



# Institutional reconstruction of the gambir agricultural market in Indonesia

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### ABSTRACT

Gambir (*Uncaria Gambir Roxb*) cultivation is very productive and has been going on for a long time, however the gambir market is not yet functioning properly. It is necessary to reconstruct the gambir market institution through several collective actions. This study used qualitative research methods. Data collection was carried out through direct observation or observation, in-depth interviews, group discussions, focused group discussions and documentation. Data analysis used qualitative descriptive analysis and triangulation. The results showed that the combination of the three potentials, namely collective action, social and institutional capital, can reconstruct the gambir market problem. These three aspects function and work together to reconstruct the gambir market problem so that the gambir market functions properly, the competition is perfect and benefits all transacting parties. The process of reconstruction of the gambir market needs to be carried out by providing institutional strengthening to increase the function of social capital as well as better synergy between institutions in producing collective action.

### INTRODUCTION

Gambir plant is a potential plantation commodity specific to the location of West Sumatra. In Indonesia 80% gambir comes from West Sumatra. Lima Pulu Kota Regency is the largest Gambir producer in West Sumatra (65%), with a land area of 15,659.50 ha, producing 8,814.40 tons per year (Statistics of Lima Pulu Kota Regency, 2019). As an export commodity, gambir has been traded since the end of the 18th century. Although gambir cultivation is very productive and has been going on for a long time, the gambir market where farmers sell their products has not functioned properly. Transactions in the gambir market often harm farmers and are more profitable for collectors. This condition occurs due to the low bargaining power of farmers due to the imperfect competitive market structure /oligopsony. Closed price information (known only to gatherers and exporters) as well as fluctuating prices. In 2017 the price of gambir fluctuates around Rp. 45,000 / Kg up to Rp. 120,000 /Kg. Most farmers have debts with gatherer traders because of the difficulty of

access to formal financial institutions. Farmers who are in debt will get a low price plus interest / loan deductions of up to Rp. 5,000 / Kg (Nasrul et al, 2019; 2020). Price information is unclear and is often determined by exporters through village gatherers. This condition is exacerbated by the lack of role of local and regional governments to make regulations or interfere with the market (Nasrul et al. 2015).

Seeing this condition, it is necessary to reconstruct the gambir market institution through several collective actions. Collective action is formed from the support of social capital through institutions involved in the gambir market. Through collective action, smallholders can increase access to resources such as inputs, credit, training and information and increase bargaining power (Kruijssen et al, 2007). These collective actions are built on the high performance of social capital and synergy (Woolcock, 2004), from several local institutions involved in the gambir market. Collective action is also strengthened by the relationship between aspects of social capital

such as trust, networks, norms and sanctions (Coleman, 2009), which function well in the gambir market. The combination of the three potentials (collective action, social capital and institutional) can reconstruct the gambir market problem.

Collective action studies have been used in agricultural matters for the common interest of increasing community income (Magyesi et al, 2010), agricultural conservation and productivity (Shiferaw et al., 2009; Wollnia et al., 2010) and agricultural system innovation (Hellin, 2012). Several collective actions have been formed in the gambir market in Lima Puluh Kota Regency, such as an agreement on a pure gambir quality transaction in a joint transaction village so as to make the market more competitive (Nasrul, 2015). The problem is that collective action has not resolved market problems and is still local in nature.

Therefore the research objective was to carry out institutional reconstruction in order to produce more optimal and broad collective action through strong institutions. The institutional reconstruction made the gambir market more competitive and benefited all transacting parties, especially farmers.

Institutional reconstruction can solve some of the gambir market problems through some of the resulting collective actions. These collective actions can be used as an example and input for the improvement (function and mechanism) of the gambir market in Lima Puluh Kota Regency in particular and the agricultural market in general. So that the gambir market and the agricultural market are more competitive, the mechanism works well and benefits all transacting parties, especially farmers. The gambir market and competitive agricultural markets will further contribute to increasing agricultural and regional development.

## RESEARCH METHODOLOGY

### Study sites

The research was conducted in 3 central districts of Lima Puluh Kota Regency. The selected sub-

districts were Kapur IX with a production of 6,025 tons / year, Pangkalan Koto Baru District with a production of 4,358 tons / year and Bukit Barisan District with a production of 2,665 tons / year (Statistics of Lima Puluh Kota Regency, 2019). The villages selected were Lubuak Alai Village, Manggilang Village and Maek Village. This location was chosen purposively for the following reasons:

- 1) The productivity level of the gambir in the three districts is the top 3 in the district, while the village is the center village for gambir plants in the three sub-districts.
- 2) There are still problems in the gambir markets in the area which must be resolved through collective action
- 3) There are institutions that play a role in the gambir market and have the potential for collective action.

