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An Equitatable Partnership Model for Natural Resource Investment: Reconciling Capital, Finance, and Community Welfare in Indonesia's Palm Oil Sector

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Abstract. This study develops a transformative partnership model to address structural injustice in the utilization of Indonesia's natural resources, focusing on the palm oil sector. Employing a mixed-method socio-legal approach, it finds that existing partnerships—transactional, labor-based, and the mandated nucleus-plasma scheme—perpetuate colonial and New Order-era inequalities, violating principles of both deontological and teleological justice. A stark welfare paradox is identified: corporate plantation workers remain in low-wage dependency, while independent smallholders in cooperatives achieve significantly higher income and asset ownership. The analysis, framed by Rawlsian and Walzerian theories of justice and New Institutional Economics, reveals that current regulations create high transaction costs and path dependency that favor capital. The proposed model, "Justice as Redistribution and Reciprocal Advantage," advocates for a state-mediated, bank-financed gradual redistribution of corporate land to farmer cooperatives, coupled with corporate transition into downstream industries. This creates a Kaldor-Hicks efficient "win-win" scenario, fulfilling the constitutional mandate for natural resources to serve the people's greatest prosperity. The study concludes that only a radical restructuring of asset ownership and partnership governance can achieve substantive equity.

Keywords: cooperatives; equitable partnership; Indonesia; investment law; natural resources; palm oil; redistributive justice

INTRODUCTION

Indonesia's constitutional foundation mandates that the earth, water, and natural resources within it are controlled by the state and must be used for the greatest prosperity of the people (Article 33(3), 1945 Constitution) (Constitution of the Republic of Indonesia, Article 33, 1945). This principle, alongside the Pancasila precept of social justice, establishes a normative framework for a mixed economy that balances capitalist efficiency with socialist distributive aims ((Constitution of the Republic of Indonesia, Article 33, 1945). However, the governance of strategic sectors like palm oil reveals a profound disconnect between this normative ideal and empirical reality.

The palm oil industry, a critical source of export revenue and employment, is characterized by severe structural inequalities. Approximately 54% of plantation land is controlled by large private corporations, while over 2.6 million smallholder farmers cultivate about 40% of the area, often on fragmented plots with limited bargaining power (Directorate General of Estate Crops, 2023). This disparity in resource control translates into a welfare gap. Field data indicates that corporate plantation workers earn wages often below regional minimums with minimal job security (PT Sukses Tani Nusasubur (PT STN in Field Research Data, 2024), while independent smallholders in functional cooperatives demonstrate the potential for significantly higher, asset-backed incomes (PT STN in Field Research Data, 2024).

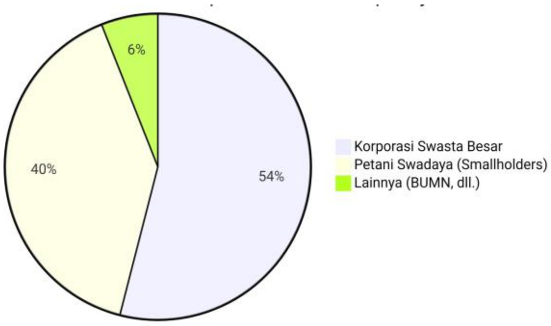

Figure 1. Oil Palm Land Controls

The legal framework intended to mediate this relationship, particularly the partnership obligation under Law No. 39 of 2014 concerning Plantations, has proven ineffective. The requirement for companies to facilitate the development of community plantations for 20% of their concession area is frequently circumvented through symbolic Corporate Social Responsibility (CSR) programs or declaratory compliance without substantive land or benefit transfer (Ministry of Agriculture Regulation No. 1 of 2023). This failure stems from a regulatory design that imposes high transaction costs on farmers, creates dependency rather than empowerment, and reflects a path dependency inherited from colonial agrarian policies and the New Order's nucleus-plasma (PIR) system (Williamson, 2000).

This study argues that the core injustice lies in the asymmetrical tripartite relationship between investors (agrarian capital), banks (financial intermediaries), and farmers/cooperatives (resource managers and labor). Farmers, often positioned as semi-proletariat or rural proletariat (Rawls, 1971), lack the agency to negotiate fair terms. Existing partnership models thus function less as instruments of shared prosperity and more as mechanisms for accumulation by dispossession, legitimized by a legal system that is more autonomous or repressive than responsive (Nonet & Selznick's, 2001).

