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The logo for the International Institute of Social Studies, featuring the word "Erasmus" in a stylized, cursive script.

A Research Paper presented by:

**Harafik**

**(Indonesia)**

Graduate School of Development Studies

**Building Sustainable Peace and Development in Fragile  
Setting: Limits of Social Capital and Value Chain  
Development: Nutmeg Case Study in South Aceh-Indonesia**

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Members of the examining committee:

Dr. Lee Pegler [Supervisor]

Dr. Georgina, M. Gomez [Reader]

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**Inquiries:**

Postal Address: Institute of Social Studies

P.O. Box 29776

2502 LT The Hague

The Netherlands

Location: Kortenaerkade 12

2518 AX The Hague

The Netherlands

Telephone: +31 70 426 0460

Fax : +31 70 426 07

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## ACYRONIMS

BPS	Indonesian Bureau Statistics Agency
BRR	Indonesian Reconstruction and Rehabilitation Agency for Tsunami Relief
BDS	Business Development Strategy
CBO	Community Based Organisation
CBD	Community Based Development
DAI	Indonesian Essential Oils Association
GTZ	German Agency for Technical Cooperation
IFACS	Indonesian Forest and Climate Support
IFAD	International Federation Agriculture Development
MSR	Multi Stakeholders Reviews of Post-Conflict Programming in Aceh

MoU	Memorandum of Understanding
NGO	Non-Government Organisation
UMKM	Small and Medium Enterprise and Cooperative
UNDP	United Nation Development Programme
UNCTAD	United Nation Conference on Trade
USAID	the United State Agency for International Development
VCD	Value Chain Development
WWF	World Wide Fund



**Word count: 17,488**

### **Abstracts**

This paper investigates social capital and value chain development in fragile contexts, South Aceh-Indonesia. It aims to explore the extent to which value chain development has fostered social capital that lead to collective action. It focuses on local linkage of diverse local nutmeg value chain actors. It employs qualitative methodology and case study approach. Also it takes critical perspective of social capital and value chain development and frames the analysis on asymmetry power distribution among local chain actors and its implication on trust, collective action in fragile context of South Aceh-Indonesia. The overall research finding is that value chain development and social capital are necessary but not sufficient conditions in fragile context. VCD and social capital helps reduce transaction cost and foster collective action but simultaneously they benefits powerful and well-connected groups at the expense of disadvantaged ones. Thus these two concepts have to be applied critically in fragile context when it comes to create sustainable peace and inclusive development. And It has confirmed prior study that fragile context is not necessarily a “zone social capital deficiency”. Rather it both increases and decreases bonding and bridging social capital. In the context of South Aceh relatively speaking value chain development plays some roles to it.

### **Relevant to Development**

Value chain development and social capital are argued as critical developmental tools to promote sustainable peace and inclusive development in fragile contexts. These two approaches have been employed in various fragile contexts by donor agencies and NGOs and governments alike across the globe. These developmental approaches are claimed to be able to promote economic growth, reduce poverty, create employment and generate lasting peace in fragile contexts. Yet at the same time these developmental approaches have been critiqued by sceptical scholars thoroughly. The critiques derived partly from their methodological individualism and bold claims achieving sustainable peace inclusive development sustainable while empirical evidence very often demonstrate the opposite. Thus, this paper is expected to offer additional insight in this scholarly debate.

### **Keywords:**

Fragile Context, Social Capital, Value Chain Development, nutmeg, South Aceh-Indonesia

## Chapter I Introduction

The promotion of value chain development, hereafter is called VCD, in fragile context has been increasingly promoted over the last decade (parker 2008; Grygie 2007; Gündüs and Klein 2008; Stork 2010). The United State Agency for International Development (USAID) and United Nation Agency and the World Bank have played critical role in promoting this initiative in fragile contexts (Enzama 2015: 4; Jaramillo and Durleva 2016). Shifting paradigm in viewing conflict, peacebuilding and socioeconomic as intertwined phenomena have in part contributed to VCD promotion in fragile context (Hoffman 2014). Moreover, 'relief dependency' in fragile contexts is prevalent and is argued that it is likely to halts economic growth which may perpetuate income poverty and inequality. (Nourse et al 2007). Should policy measure has not been taken addressing this issue, it may fuel further violence or perpetuate it (Colletta and Collen 2000). Hence, promotion of VCD has been argued as a viable solution to promote inclusive economic growth, generate employment and create sustainable peace (Jaramillo and Stock 2015; Hiller 2014; Dudwick et al 2013).

Both in stable and fragile environment, VCD focuses on enhancing coordinated linkages among diverse and scattered value chain actors both vertical and horizontal. Improved linkages is expected to produce more efficient performance of value chain as a whole (Humphrey and Navas-Alemán 2010). In turn it allows to distribute more just benefits to all value chain actors along value chain nodes (Helmsing and Vellema 2011). The latter is critical in the fragile contexts in order to generate employment, food security and create sustainable peace and inclusive development (Hiller et al 2014; Dudwick et al 2013). Moreover given the fact that VCD focuses on improved linkages among value chain actors, markets and private sectors are key driver of VCD intervention (Grossmann et al 2009; Parker 2008). Identifying accessible and valuable markets may provide invaluable information on what market demand is rather than simply promoting any commodity that can be produced (Locke Byrne 2008:I ; Meyer-Stamer and Wältring 2007).