### Research approach and data analysis

This research used qualitative research methods. For technical data collection, it is carried out with 5 (five) qualitative data collection methods, namely: direct observation or observation, in-depth interviews, group discussions, Focused Group Discussion (FGD) and documentation. Informants in the study were taken in several stages, namely: a) determining key informants, b) assigning additional informants and grouping additional informants based on location and related institutions; b) to determine the number of additional informants at each of these institutions, a purposive technique was used. Data analysis used qualitative descriptive analysis and triangulation (methods, sources and theories)

## RESULTS AND DISCUSSION

### Reconstruction of gambir market problems

The gambir market in the research villages shows several problems. Problems in the gambir market due to bad behavior of actors in the market for profit (opportunism) such as; price control by gatherers to borrowing farmers, barriers to entry (barrier to entry) by other gatherers, allowing low quality products (mixing with other substances) by gatherers to reduce prices to farmers and limited

knowledge of farmers (bounded rationality) such as prices at the exporter level (Nasrul et al, 2015).

However, the research results also show the potential of the gambir market to solve or reduce market problems. The potentials of the gambir market are in the form of collective actions that function to solve the problems of the gambir market. Some actions as collective action to fix the gambir market problem in the form of, a) agreement on the quality of the gambir, b) sanctions and taking action against bad morals when transacting, c) joint selling, d) providing equality and ease of information, e) accessing traders, f) making it easier access to capital, and, g) production cooperation (Nasrul et al. 2015; Nasrul, 2017). These collective actions are built on the high and synergistic performance of social capital (bonding, bridging and linking) (Woolcock, 2001), from several local institutions involved in the gambir market. Collective action is also strengthened by the relationship between aspects of social capital such as trust, networks, norms and sanctions (Coleman, 2009), which function well in the gambir market.

The combination of the three potentials (collective action, social capital and institutional) can reconstruct the gambir market problem. These three aspects function and work together to reconstruct the gambir market problem so that the gambir market functions properly, the competition is perfect and benefits all transacting parties.

### **Collective action**

Gambir market is reconstructed or its problems fixed through collective action. The gambir market forms a collective action to make a sale (transaction) together. Joint transactions are determined on the spot and on Sundays through village regulations. This collective action arose due to problems between the borrowing farmers and gatherers who provided loans, and the problem of collecting the gambir tax by the village government. The time and place for transactions were not determined, making some farmers who borrowed not to sell gambir to the market or collectors who provided loans. The various transaction times and places also make it difficult to collect gambir taxes, because farmers (cheat

sell gambir directly to collectors' warehouses. This condition results in quarrels between farmers and collectors or fellow collectors. Collective action to determine the place and time of the transaction makes the problem resolved, another effect of this collective action (joint sale) makes the gambir market more competitive (perfect competition) and makes it easier for the transacting parties. This condition is in accordance with the findings of Kruijssen et al (2007) in Chanthaburi Province, Thailand and the findings of Shiferaw et al. (2009) in Kenya where through collective action small farmers are able to pool resources and market their products together, thereby overcoming the problem of transaction costs. Furthermore, in the exchange process in the market, collective action will facilitate and facilitate transactions for the parties (Meinzen - Dick et al, 2004).

According to Ostrom (2010) collective action is the involvement of a group of people, who take collective and voluntary actions for the purpose of common interests. Farmers and gatherers form collective actions to maintain the quality of gambir and cooperate in production. Maintaining the quality and dryness of gambir makes gambir prices better and higher. Gatherer and farmers also form collective actions for production cooperation. This production cooperation was carried out when the Gambir price was cheap. The cheap price of gambir makes farmers not want to do business / cultivation of Gambir. This condition is resolved by production cooperation between gatherers (providers of capital) and farmers (workers and land owners) with a production sharing system. This cooperation keeps the gambir business and production going, so that the gambir market continues. According to Olson (1971), logically, collective action occurs when there are benefits obtained from the cooperation process.

Another collective action that was also formed in the three gambir markets was an agreement on the business continuity and production of Gambir. This condition is maintained and carried out because gambir farming is the main source of income for gambir farmers. This condition also happened to gatherers, most of the gatherers in the three villages made collecting gambir their main livelihood. According to Di Gregorio et. al. (2004) an individual society will naturally tend to choose

to take collective action with other individuals when they feel there is a similarity in terms of the goals to be achieved and when they feel uncertainty and the risks they face if they move alone.

### **Social capital**

Furthermore, collective action is formed from the contribution of relations between aspects of social capital (Coleman, 2009) and social capital synergy (Woolcock, 2001). Social capital synergies contribute to stronger, more sustainable and complementary collective action (Evans, 1996; Meinen-Dick et al, 2004). The research also shows that the aspects of social capital (trust, networks, norms and sanctions) contained in the gambir market function as collective action to fix the problem of the gambir market. The well-established and well-functioning function of social capital can be seen in the gambir market. The performance of social capital in the gambir market is also high, especially in Lubuak Alai Village. The higher the performance of social capital (networks and synergies) the more collective action is generated. Collective actions resulting from the function and performance of social capital play a role in solving the problem of the gambir market, so that the gambir market is more competitive.

