to improve the outcome. Therefore, deliberative process is believed to solved the problems should arise as many interests take place from different perspectives of the actors involved.

### 3 Methodology

This study use literature review. The finding is based on searching data from the internet source (official and unofficial sources available on the internet). The scope of year is 2015 to 2022, where the current president in power established his policy related to networked policy. His policy that combined market forces with social forces has contributed to larger country's independence and therefore is studied to described the impact of network policy to country's social and economic status. The history and result of the policy as well as the dynamic of the oil palm related policy is studied to answer the research question on how the network policy shape the collaboration.

### 4 Result and Discussion

Indonesia's palm oil production has become the world source of energy and food production and consumption since 2006 [4, 5]. Indonesia's palm oil policy has a dynamic movement over the years that shows the role of government to determine the outcome of palm oil related industry [6]. The fundamental policy on palm oil plantation established by the Soeharto's 32 years presidency (1965–1998) has resulted in Indonesia as the world domination. During his presidency, he instructed a self-sufficiency agriculture policy that not only make Indonesia is rice self-sufficient but also sufficient in other agriculture products. However, this capital-intensive plantation policy performed not without price, since it converts forest land into agriculture land and allocate massive state financial support as well as community land grabbing [7, 8]. On palm oil plantation, since it need massive land and grow better in peatland, the bigger plantation is mostly established in 3 big islands where population is scarce but massive land is available: Kalimantan, Riau and Sumatra where the big-private cooking oil companies have absorbed the CPO. In these three islands, palm oil growth exponentially. However, smaller plantations have been fruiting in small and populated island such as Java, where the SOE and big private cooking oil companies existed. The existing of bigger and increased number of cooking oil companies in Java is in accordance with the fact that the highest number of cooking oil market available in Java Island. The reason of this exponentially growth of both plantation and cooking oil companies is the incentive given by the government to domestic investment and Foreign Direct Investment to invest in palm oil plantation. The state-owned enterprises/SOE received huge domestic financial support. The majority foreign investor coming from its neighboring countries, Malaysia and Singapore as long as they pay land permit fee to Soeharto's children and associated family. Since then, their domination over the CPO has not been able to be reversed, the domestic investor has always been the minority and could not control the

CPO industry in Indonesia. However, Soeharto also established a good state the art of policy by demanding the SOE to provide financial support of seedlings, fertilizer and water supply to the “forced” small holder to plant the palm oil in their land [9]. The author also described the term forced is used since the small-owner had no choice but to plant palm oil to supply of SOE input in their land (less than 0.5 hectares). This kind of cooperation has described dependency of the small holders to the SOE which provide financial support as well as buyer of their products.

Decentralization has put different direction of palm oil industry management. Since 2000, the central government is directed to push the authority to the local government in every sector. Even though, by law central government should decentralization the power to the local government, it has not been able to be implemented successfully in palm oil sector, the centralization is present through the domination of big SOE and big private enterprises. Interestingly, land permit authorities that is decentralized into local government has created somehow balance of power since it created new local owner of palm oil plantation since the permit is given by the local government local. This practice has resulted in Indonesia has been able to maintain its domination as the leader in global palm oil producer since 2006, but the world political economy domination is just currently ben taken by the Indonesia’s government. The previous policy in palm oil dominated by top-down approach where big private companies as well state-owned companies has given the priority to receive policy incentives. As the result, stakeholders dominated by the elite who owned the big capital. The palm oil economic contribution to the elite is huge but its contribution to national Gross Domestic product is low throughout 2006–2015. Those powerful actors have focused merely on individual huge profit and disregards their social responsibility to conserve a sustainable production practice.

On the other side, the globalization which pushed significant decentralization also bring about bigger opportunities for voluntary community-owned plantation. The Indonesian migrant worker who works in Malaysia’s big plantation have been able to come home since they saw better job opportunities provided by the central and local governments. The Indonesian migrant worker is the major source of worker in Malaysian plantation since Indonesia has abundant working age people, but no job provided for them in Indonesia. However, the Indonesia government did not manage their migrant workers as the results many of them have seriously poor work condition. Many of them work for hours without payment and meals as well as shelters, but they have no choice since the companies took out all of their legal documents. As the results, many of them suffers and even died during their work. Therefore, Joko Widodo has stopped the migrant worker enrolment to Malaysia in 2018 and partially reactivated in 2022 after the Malaysian government agreed to sign an agreement to provide working condition in accordance to international standard. On the other hand, successful palm oil plantation migrant worker has returned to Indonesia and has started their own small palm oil plantation. These people who acquired both funding and skills necessities to run a smaller palm oil plantation have been able to build a sustainable plantation and even helps others to open their own. This type of plantation has grown in many provinces and becoming dominated in Java Island, and provided a lot of job for many people including the transporter, driver and farmer. Acknowledging that 60 percent of palm oil plantation comes from small-owner,

Joko Widodo take action to prioritize funding to those small holders who create jobs as well as alleviating poverty.