In fragile contexts and stable environment, associational or farmer group is central to VCD promotion (Dudwick et al 2013; Hiller 2014). It is expected to foster collective action, manifested in the form of scaling up economy, increasing bargaining power, providing agricultural extension services, developing market arrangement, enforcing social sanction and preventing opportunistic behaviours

and so on (Parker 2008; Markelova et al 2008: 2; Rondot and Collion 2001; Stockbridge et al 2003: 3; Thorp et al 2005; Kaganzi et al 2008; Devaux et al 2008; Baldassarri and Grossman 2013). Equally important, associational group in fragile context allows to foster wider participation among IDPs and conflicting parties which promote reconciliation and create internal mechanisms to mitigate escalating of further violence (Gennip 2005; Lederman et al 2005: 510).

However, to date promoting VCD and associational group in fragile contexts have yielded mixed outcomes (Spilsbury and Byrne 2007; Parker 2008; Hiller et al 2014; Nourse et al 2007). On the one hand, Dairy VCD promotion in Kosovo generated 624 jobs and increased sale by €36 million (Spilsbury and Byrne 2007). In Rwanda, VCD in coffee and eco-tourism sectors created a number of thousand seasonal jobs and increased receipts from zero to \$33 million annually for a period of 5 years respectively (Ibid). Similarly, in South Sudan VCD integrated women who were isolated during the war into cosmetics value chain (Ibid) On the other hand, In Afghanistan the VCD promotion in grape and poultry sectors foundered one year following the project closure (Parker 2008). In Nepal and Sri Lanka VCD on vegetable and fisheries respectively failed to the produce stated intended objectives (Ibid: 15). In addition, mistrust and failure to impose social sanctions to members have undermined associational group and VCD to yield favourable outcome (Key and Runsten 1999: 397; Masakure and Henson 2005: 1728; Berdegue 2002: 17).

While it is difficult to make solid comparison given the fact that VCD and associational group have been promoted in diverse fragile contexts and different intervention objectives, some common patterns give insights under what circumstances it succeeds and fails (Ibid). VCD focuses on pre-existing commodities and markets as well as develops multiple and segmented markets either at local, regional or global level tend to produce intended outcomes (Ibid). In this regards associational group plays critical role (Hiller et al 2014) Moreover, generic and context specific- enacted policies and alongside other preconditions contributes to enable or disable VCD and associational group to evolve progressively (Nourse et al 2007; Dudwick et al 2013:81). These circumstances exemplify the 'success and failure' of VCD and associational group discussed above (Parker 2008; Locke and Byrne 2008).

Despite the success narratives and conditions under which VCD and associational group have been produced favourable and unfavourable outcomes in fragile contexts, the major critiques have been centred on exclusionary nature of associational group and VCD (Cleaver 2005; Goodhand and Hulme 1997; Laven 2009; Hospes and Clancy 2011; Harris and Renzio 1997; Van Staveren and Knorringa 2008; Vervisch et al 2013). Associational group<sup>1</sup> fails to capture power dynamics and asymmetry distributional of power that lead to exclusion in all sorts of social relations (Harris and Renzio 1997). This is salient in the critical literature of social capital and VCD (Van Staveren and Knorringa 2008). Rather than empowering the disadvantaged group it tends to reinforce poverty and inequality that are prevalent phenomena in fragile contexts (Harris and Renzio 1997; Dudwick et al 2013; Laven 2010).

Prior academic studies on VCD and associational group in fragile contexts have been focused on institutional changes (Enzama 2015; Ritchie 2013). Enzama in his PhD<sup>2</sup> thesis investigated the scope and limitation of VCD in Northern Uganda and focused whether associational group play critical roles addressing imperfect market due to of war. He contends that VCD is necessary but not sufficient conditions by and large because preliminary conditions are absent due to legacy of war (Ibid). Similarly, Ritchie in her PhD<sup>3</sup> thesis examined how interaction among diverse value chain actors induce institutional change of *Purdah*, a deeply seated cultural and religious belief restricting women mobility outside family compound in Afghanistan (Ibid). She argues that a concerted effort by committed and diverse actors is likely to induce institutional change and creates new institutional arrangement for local economic development (Ibid). However these two studies did not look specifically at how VCD and associational group have addressed power dynamics and asymmetry distributional of power among diverse value chain actors in fragile contexts.

Therefore the present case study aims two folds. First is to explore the extent to which nutmeg VCD promotion through the nutmeg association has fostered bonding

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<sup>1</sup> In broader understanding can be referred to social capital (Enzama 2015; Van Staveren 2003)

<sup>2</sup> titled *Reconstructing Post-War Local Economies: Institutional Dynamics and Smallholder Value Chain Intervention in Northern Uganda*

<sup>3</sup> Titled *Negotiating Tradition, Power and Fragility in Afghanistan: Institutional Innovation and Change in Value Chain Development*

and bridging social capital as an effective mechanism for improving market cooperation among diverse nutmeg value chain actors especially at local level in post-war community in the South of Aceh-Indonesia. Second is to critically investigate the degree to which nutmeg association has reinforced exclusion and inequality among nutmeg chain actors. In this regard it will take into account local political economy dynamics, asymmetry power relations among local nutmeg chain actors. It is noteworthy that though not using VCD approach, prior study of social capital in post-war Burundi indicated elite capture and rent-seeking behaviour are prevalent practice (Vervisch et al 2013). Consequently, it may undermine peacebuilding initiative and set barrier for fostering bonding and bridging social capital which are critical components for successful of VCD (Hiller et al 2014; Locke and Byrne 2008). Hence, this present study is expected to give additional insight on how VCD and associational group address or reinforce exclusion in the fragile context.

### **1.1 Research Question**

To what extent has value chain development in a post-militarised setting in South Aceh District- Indonesia foster social capital for improving market coordination among local nutmeg chain actors? To what extent has this also reinforce inequality and exclusion among local chain actors in the South Aceh?

