

# Oil Palm Boom and Village Development: Impact and Inclusiveness of Contractual Arrangements

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Contract farming has been a key strategy for the Indonesian government to develop the oil palm sector and to spur rural economic development. Yet, its intended success has not been quantitatively assessed. This paper investigates the extent of inclusiveness into oil palm contract farming. Moreover, we want to find out what has been the impact of contract farming on rural economic growth. In doing so, we focus on the village since contracts usually were established at that level and it provides the opportunity to assess the impacts for the village as a whole. Our data set comprises of data for 74 randomly selected villages located in the lowlands of Jambi province, Sumatra, for the years 1992 and 2012. We employ a bivariate probit with selection model to address the question of contract inclusiveness. Further, we make use of a differencing technique (2012-1992) to investigate on the contractual impact. Our findings suggest that contract farming was rather inclusive; except for villages dominated by Jambi's indigenous population, other factors such as village wealth was found not to be relevant. In addition, overall we find a positive impact of contract farming on village wealth. In conclusion, in locations where the oil palm sector is still infant, from an economic perspective, contract farming may be a beneficial strategy to pursue.



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