The dominance of the elite to palm oil policy has brought massive destruction to Indonesia's and its neighbors' social economy. The most current forest fire caused by reckless slash and burn land clearing method for palm oil plantation development take place in 2015. According to Prastyani and Alfatinah [10] there are more than 2.6 million ha of land in Indonesia burned throughout 2015 where its fires hit not only in Sumatra and Kalimantan, but also in 29 other provinces, except for Capital Special Autonomy Area of Jakarta, Special Autonomy Area of Yogyakarta, and the Riau Archipelago. This occurrence causes almost provinces covered by fog and caused huge health and economic problems to local people [11]. Moreover, according to Thomson Reuters Foundation [12], the fires caused huge problems especially in term of producing emissions higher than in the whole of the European Union. The foundation also claimed that not only Indonesia but also Malaysia and Singapore suffered social and economic problems that depicted from schools to close, flights to be disrupted and people to fall sick across the region for at least about two months of September and October 2015. This huge problem caused by massive forest fire that take place peatland area. This event catches the world attention for its negative impacts to world's social-economy. Learning from these big mistakes and massive problems caused by forest fires for palm oil development, government have tried short term policy and long-term policy to mitigate the future negligence management by restructuring the palm oil governance.

On short term policy after unprecedented huge fire in 2015, the government put three important strategies. The first is to identify the legal permit for those big palm oil companies where fire take places. The previous permit issued by central and local governments has proven to be a mess. The existence of illegal and unrecorded permit has dominated the structure of palm oil industry. As the result when the fire occurs, it is impossible to track the owner who bear responsibility to pay the cost of the fire. Therefore, government has put a lot of effort to find the owner and register it in the government database. Second strategy is to reform the fire management. According to law, it is the central government who bear responsibility to tackle the fire. However, during big fire like in 2015, the authority has no adequate resources to manage the fire. In the presence of big fire, it require specific type of helicopter that is able to carry massive amount of water to extinguish fire and also require certain skills of certified pilot and navigators to fly the helicopter as well as a systemic hotspot finder to locate the exact fire. All those requisite elements did not available at that time. Therefore, the government act in very timely manner by allocating huge amount of financial budget to buy specific helicopter, pay certified pilot and navigators and upgrade the hotspot finder system. The last strategy is to allocate financial budget to people who affect seriously by the fire. The government allocate free medical supports including medicine, masker and treatment for those who in need to treated in public hospitals and public community health facilities. The most vulnerable one received higher financial support in the long term, since people with respiratory disease could not cure their disease in the short term.

On the long-term policy, the governance reformation has been established in many aspects. One aspect is the policy that aimed to empower the small owner who are not the focus of the incentives in previous government. Kementrian Pertanian explained

that in 2017, the agricultural sector is the highest sector to boost Indonesia's economic growth, especially from Palm oil, which is a mainstream the plantation sector, therefore government introduced specific policy that are also targeted to smallholder plantations as it contributes to 60% of palm oil plantation. The rejuvenation fund is aimed for the small-holder plantation region such as South Sulawesi, North Sumatera, Riau, Central Kalimantan, South Kalimantan and Jambi. Moreover, Agriculture Ministry stated the requirement to acquire the funding to include: 1). This rejuvenation is devoted to small-holder plantations with land ownership of 4 hectares maximum per farmer. 2). Replanting will be managed jointly in a cluster with cooperatives, 3). The cooperative institution is in partnership with state-owned enterprises and large companies. 4). The replanting fund is provided by the oil palm BPDP 25 million per ha. 5) intercropping mechanism and training as well as seeds provided by the Minister of Agriculture. The rejuvenescence policy should provide the small farmer owner to increase the management of their plantation with better seeds and mechanism to boost the profitability and productivity. Studies performed by scholars confirmed that the quality of seedling determine the quality of outcome, therefore the ministry of Agriculture is assigned to arrange a certification for proper high quality of seedling that in planted in their nursery. One significant change in the policy as part meaningful collaboration process is facilitating and providing means for the small-holders to get access for funding and training by improving their plantation management through cooperative institution.

The empowerment is not only established trough replantation policy but also red refined oil production policy. The government plan to build red oil cooking companies that is financed though small plantation owner cooperation schema. Means that those owners must establish a legal cooperation in order to get the financial support. Even though, this is still in form of proposed policy that should be implemented in late 2022, the policy is a form of downstream policy to increase the value of crude palm oil (CPO) that is produced in small-owner plantation. This policy is funded by Oil Palm Plantation Fund Management Agency (*Badan Pengelola Dana Perkebunan Kelapa Sawit/ BPDPKS*) and allocated to three factories as pilot project with funding amounted to IDR 51 billion or IDR 17 million per factory. The red oil is a product of BPDPKS and it showed to be better than common oil since it preserved its rich vitamin by not adding bleaching in the process.