### **1.2 Sub-Questions**

Is there any evidence of reduced social capital as a result of sustained conflict?

What institutional and organisational changes have social actors introduce through VCD?

What social impacts have been involved as a result of and have these resulted in greater social exclusion?

### **1.3 Organisation of the Paper**

This research paper is organised in a sequent manner. It covers 6 chapters in total. The first chapter deals with introduction in which opposing arguments on VCD and Social capital will be presented and it departs from previous studies of VCD and social capital in fragile contexts that focused on institutional change. The second chapter will deal with methodology and data collection. The third chapter will discuss the conceptual building of VCD, Social capital and related concepts in which these concepts will be framed in fragile contexts. The fourth chapter will discuss and analyse nutmeg, actors and market both local and global and markets.

The fifth chapter will discuss and analyse social capital and VCD in fragile context and it will focus mainly on how social capital and VCD has produced both intended and unanticipated consequences, benefiting powerful over the disadvantaged then it critiques CVD and social capital has to be applied critically by taking into account home grown institutional arrangements rather than imported ones. The final chapter will discuss policy implications either for governments, donor agencies and associational group at grassroots level.

#### **1.4 Conclusion**

This chapter has discussed VCD and social capital in fragile context. It notes how these two concepts have been debated heatedly among scholars coming from diverse backgrounds. Previous academic studies of social capital and VCD in fragile contexts looked specifically at institutional change, thus this paper tries to critically investigate how VCD and social capital may produce both intended and unanticipated consequences simultaneously in context of post-war community in the South of Aceh Indonesia. The following chapter will introduce case study background and discuss twin disasters of earthquake and conflict and research methodology.

## **Chapter II Case Study Background & Twin Disasters**

### **2.1 Introduction**

The present case study research will be conducted in the district of South Aceh, the Province of Aceh-Indonesia. It will critically investigate the nutmeg VCD promoted by UNDP and UNCTAD in close partnership with local government of South Aceh (Stork 2010). The overall objective of nutmeg VCD was to develop sustainable peace and inclusive development following agreement between the central government of Indonesia and the Aceh Free Movement (Jaramillo and Durleva, UNCTAD 2016). UNDP-UNCTAD and the local government of South Aceh established the nutmeg association in 2010. These two UN bodies in particular views that nutmeg association can play critical role to promote VCD and foster collective action (Ibid).

### **2.2 Aceh Province and South Aceh District in Nutshell**

Geographically speaking the province of Aceh is located on the Northern tip of Sumatera Island of Indonesia Archipelago. South Aceh is one of district within the Aceh province. Aceh is comprised of 18 districts and 5 municipalities administrative (Bureau

Statistic Agency of Aceh; Schulze 2004). It has played strategic role as a gateway for trade and cultural exchange of East and West since century back (Ibid).

The province of Aceh is diverse in culture and ethnicity and Islam serves a lubricant to unite and form common identity (Schröter 2010). In general, there are different 8 ethnicities namely: Gayo, Alas, Aneuk Jameu, Kluet, Tamiang, Javanese and Aceh, occupying dispersedly area across the province from north to west (Ibid). In addition, while to date there has not been any ethnic or religious based conflict, anti-Javanese discourse which was associated with the central government was prominent during Aceh conflict and, this discourse may pose serious challenge for sustainability of peace in Aceh (Ibid). Also, briefly outlining heterogeneity of ethnicity of Aceh province and South Aceh is pertinent to further analysis of the notion of social capital and collective action as well as social cohesion in the context of promotion value chain development in post-war setting. Great detail of these concepts will be discussed and analysed in chapter four.

**Map 1.1 Map of the Province of Aceh**



### 2.2.1 Prolonged Militarised Violence

The history of conflict in Aceh with central government of Indonesia in Jakarta date back in 1949 when Indonesia was established as a state republic (Hyndman 2009: 90). Following that year, Aceh was administered under Sumatera province rather than it governed its own administration (Ibid). This led to political disappointment among Acehnese community and elites (Ibid). The first president of Indonesia, Soekarno, broke his political promise to recognise Aceh as a strong ethnicity associated with Islam and was distinctive from that of Sumatera province (Ibid). Since then, the prominent and charismatic leader of Aceh, Teuku Daud Beureuh, proclaimed and

sought to an independent state and ran guerrilla fighting the Indonesian army (Schulze 2004). Soekarno granted Aceh a special province to Aceh in response to this guerrilla and dissidence in 1959 (Hyndman 2009: 90).

Granting a special province did not permanently end conflict between the province of Aceh and central government of Indonesia. The successor of Soekarno, President Suharto’s centralistic and undemocratic nature in running his administration led to the second wave conflict in Aceh (Schulze 2004: 2). This conflict was strongly associated with economic exploitation when the discovery of huge oil and gas liquid in Lokseumawe and Loksukon in North Aceh in 1971 (Hyndman 2009: 90). The construction of refinery to extract oil and gas liquid brought about disappointment among Acehese people as villagers’ land was confiscated without proper compensation, and the central of government of Indonesia deployed as many as 5000 troops to safeguard the extraction activities (Renner 2006). Since then the conflict was intense and in 1976 the Aceh Free Movement was established by Teuku Hasan Tiro and sought an independent from Indonesia.

Central to this conflict was ‘isolation’ of Aceh from outsiders and the people of Aceh was being trapped in the middle of whether for or against the Free Aceh Movement or central government of Indonesia (Schulze 2004). This circumstance led to deep distrust among the people of Aceh themselves and they are very vigilant on non-Aceh people (Harvard Medical School 2006).