Consequently, this study seeks to address the following research questions. First, what is the essential nature (*hakikat*) of investment and partnership arrangements among investors, banking institutions, and farmers in ensuring the equitable utilization of natural resources? Second, how are the relational dynamics of this tripartite partnership manifested in practice? Third, what normative and institutional framework can be formulated to reconstruct these relationships in pursuit of substantive justice?

Accordingly, this study aims not only to critically examine the limitations and shortcomings of existing arrangements but also to develop a concrete and institutionally viable model, namely "Justice as Redistribution and Reciprocal Advantage," as an operationalization of the constitutional mandate enshrined in Article 33.

THEORETICAL FRAMEWORK

This study is situated at the intersection of legal theory, political philosophy, and institutional economics.

Theories of Justice

John Rawls provides a deontological foundation. His two principles of justice—equal basic liberties and the difference principle (where social and economic inequalities must be to the greatest benefit of the least-advantaged members of society)—serve as a normative benchmark (Rawls, 1971). The current palm oil regime, with its restrictions on smallholder liberty and its inequality that does not maximally benefit the poorest farmers, fails this test.

Michael Walzer's theory of complex equality and "spheres of justice" offers a pluralistic critique (Walzer, 1983). He argues that injustice occurs when the logic of one social sphere (e.g., money in the economic sphere) dominates another (e.g., political power or social recognition). In Indonesia's palm oil sector, economic capital dominates the political sphere (shaping regulations) and the social sphere (commodifying land, ignoring its cultural meaning), leading to a monopoly of power rather than distinct distributive logics.

New Institutional Economics (NIE)

NIE tools explain the persistence of inequity (Williamson, 2000). The high asset specificity of farmers' investments (land, labor tied to a single mill), combined with information asymmetry and incomplete contracting, creates a hold-up problem, severely weakening their bargaining position. The existing legal and contractual framework institutionalizes these high transaction costs for farmers, making the current system not merely unfair but also inefficient from a long-term, inclusive growth perspective.

Legal Theory: From Autonomous to Responsive Law

Drawing on Nonet and Selznick, the study posits that the relevant legal framework is stuck between an autonomous phase (prioritizing legal formalism and certainty for investors) and a repressive past (law as a tool of state control).[13] What is needed is a shift toward responsive law—law that is purpose-oriented, participatory, and flexible enough to achieve substantive justice, particularly for vulnerable groups like smallholder farmers.

METHOD

This study employs a mixed-methods socio-legal research design, integrating both normative and empirical approaches. A doctrinal analysis was conducted on primary legal materials, including the 1945 Constitution, Law No. 25 of 2007 on Investment, Law No. 39 of 2014 on Plantations, and relevant implementing regulations. Secondary sources comprised scholarly literature on justice, political economy, and agrarian studies. The analysis employed statutory, conceptual, comparative, and law-and-economics approaches to examine the legal framework from multiple perspectives. Primary data were collected through in-depth interviews and participant observation conducted across ten strategic locations in East Kalimantan and Riau Provinces. Informants included corporate managers, cooperative leaders, village officials, plantation workers, and government officials from district and provincial agencies, such as the Plantation Office and the Land Agency. This multi-sited research design enabled the inclusion of diverse perspectives from investors, financial institutions (as reflected in plantation financing mechanisms), and farmer or cooperative groups. Qualitative data obtained from interviews and observations were analyzed using descriptive, comparative, and evaluative methods. The empirical findings were then triangulated with normative legal analysis to develop a coherent critique and formulate policy-oriented recommendations.

RESULT AND DISCUSSION

Field research identified four primary partnership patterns, each revealing systemic flaws.

Transactional & Labor-Based "Partnerships"

Transactional: Relationships are often limited to market exchanges through middlemen (tengkulak). Companies like PT WKP source a significant volume of Fresh Fruit Bunches (FFB) this way, providing no security, price stability, or technical support to farmers.

· Labor-Based: Companies fulfill social obligations primarily through local employment. However, at PT STN, the net monthly wage for workers after mandatory deductions was IDR 3.78 million, below the East Kalimantan minimum wage of IDR 4.2 million for the plantation sector. Workers also face insecurity upon retirement, with modest severance pay insufficient for asset building.