Beside restructuring the small owner governance, the government also restructuring the overall palm oil related policy. The conflict between Russia and Ukraine that started in February 24, 2022 has created significant and negative effect on CPO and refined oil supply and demand. The stop of the sunflower refined oil supply has created drastic increase of the oil palm refined supply and resulted in sharp and unimaginable increase demand of its products. On the verge of drastic domestic price increase and scarcity of refined vegetable oil, central government initiate standardized refined oil price. The government slashed the market price from IDR 25.000 pe liter of oil palm refined package to IDR 14.00. But last only about 1 months. Not long after it terminated the government introduced Domestic Market Obligation (DMO) and Domestic Price Obligation (DPO) on 2022. However, it turns out that it resulted in unprecedented response. Zaki [13], reported that there are at least 24 containers consist of palm oil refined product that is illegally ship for export found by the authorities. The high price of refined palm oil overseas has



leveraged the refined companies to enter the black market and caused the limited and even scarcity supply in domestic market. The DMO is mainly affected the profit gained by the big and elite refined oil producers. The DPO highly influenced the farmers' economic return as the CPO producers. Syahputra [14], mentioned that if the government alleviate the DPO and DMO of pam oil it affects positively to both producer dan consumer. He explained that all the participants including the farmer and producer has agreed in alleviating those policies since the DPO has caused the price of Fresh Fruit Bunches is lowered down to the level that small farmer holders are not able to cover up their cost and therefore, their lives is prone to vulnerability. Moreover, the reporter highlighted that the DMO obligation has resulted in lower the profit of the refined oil producer and therefore increase the incentive of the food processed companies to absorb more by stocking more since they are able to stock in massive amount. As the result, the retail customers, including household could not freely find the refined product and their daily lives is more vulnerable. Based on government policy analysis, the DPO policy is terminated within two months after its enforcement on May 31, 2022, while the DMO is remained in place until now.

The governance reform has established an institutional change needed for more deliberative process to take place. Previously, the small holders are forced to plant without choice but after they recognize the high profit generated from CPO, they started to plant voluntarily and even many of them converting their coconut oil plantation and backyard into palm oil plantation. The small holders and household have been empowered with ability and means to talk their need. The rejuvenation and standardized refined oil palm price have created trust from the community to the government. This has never been happened before. The DMO and DPO has institutionalized the role of central government to govern the society including private entities as a whole. These policies have created balance created between elite big private companies and state-owned enterprises (SOE) who monopoly the refined oil and CPO. Prior to those policy, big private and SOE has big power to control the government to fulfill their needs and to disregard government obligation to protect the poor.

The replantation fund has established a fundamental aspect led to collaboration success since it required reciprocity, relationship, learning and creativity during the collaborative process. The introduction of certified quality assurance institution, financial institution, cooperative institution and land certification as well as local government to distribute the replanting fund should led to awareness of each to help the palm oil cooperative institution to have their application granted [15]. The relationship between those actors involved is institutionalized and formalized through the replanting funding and thus created learning process since its beginning of collaboration. With many actors involved, the problems arise due to imbalance of power, knowledge and rights has pushed those people to find solution since the central government will be punished the institution who does not meet the allocated target. As such initial stage of collaboration will be led to creativity since reward and punishment as well as social and economic benefits is in place.

The replanting policy also led to more effective network governance. The local government which was given authorities to approve the application has pushed them to bear responsibility when they approved the application on the disputed land. The local farmer



is also encouraged to assure that their land is certified and his legal cooperative institution has a leader that should lead the transformation of their institution. The existence of problems due to limited knowledge, skill and ability to administer a smooth management of funding should lead to creativity, no matter small it is.

## 5 Conclusions and Future Scope

The network governance brings about positive impacts on social and economic condition of a country. The study proved Hartley [2] argument on innovation as the key of modern public administration. The central and local government has worked together to implement the innovation to bring about fundamental institutional change that.

The study also strongly supported the Inges and Booher [16] model of deliberative process. The diversity and interdependence between actor have created an authentic dialogue when it has been facilitated by the proper central government policy. Therefore, the learning process is the key to determine the quality of the deliberative process.

Author suggested to other author to dig out the financial schema of for biofuel since renewable energy is much more needed in the future. This study only provide a fundamental understanding on how government intervention can create significant impact of food and energy security that lead to dominance of global political economy.

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