**Table 1.1 Human capital and Infrastructure damage resulted from conflict**

Human capital					Public & Private infrastructure			
Killed	Orphan	Widows	Physically injured	IDPs	schools	Bridge	Houses	Road
30,000	30,101	29,828	14,932	600,000	4,000	2,200	33,000	7,7 KM

Source: Multi-Stakeholder Review of Post-Conflict Programming in Aceh 2009

It is important to note that not until 1998 the former Free Aceh Movement multiplied its membership fivefold (Schulze 2004: viii). It extended their coverage from their original basis in northern part of Aceh to the entire Aceh province including South Aceh (Ibid). Since then insurgency and counterinsurgency by both sides, the Free Aceh Movement and Indonesian army were violent and brutal (ibid). As a result, this severely affected nutmeg sector and farmers in South Aceh district of Aceh Province. According to UNDP’s assessment report (Jaramillo and Durleva 2016), armed-violent



conflict in South Aceh has destroyed about 60 to 80 % of nutmeg plantation areas and nutmeg farmers had little access to their nutmeg estate during the conflict. This fact not only has brought about significant reduction of nutmeg production which directly affect the livelihoods of nutmeg farmers and shifted their livelihoods strategy to other sectors but also the effect of dying nutmeg trees because pest and disease has still lingered on to the very day (Nutmeg Association 2012).

**Table 1.2. Effect of conflict on nutmeg estate and productions**

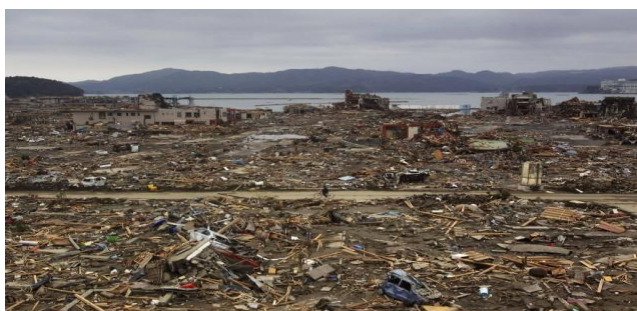
Years	Total estate in ha	Produced estate in ha	Unproduced estate ha	Damaged estate in ha	Production	No of HH
1999	8523	6107	959	1685	6523	Not available
2011	13411	4651	8641	1159	3903	18.732

Source: Forestry and Estate local Government Agency of Aceh Province

### 2.2.2 Earthquake and Tsunami

Mega earthquake and Tsunami struck the Aceh province-Indonesia on the 26<sup>th</sup> of December 2004 (Rofi et al 2006). It killed over 176,000 people and displaced over 1 million people. Besides, earthquake and tsunami destroyed natural disaster and attracted international attention's both community and governments (Ibid). Huge amount of aid amounting to US\$5.9 billion (Multi-Stakeholder Review of Post Conflict Programming in Aceh, MSR 2009: 50). Tsunami reconstruction aid was channelled through BRR (Government Reconstruction and Rehabilitation Agency) and INGOs (Ibid). The positive and blessing sides of tsunami that and it created solid pathway for both conflicting parties, the Free Aceh Movement and the Central Government of Indonesia, to permanently end armed and violent conflict over 3 decades (Gaillard et al 2008).

**Figure 1.1 Destroyed and reconstructed road following and after Tsunami and**



**Earthquake**



Source: Google. Following tsunami  
tsunami

source: google 10 years after  
tsunami

### **2.3 Relevance and Justification**

In the context of South Aceh district and Aceh Province as well as the central government of Indonesia, generating long term sustainable peace through development by recovering markets and integrating IDPs, ex-combatants and community at large into an integrated chain market is unquestionably imperative (United Nation 2009). Therefore, investigation on the extent to which the promotion of nutmeg value chain development and social capital in post-war affected environment is warranted. Equally important, to the best of my knowledge, in context of Aceh province following the twin disasters of earthquake and violence study on social capital and VCD has not been carried out. Previously the Bank, investigated the extent to which re-integration programme lead to fostering social capital among IDPs and ex-combatants. Equally, examining social capital and VCD from critical perspective has not been conducted yet in the province of Aceh and South Aceh district.

This research is expected to contribute to the debate on viewing fragile context has not necessarily resulted in damaging social fabric as the mainstream school of social capital claims. Instead, it argues that fragile context has both decreased and increased bonding and bridging social capital at least in context of the province of Aceh and South Aceh district- Indonesia. In addition, it is envisaged that the research finding will be able to inform policymakers the government of Indonesia particularly and donor agencies regarding context-specific measures and nuance perspective to create sustainable peace and generate inclusive long term development in fragile context. Prior studies have documented that both government and donor agencies interventions can enable and disable in regulating either farmer association, market or private sector (Chirwa et al 2005; Markelova 2010). Therefore, this research is expected to contribute to find 'the right balance' of introducing government and donor agencies' policy that suits socio-economic and cultural context at least in which this study will be conducted.

### **2.4 Limitation of Research**

Methodologically this research will employ qualitative and case study approach in which generalisation is hardly possible. Thus, in general, these research findings cannot be generalised to other context other than in which this research has taken

place. This is congruent with Goodhand and Hulme's position (2000) studying conflict and social capital in Sri Lanka, arguing that sustained militarised violence has affected community differently both in 'positive and negative senses'. Hence, context matters. Also I have identified some other limitations of the research paper such as because little reliable written documents was known and available on the promotion of nutmeg value chain development in post-armed conflict in Aceh since the proposal design so that it has influenced on data collection process. Finally, due to logistical and other circumstances the researcher encounter in the field and it to some degree has influenced the data collection process. These issues have affected the depth of the data collected and of course influence its analysis.