The Failure of Mandated Nucleus-Plasma Schemes

While companies like PT GMK have formally established plasma partnerships covering 20% of their concession, the structure reinforces dependency. The company acts as the operator and avalist for bank loans, giving it controlling knowledge and leaving farmers vulnerable. Other companies use the government's moratorium on new permits or a lack of "available land" as reasons for non-compliance, substituting the mandatory land-based partnership with discretionary CSR projects of far lower economic value.

The Revealing Contrast: PSR Success vs. Corporate Dependency

A critical finding is the performance of the People's Palm Oil Rejuvenation (PSR) program, as seen in KUD Tenera Jaya, Riau. Here, farmers manage their own 2-hectare plots with grant support. This model yields a stark contrast:

Table 1. Welfare and work structure comparison

Indicator	Corporate Worker	PSR Cooperative Farmer
Monthly Income	~IDR 3.7 million	~IDR 9 million (favorable prices)
Asset Wealth	No productive assets	~IDR 400 million (land and mature trees)
Workdays per Month	~20–26 days	~15 days
Workload per Land Unit	Low efficiency (manages ~10 ha in 20–26 days)	High efficiency (manages ~2 ha in 15 days)

The stark contrast between a corporate plantation worker and a farmer in a PSR (Smallholder Rejuvenation) cooperative reveals a fundamental paradox in Indonesia's palm oil industry: managing more land does not translate to better welfare, and small-scale ownership can outperform large-scale wage labor.

The corporate worker manages a significantly larger area of approximately 10 hectares but receives a fixed monthly wage of only IDR 3.7 million. This wage is often reported to be at or below regional minimum standards. Crucially, despite their daily labor on the land, they own zero productive assets. They do not own the trees they tend, the land they work on, or any share in the final product. Their economic security is entirely dependent on their employment contract, which typically offers minimal job protection. They are a cost in the production chain, not a stakeholder.

In sharp contrast, the PSR cooperative farmer manages a much smaller plot of about 2 hectares. However, through collective bargaining, access to better agricultural support, and direct ownership, they can generate a monthly income of up to IDR 9 million when market prices are favorable—more than double the corporate worker's wage. The most transformative difference lies in asset accumulation. Over time, by owning their land and the mature palm trees, the farmer builds intergenerational wealth estimated at IDR 400 million. This asset base provides long-term security, serves as collateral for loans, and represents a pension fund.

This comparison highlights two opposing economic models. The corporate model creates labor without ownership, leading to a cycle of modest wages and vulnerability. The cooperative PSR model facilitates small-scale ownership with collective strength, enabling asset-backed income and wealth creation. It demonstrates that in the palm oil sector, the power of owning productive capital (land and trees) far outweighs the benefits of merely managing it for someone else on a larger scale. The key to closing the industry's welfare gap, therefore, lies not in expanding plantation areas under corporate control, but in replicating and supporting the successful ownership and cooperative structures exemplified by the PSR program.

This empirical evidence dismantles the argument that large-scale corporate plantations are inherently more efficient or beneficial for rural welfare.

Path Dependence and Institutional Failure

The nucleus-plasma model is a direct descendant of the colonial plantation system and the New Order's PIR-Transmigration program (White, 2016). The law (UU 39/2014) perpetuates this hierarchical "intimate" structure instead of fostering partnerships among equals. Regulations are rife with loopholes (e.g., "if land is available," "or other agreed forms") that allow corporations to comply symbolically without redistributing substantive control or benefits.

Violations of Justice Principles

Here we have a pair of sophisticated critiques, drawn from political philosophy, which dissect the profound injustices within a system of corporate-controlled plantation agriculture. The first critique, grounded in the work of John Rawls, argues that this system is fundamentally illegitimate from the standpoint of justice. It violates Rawls's first principle, the liberty principle, by creating conditions that strip away real economic freedom. Farmers, through binding contracts, are not free agents in a market but are effectively tethered to a single corporate buyer, depriving them of autonomy to seek better prices or terms. More starkly, it flouts Rawls's famous "difference principle," which holds that social and economic inequalities are only just if they work to the greatest benefit of the least-advantaged members of society. The staggering statistic—corporate control of 54% of the land—illustrates an inequality so vast that it cannot possibly be framed as beneficial to the poorest. For the plantation worker living in precarity or the landless villager with no stake at all, this concentration of wealth and power does not uplift their position; it entrenches their disadvantage and exploits their labor for the benefit of distant shareholders. The system is engineered to create and protect inequality, not to mitigate it for the sake of the worst-off.