### **Institutional**

Lastly, the important potential in the reconstruction of the gambir market is the institutional aspect. The success of collective action will be achieved if it is supported by institutions (Meinen - Dick et al. 2004; Mantino, 2010). North (1992) argues that institutions have two definitions, namely: institutions as rules of the game (rule of the games), and institutions as a tiered organization. Assistance and institutional support for collective action makes it more effective and secure. Institutions as rules of the game are formal and informal formed in the gambir market.

Institutional support for collective action is carried out through village regulations. Village regulations govern the place and time of transactions as well as the collection of gambir taxes. Village

regulations also stipulate sanctions for farmers and gatherers who do not obey the rules. Formal rules and sanctions are effective in maintaining the rules of the game (transaction process) between farmers and gatherers and facilitating the collection of gambir tax by the village government. To regulate and implement village regulations in the gambir market it is up to customary institutions.

Apart from formal rules and sanctions, informal rules/norms and sanctions were also formed in the gambir market. Informal rules and sanctions can be seen from the agreement to produce pure and dry gambir between the farmer institution and the collecting institution in the three gambir markets, as well as in the collecting institution. Farmers who produce pure and dry gambir will get a good price, while gambir that is not pure (lots of mixing substances) and wet will be penalized by gatherers. The sanctions given by gatherers were cutting the price and weight of the gambir. The above conditions show that the importance of institutions (rules and sanctions) in collective action is formed to fix the gambir market problem.

Collective action that is supported by the institution will be more awake, because the institution involves rules that can limit behavior so that it creates order for the actors involved in or transacting in the gambir market. Through collective action institutions will protect property rights, along with collective action institutions will be more effective and can reduce uncertainty. Through the (institutional) rules, the resulting collective action will bind each individual in the group to remain committed (North, 1992; Lin and Nugent, 1995).

### **Reconstruction process for strengthening gambir market**

The aspects of social capital in the gambir market in Manggilang and Maek Villages only function between farmer and collector institutions. The performance of social capital and synergy between institutions is not running well, so that the institutionalized collective is not less formed. The gambir market is very much controlled by collectors, the government and other institutions (customary institutions, formal financial institutions) do not play a role.

The reconstruction process needs to be carried out by providing strengthening to the institutions involved in the gambir market in Manggilang and Maek Villages. The process of strengthening or empowering institutions makes existing institutions such as farmer institutions (bonding) to have high performance. The high performance of bonding social capital (integration and networking) will be able to reach other institutions (bridging and linking social capital) in producing collective action.

It needs strengthening and a better role of government institutions (social capital circles) for the two villages. Encourage the formation of rules (institutional) or collective action in the gambir market. Rules and actions that need to be established in the gambir market such as joint sales (moreover this has been agreed upon and the kiosk has been built), determining gambir quality standards, entry and exit of other traders, and institutions to gain access to information and capital) so that the market is more competitive, sustainable and benefit all parties.

The gambir market in Lubuak Alai Village has well-functioning aspects of social capital and high social capital performance. This condition can be seen by the collective action of gatherers and farmers to produce good quality gambir at high prices, but this agreement is still informal. Similar to the two previous villages, in Lubuak Alai Village, a formal agreement was also formed through village regulations so as to provide certainty on the quality of the produced gambir, as well as sanctions if anyone violates it.

The Lubuak Alai Village government together with the customary institution (linking social capital) play a role in the gambir market. The village government makes formal rules regarding joint sales and tax collection of gambir which are managed by the customary institution. The joint sale makes the Lubuak Alai Village gambir market more competitive, and the gambir tax collection can be used for the needs of farmers and village development.

Better institutional synergy (bonding, bridging and linking social capital) is also needed because there are still several problems in the Lubuak Alai

Village Gambir market, such as there is no formal financial institution that can be accessed by gambir farmers. High synergy of these institutions can result in good collective action and protect the gambir market and reduce gatherer domination, such as establishing formal gatherer institutions (cooperatives), and formal financial institutions (banks) by involving existing collectors.

## CONCLUSION

The combination of the three potentials (collective action, social capital and institutional) can reconstruct the gambir market problem. These three aspects can function and work together to reconstruct the gambir market problem so that the gambir market functions properly. The competition will be perfect and all transacting parties will get benefits. The reconstruction process needs to be carried out by providing institutional strengthening to increase the function of social capital as well as better synergy between institutions in producing collective action

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