## **2.5 Methodology**

This research paper entirely employs qualitative approach and case study in designing research proposal through data collection and data analysis. I will do a case study on the promotion of nutmeg value chain development in the South Part of Aceh Province as the centre of nutmeg plantation area. This project was supported by UNDP and UNCTAD in partnership with local government of South Aceh (Jaramillo and Durleva 2016). Its cardinal aims was to rebuild a long term sustainable economic development and peace in the Province of Aceh following the Memorandum of Understanding (MoU) in Helsinki between the Free Aceh Freedom Movement and the Central Government of Indonesia (Stork 2010).

From UNDP-UNCTAD' perspective, nutmeg commodity was chosen purposely not only because it is a high value added cash crop. Also it suits well in with the UN mandate, promoting peace and sustainable economic development based on <sup>4</sup>Bio-Trade principle (Jaramillo and Stork 2015).

It is claimed that promoting value chain development with the Bio-trade principle is the first UN initiative in the world for reconstructing sustainable and long term development in post-war setting in which natural resources, conflict and livelihoods are thought to be intertwined (Ibid). Moreover the Nutmeg Association was established as a viable development approach to rebuild social capital both bonding and bridging as one of necessary precondition for improving a whole value chain performance. This rationale by and large has resulted from UNDP and UNCTAD's experiences in promoting peace and sustainable economic development in post-violence settings (Ibid). In the

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<sup>4</sup> BioTrade is an initiative by UNCTAD to promote economic, social and environment activities of natives' species. Social, economic and environment form the basis for development of and implementation of it.

lights aforementioned narrative, I will do case study on nutmeg VCD in the South Aceh district in the Province of Aceh as a case study purposely.

## **2.6 Data Collection Methods**

### **2.6.1 Primary Data**

The primary data will be collected through semi structure interview. 5 distinct but related local nutmeg value chain actors have been chosen namely: Small nutmeg farmers, intermediaries at villages and district levels as well as home industry making derivative economic activities from nutmeg husk and representatives from nutmeg association and local government bodies. Nutmeg farmers, intermediaries and home industry as well as nutmeg association's representative have been singled out because they might provide useful insights on how the nutmeg VCD promotion through nutmeg association has improved cooperation among nutmeg value chain actors at local level.

Similarly those chosen research participants are expected to throw some lights on whether fostering social capital through the nutmeg association has led to greater inclusive among local chain actors as a necessary step for building bridging capital with lead firms and other vertical actors. Or it may have resulted in exclusion and reinforced inequality among local chain actors let alone improving bridging capital. As Goodhand and Hulme (1997: 14) put it beautifully "social capital for some implies social exclusion for others". If it is so, a claim of VCD and social capital as a viable solution for reconstructing sustainable peace and inclusive economic development in post-war setting is dubious and thus warrant further thinking on capability of VDC and social capital inform policy discourse on reconstructing post-war militarised violence contexts.

The representatives of local government bodies are expected to supply critical information on whether it has laid foundation for creating supportive policy environment to enable the promotion of nutmeg value and social capital. The importance of local government engagement in value chain and social capital development has been highlighted in prior case studies that policy environment can be both enable and disable (Chirwa et al 2005; Jaramillo and Stork 2015). Therefore it is likely to play a determinant role, among others, the extent to which value chain development and social capital intervention yield intended outcome (Parker 2008; Locke and Byrne 2008).

It is also important to mention that as small nutmeg producers are scattered in 10 sub-district within South Aceh, four sub-district are purposely chosen namely, Meukek, Sawang, Samadua and Tapaktuan sub- districts. The singling out of these sub districts is mainly because they are 'both biggest producers of nutmeg cultivation within South Aceh and home industry making derivative economic activities from nutmeg husk.

Changes in number of research participants and data collection methods have been adjusted slightly in comparison to Initial plans. For example on the research proposal design, the expected research participants were 46 people which consist of 8 female and 12 males for small scale nutmeg farmers. And 6 female and 4 male for home industry making sweets and syrups from nutmeg as well as 2 female and male for nutmeg association and representative from local government. While for nutmeg intermediaries both at villages and district level was 4 male for each. Similarly focus group discussion was developed as data collection technique in research design. However, these two scenarios did not work out in the field because of logistical circumstance as discussed in introduction of this chapter.

### **2.7.2 Secondary Data**

I have consulted with diverse but related articles and books on value chain development and social capital. Similarly, I have reviewed reports and documents from nutmeg association and visited relevant websites providing information on the promotion value chain development and social capital in fragile setting. These websites mainly from the World Bank, UN agencies and other international aid agencies such as USAID, GTZ, BPS, Indonesian Bureau Statistics Agency, DAI Dewan Atsiri Indonesia, the essential Oils Association based at national level.

### **2.8 Reflexivity**

As a novice researcher doing field work has provided me opportunity to develop my research skills and competence, therefore I have identified some reflection points by which I expect to improve it for the future work. According to Matthew et al (2012) reflexivity is so critical that it help researchers producing reliable and ethical 'knowledge'. Besides, reflexivity in the context of qualitative interview can be "a researcher's consideration and recognition of his or her own bias, values, other personal characteristics or a methodological reflection on the entire research project" (Schwandt and Yanow 2006). In this regard, both of reflection on entire

methodological project and personal bias are applicable for me to reflect upon. Hence, the followings are some reflections points the researcher have pinpointed.