The second critique, inspired by Michael Walzer, analyzes the injustice not just as inequality but as a form of tyranny across the different realms of social life. Walzer warned against "complex inequality," where power in one sphere bleeds uncontrollably into others. Here, the logic of the economic sphere—capital accumulation and market commodification—has violently invaded and dominated the political and social spheres. Politically, the law-making process has been "captured" by corporate interests, crafting rules that legitimize land grabs and bind farmers, thus using politics not for justice but as a tool to cement economic power. Socially, a profound act of cultural violence occurs land is stripped of its meaning as ancestral heritage, a source of identity, and a community trust. It is reduced to a mere commodity, a financial asset on a corporate balance sheet. This is the essence of complex inequality: success in amassing economic capital (the corporate bottom line) unfairly translates into dominance over political outcomes and social meanings. The corporation, powerful in the market, becomes powerful in the halls of government and in defining the very value of community life, creating a consolidated and oppressive form of power that corrupts all spheres of human existence.

The Role of Banking and Finance

Banks, driven by risk aversion, prefer lending to corporations with solid collateral (HGU land titles) rather than to smallholder cooperatives. In existing plasma schemes, banks require the nucleus company to be an avalist, further cementing the dependency relationship and absolving the bank of the need to develop expertise in agricultural microfinance. The financial system thus reinforces, rather than challenges, the inequitable structure.

Proposed Model: Justice As Redistribution And Reciprocal Advantage

The failures of the current system demand not reform but transformation. This study proposes a model based on two pillars: redistribution of the key productive asset (land) and reciprocal advantage through industrial upgrading.

Core Mechanism

1. Phased Land Redistribution: The state initiates a gradual, legally mandated process to redistribute a portion of corporate-controlled plantation land to farmer cooperatives, with a target of ~2 hectares per family. This addresses the root cause of inequality—asset concentration.

2. Bank-Financed Transition (The Reciprocal Advantage): Redistribution is financed through a market-conforming mechanism. Banks provide transition loans to corporations, compensating them for the asset value of the redistributed land. Corporations must use this capital to invest in downstream processing industries (oleochemicals, biodiesel, specialty fats), a sector with exponentially higher value (projected at IDR 15,000 trillion).

3. New Tripartite Governance: Redistributed land is managed by legally strengthened and professionally run cooperatives. A new Partnership Council (with equal representation from the investor/off-taker, the financing bank, and the cooperative) is established to govern key decisions: pricing formulas, profit-sharing, reinvestment plans, and sustainability standards.

4. Responsive Legal Reforms: The law must be amended to make the partnership imperative and specific. This includes standardizing fair contract templates, establishing an accessible and swift agricultural dispute resolution body, and creating tax incentives for companies that genuinely participate in this new model.

Normative Justification: An Economic Analysis of Law (EAL) Perspective

This model can be characterized as Kaldor-Hicks efficiency, in which total social benefits—including large-scale poverty reduction, asset creation for millions of individuals, stimulation of downstream industries, and the mitigation of social conflict—significantly outweigh the one-time compensation costs paid to corporations (Richard Posner, 2014). In certain respects, the model also approaches a Pareto improvement.

More specifically, the implications of this model are as follows: farmers gain essential capital assets as well as strengthened economic sovereignty. Corporations, in turn, receive liquidity that enables them to shift toward higher-margin and more sustainable lines of business. The banking sector benefits through the development of potentially lower-risk portfolios, particularly in agribusiness processing and smallholder financing. Meanwhile, the state is able to fulfill its constitutional obligations without incurring a substantial fiscal burden, acting primarily as both regulator and facilitator in the process.