As the researcher has employed semi-structure interview as a technique for data collection, the way how the researcher pose questions influence subjects research's responses. In addition, what most important related to this is that subjects research may have not share the same understanding of and comprehension of research questions which in turn 'force' the researcher to leading response. For example, when the researcher asked questions what difficulty do farmers encounter in marketing their produce? It was in some occasions where subject research look confused, and confronted with such situation it unconsciously made the researcher to provide examples which tend to leading response. This 'phenomenon' has helped the researcher to pay more attention to and did double check with other subject's research. Moreover 'context' matters. For example, when the researcher conduct interview with females small scale nutmeg farmers where there was no opposite sex around it, responses they provided tend to be different from where there both sexes were present, and this arose particularly when the researcher posed question what do they (females) think about the ratio of males and females who received nutmeg seedling, fertilisers and so forth from local government and the nutmeg association.

## **2.9 Conclusion**

In chapter II I have introduced twin disasters of earthquake and tsunami that situate the promotion of nutmeg VCD in the South Aceh Indonesia. It discussed how earthquake and tsunami Aceh brought to an end of prolonged conflict in the Province of Aceh including the district of South. It has also discussed the research methodology and data collection methods including research participants. It ends the reflexivity of data collection process and its implication on data collection. In the upcoming chapter it will discuss relevant concepts that come across this research paper and it will centre on social capital and VCD and other related concepts. Two competing schools of social capital VCD will discuss in order to provide 'comprehensive understanding how these core concepts have been employed in fragile contexts.

## **Chapter III Conceptual Building in Fragile Context**

### **3.1 Introduction**

This chapter will discuss some relevant concepts separately, though they are interdependent one another. Social capital and VCD are core concept where other related concepts will centre on. First it will discuss VCD application in general and specifically discuss it in fragile context. Also it briefly traces VCD theoretical principle and discuss how globalization in agricultural trade contributes to VCD development. Thus institutions and value chain analysis will be discussed too as these concepts are of VCD. Secondly, the discussion on social capital will be begun on competing definition and measurement of social capital, both the mainstream and critical perspective camps. Then it will discuss social capital in fragile contexts and intertwined relationship among social capital, trust, collective action and institutions. Finally it will explain the analytical framework for this paper.

### **3.2 Value Chain Development**

In essence, VCD concept is underpinned by neoliberal tenets (Enzama 2015: 41). Thus it focuses market and economic growth oriented (Altenburg 2006). Globalisation especially in trade and coupled with the dramatic changing of global agricultural economy has to some extent contributed to promotion of VCD (Humphrey and Navas-Alemán 2010). From private sectors and donor agency's perspective, the rapid growth of supermarkets and retailers and the increase of purchasing power of 'middle class' both in developing and developed countries exemplify global transformation of agricultural economy, requiring chain markets actors to work in parallel one another to meet 'stringent demand 'from 'middle class consumers' (Markelova et al 2008). This has led the promotion of VCD to enhance "chain efficiency and has been argued to provide more equal distribution of income" and reducing poverty (Hiller et al 2014: 17; Helmsing and Vellema 2011: 40; Humphrey and Navas-Alemán 2010).

VCD derives and has been evolved from the sub-sector approach (Mayer-Stamer and Wältring 2007; Hiller et al 2014). Enzama (2015: 42) discussed briefly that VCD was developed in SME (small and medium enterprise) sector initially, aiming to increase SME's competitiveness by obtaining key technology and business behaviour through networking with multinational companies. Subsequently, various donor agencies have seen VCD address their concern, linking private sectors development, promoting economic growth and alleviating poverty (Humphrey and Navas-Alemán 2010: 24). Also it is worth highlighting that the appropriation of VCD as a development mechanism by development agencies have suggested paradigm shifting in development interventions,

previously viewing private sectors as exploitative for smallholders and thus interventions were directed toward disposing of this negative nature (Hiller et al 2016). Recently, through VCD private sector has been portrayed as critical players both in reducing poverty and in sharing a fair financial gains (Ibid).

The centrality of value chain situates in its analysis, capturing the complicated nexus, sequence and scattered location of value chain activities and actors in a simple metaphor, connectedness (Humphrey and Navas-Alemán 2010: 18). Furthermore, value chain analysis encompass wide spectrum with which VCD promotions or interventions are based on (Humphrey and Navas-Alemán 2010). For instance, some donor agencies or external actors have focused exclusively on enhancing weak relationship between producers and processors of particular value chain commodity in order to produce better output quality, while other development agency place emphasis on intervening on governance aspect. However, irrespective of which elements of value chain is developed, the overall objective is to enhance operation of chain entirely as it closely affects one another (Ibid).

Another key component in VCD is that of institutions. VCD aim at, among other components, improving weak relationship amongst diverse chain actors in doing economic and non- economic activities both horizontally and vertically (Hiller et al 2014:17). Institutions both formal and informal minimize risk and reduce uncertainty among value chain actors (Ibid). Trust as an integral component of institution also critical for VCD promotion (Ibid). In part, it governs how interaction among diverse value chain actors occurs (Enzama 2015). Moreover, building trust among diverse and scattered value chain actors allow to share information and knowledge on market demand (Hiller et al 2014: 17). Taken together, institution both formal and informal are expected to reduce transaction and promote value chain efficiency performance as a whole (Ibid).

### **3.2.1 Value Chain Development in Fragile Context**

Enzama (2015: 43) contends given the fact that fragile contexts are characterised by “prevalent economic coordination failure”, VCD and associational group are a viable solution to foster economic and non-economic relationship among chain actors both vertically and horizontally. In turn, this wider participation among various chain actors is not only potential to (re)build trust which is critical for VCD but it is also feasible to generate long-lasting peace fragile context (Colletta and Cullen 2000). In similar vein,



advocates of VCD have suggested that it is vital in fragile contexts (Ibid). It facilitates job creation and reduce poverty and provide food security in particular for ex-combatants so that it may mitigate relapsing of violent conflict (Grossmann et al 2009). However, some scholars have taken critical stance on VCD in fragile context, arguing that it is not a silver bullet for building durable peace and reconciliation (Parker 2008: 33). For instance, previous investigations have also indicated, though not in fragile context, that VCD has produced more 'harm than good' for smallholders participating in (Hospes and Clancy 2011: 29; Mohan 2016).

The critics of VCD have argued that this development approach should not be taken for granted without considering asymmetry power relation and distribution among chain actors carefully (Laven 2009). It has been argued elsewhere that supporters of VCD in are excessively preoccupied with a promising it offers for reducing poverty and securing income, while case studies have suggested the opposite (Hospes and Clancy 2011: 29). In fact, Humphrey and Navas-Alemán (2010: 13), reviewing 30 value chain development interventions revealed that, though aid agencies demonstrate faith in efficacy of the approach, there is no solid empirical evidence the extent to which VCD promotion has produced intended objective, alleviating poverty. It is noteworthy that unfavourable conditions by which smallholders participate in value chain and exacerbated by asymmetry power relation and distribution might be responsible for why it has led to averse-outcome, perpetuating poverty and reinforcing inequality (Hospes and Clancy 2011; Kabeer 2000; Laven 2009).

Another interesting point to highlight on VCD promotion in fragile contexts is that it to some extent shares similarity in theoretical assumption and applicability with community based development approach (Vervisch et al et al 2013: 151). Community based development (CBD) has been considered as an effective mechanism to channel assistance in fragile context (Ibid). Partly because it entails participatory and empowering in nature (Mansuri and Rao 2004). These empowering and participatory characters are expected not only to allow beneficiaries to organise themselves which potentially foster bonding and bridging social capital which is good for fragile context but also addressing poverty and strengthening democratic values (Ibid 2004: Vervisch et al et al 2013).

These assumptions parallel to promotion value chain development where it assumes that 'voluntary participation' of smallholders in a coordinated value chain market may

empower and secure their livelihoods income which in turn it is expected to lift them up out of poverty (Hospes and Clancy 2011;). Similarly, both VCD and CBD are seen as a means to enhance social capital which has been argued as critical mechanism to generate durable peace and long term economic development (Hiller et al 2014; Dudwick et al 2013; Vervisch et al et al 2013; Mansuri and Rao 2004).

However, just to reiterate, this romanticised view on VCD and CBD has been challenged by various scholars viewing these two mechanisms in developmental enterprises in more critical and sceptical manners. Those scholars contend that neither VCD nor CBD has adequately taken into account and addressed political and economic dimension inherent in these two approaches. Moreover, while VCD and CBD developed mechanisms preventing elite capture, it is more a ‘technical and procedural design’ rather addressing elite capture and rent-seeking behaviour practice fundamentally (Vervisch et al et al 2013: 152). For example, VCD and CBD employ transparency and accountability, gender and ethnicity parameters to ensure participation of disadvantaged group. (Mansuri and Rao 2004; Parker 2008). Yet, it is argued that this kind of technocratic mechanism itself does not necessarily address elite capture and rent-seeking behaviours practice (Chhotray 2004). This largely because Local elite and ‘privileged group are good mediators to represent wider community’s concern to external actors and it may negatively influence VCD and CBD intervention (Bierschenk et al 2002; Vervisch et al et al 2013).

### **3.3 Social Capital**

#### **3.3.1 Mainstream Definition and Measurement of Social Capital and the Critique**

In the realms of development, social capital has been applied differently. Briefly speaking, two school of thoughts emerge from social capital (Goodhand and Hulme 2000). The mainstream camp or normative one characterises social capital as “social organisation such as trust, norms (reciprocity) and network of (civic engagement) that can improve the efficiency of society by facilitating coordinated action” (Putman et al 1993: 167). The World Bank (2001: 4) as the prime supporter of social capital defines that “social capital of society include the institutions, the relationships, the attitude and the values that govern interaction among people and contribute to economic and social development”. While establishing an agreed proxy to measure social capital is difficult, it is normally employed membership of association, level of trust among community and between community and state

(World Bank 1998). Thus society in which social network, norms, civic engagement and institutions is poor it is deemed as social capital deficiency area (Serageldin 1998, World Bank).

In contrast, the critical perspective while it does reject the importance of social capital in development (Goodhand and Hulme 2000; Harris and Renzio 1997), it takes more nuance perspective, acknowledging that social capital can be positive and negative effects to development (Van Staveren 2003; Harris and Renzio 1997). The negative side of social capital lies in power asymmetry characterised in all sort social relation (Van Staveren and Knorringa 2007). As a result, social capital may lead to inclusion of individuals/ group and simultaneously exclude the other (Field 2003). Also, critical perspective critiques how social capital is measured empirically (Van Staveren and Knorringa 2007). The mainstream school uses methodological individualism (Fine 1999:5) to evaluate social capital as described above. The critical perspective contends that contradiction arise in measuring social capital using methodological individualism, suggesting that individuals' success is associated with social capital while social capital is measured in term of group success (Van Staveren and Knorringa 2007: 110; Durlauf 2002). Measuring social capital in term of trust also carries similar problem as context matters; trust on whom and about may form the basis on how research subjects understand trust (Ibid; Moore 1999).

Generally speaking social capital is characterised as bonding and bridging (Van Staveren 2000). Each of which may complement or collide each other or both (Schuller 2008:16). Bonding social capital is social relationship where kinship, religion, locality and other identified commonality are the basis with which social relation is built and emerged from (Van Staveren and Knorringa 2008: 114). Degree of trust and cohesiveness is relatively high within bonding social capital (Markelova et al 2008; Agrawal 2001). This largely because it has shared characteristics and common identity (Ibid). Nevertheless, defect lies in its exclusionary and exclusiveness nature (Van Staveren and Knorringa 2008). Schuller (2008:17) contends that bonding social capital may prevent any kind of social group to evolve progressively. Society or social group require new information, skills and knowledge to broaden their perspective (Ibid). Similarly, 'inward-orientated' characters exclude non-members from accessing the group (Fine 1999).