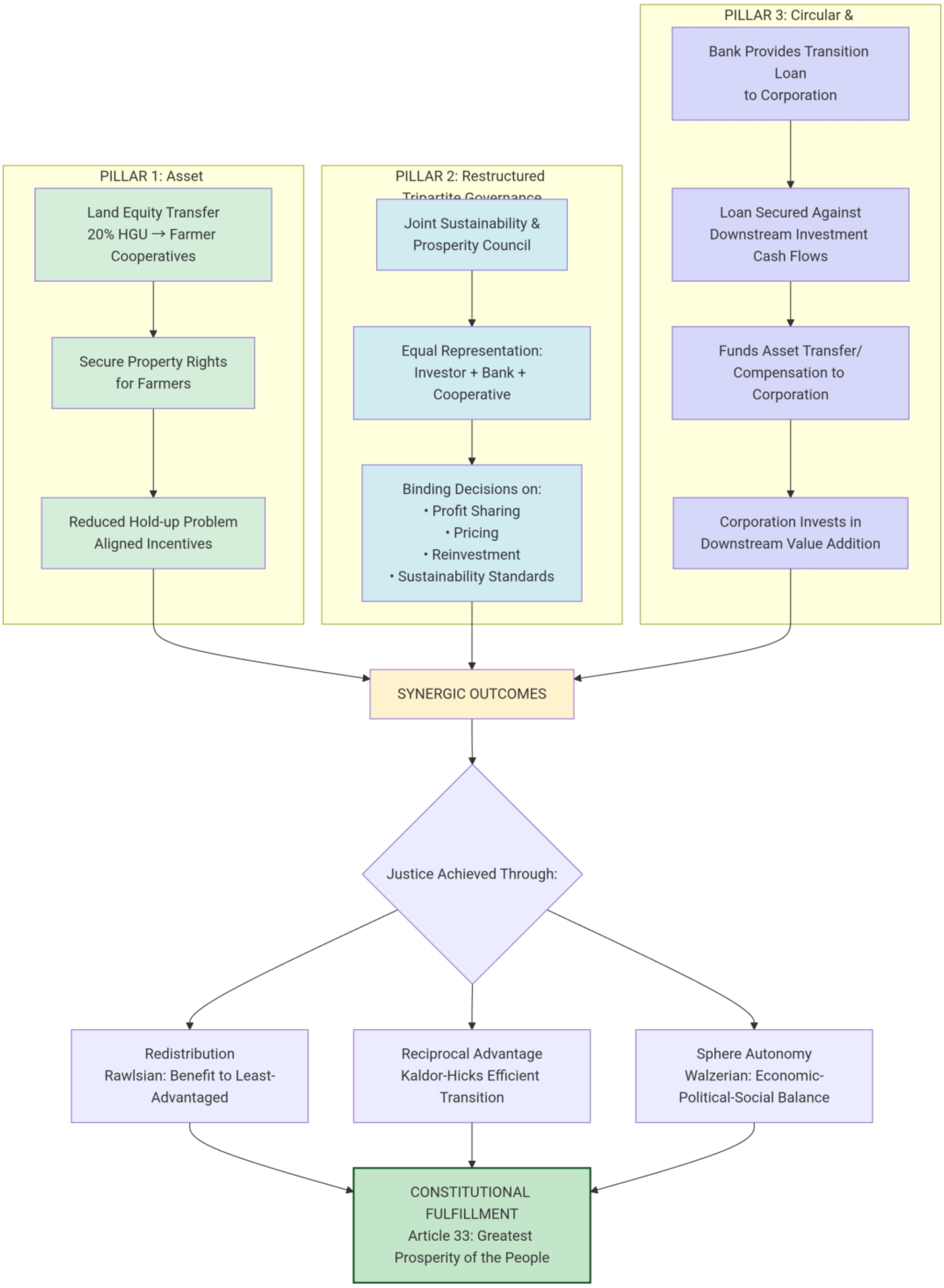

Figure 2. Proposed Model

CONCLUSION

The exploitation of Indonesia's natural resources, epitomized by the palm oil sector, remains trapped in a path dependency of injustice. Existing legal frameworks and partnership models, from transactional ties to the mandated nucleus-plasma scheme, have failed to reconcile capital efficiency with social justice. They violate fundamental philosophical principles from Rawls and Walzer and are plagued by the high transaction costs and power asymmetries explained by New Institutional Economics.

The proposed model, “Justice as Redistribution and Reciprocal Advantage,” offers a decisive break from this path. By centering on the redistribution of land assets to the direct cultivators and coupling it with a financially engineered transition of corporate capital into industrialization, it creates a synergistic "win-win." It transforms a zero-sum conflict over land into a positive-sum strategy for national upgrading. This model provides a concrete, legally and economically grounded pathway to finally realize the promise of Article 33 of the 1945 Constitution: that the nation’s natural wealth is secured and used for the greatest possible prosperity of all its people.

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