Placing bonding social capital in VCD intervention context, it can be argued that it may impede collective action for any associational group to scale up economy and increase bargaining power of smallholders for instance. Prior studies showed that different endowments (skills, assets, knowledge etc) is critical for smallholders to access competitive markets and gain more remunerative income (Markelova et al 2009). In practice these heterogeneous endowments are scattered across people and different community (Chirwa et al 2005; Agrawal 2001). Thus exclusive nature of bonding capital make it difficult for associational group to diversify its endowment to promote economic efficiency. Simultaneously, bonding social capital is likely to exclude non-members to access 'common pool resources' associational group provided. Consequently, the exclusive nature of bonding social capital may perpetuate poverty and reinforce inequality (Van Staveren 2003). It has been well documented in development literature that 'common pool resources' is a source of livelihoods for underprivileged group (Vervisch et al 2013). Thus restricted to access it perpetuate persistent poverty and inequality (Fine 1999).

Bridging social capital on the other hand is social relation built on the basis of shared interests or other things rather common identity (Van Staveren and Knorringa 2008: 115). Therefore, this 'outward-oriented' social interaction is heterogeneous either in group composition, characters, value or common identities (Nooteboom 2008). As a result level of cohesiveness and trust among group members are low or it is a "generalised trust" (Ibid). Furthermore, it is precisely because the diversity and heterogeneity in values, knowledge, endowments that become the strength and energy for a group to overcome challenges or reduce transaction cost in pursuing shared objectives (Ibid.: 115; Schuller: 15 2008). Nonetheless, because it is generalised trust and thus it influences level of cohesiveness and collective action among group members (Van Staveren and Knorringa 2008). This may hinder group cohesiveness and collective action (Agrawal 2001; Chirwa et al 2005; Markelova et al 2009).

In addition it is important to note that as Schuller (2008: 15) crafts it beautifully that bonding and bridging social capital is context-contingent. For example, bonding social capital might be identified based on family and kinship relationship rather than other common identities such as religion and ethnicity in a given community. Therefore, bonding and bridging social capital should take into account how these two concepts are applicable in a given social context (Ibid). Equally important, as he further argues

that, while it is difficult to establish at what point group should demonstrate or move from bonding to bridging, those groups who possess these two characteristics is likely to have high trust and cohesiveness and simultaneously they open up to different 'identity and value' or other endowments which may lead to transformation and group function more effectively (ibid 17).

### **3.5 Contested Claims of Social Capital in Fragile Context**

Social capital in fragile contexts is viewed by competing school of thought differently (Cliffe et al 2003; Colletta and Cullen 2000 Goodhand and Hulme 2004; Goovaerts et al 2005; Hiller et al 2014; Vervisch et al 2013; World Bank 1999). The mainstream school claims that fragile contexts are "deficiency social capital zone" (Goodhand and Hulme 2000: 390). It focuses on cost of fragility on society in which it occurs (Keen 1997). For example, trust between and within communities erodes as a result of violence (Enzama 2015). Empirical evidence suggested that villagers either forced to take side between two conflicting parties (normally secessionist group and central governments) or voluntarily support or being sympathisers of the two (World Bank 1999). This often leads to spying behaviour within or between community, either it is forced by conflicting parties or committed voluntarily (Ibid). This 'sustained vigilance behavioural practice' resulted in poor collective action within and between communities (Colletta and Cullen 2000: 12; World Bank 1999: 23).

Furthermore, community living in fragile contexts loses trust toward government authority (Allden 2001). Governments are restricted to provide public services and law enforcement is implemented properly (Ritchie 2016). Social order and sense of normalcy are absent (Ibid). As a consequent, cases of death, rapes, physical and psychological violence are prevalent that lead to traumatic experience among community (Coretta and Cullen 2000). Moreover, fragile contexts force community leaving their villages and seek refuge either in neighbouring countries or within countries (Enzama 2015). As a result, those IDPs or refugees have to live in IDPs camp for period of uncertainty (Ibid). They lose not only means of livelihoods, family members but also they are uprooted from their culture and routines (Coretta and Cullen 2000).

At macro level, fragile context resulted in destroyed social fabric halts not only economic growth that perpetuate poverty and inequality but also fuel further violence (Goovaerts et al 2005; Hiller et al 2014). Furthermore, Colletta and Cullen (2000:13)

argue the interaction between conflict, social capital and cohesiveness that: “the greater degree to which vertical linking and horizontal bridging social capital integrate the more likely it is that society will be cohesive and will thus possess inclusive mechanism mediating conflict before it turns to violence and the weaker the social cohesion the weaker channel of socialisation”. It is important to highlight that there are mediators in between the absence of social capital and cohesiveness in fragile contexts that lead to conflict namely: “poor governance, inequality, indignity and exclusion” (Ibid: 16). Taken together, the mainstream school strongly argues that the absence of stock of social capital in fragile contexts has systemic implication on community, state and development (Hiller et al 2014).

Contrary to the mainstream school, the political economy takes position in reverse (Goodhand and Hulme 2004; Keen 1997; Judy et al 1994). While it does not reject the devastating impact of fragility on society, it views fragility in more nuance perspective, leading to both increasing and decreasing of social capital (Ibid). For example, fragility induce institutional change in local economic development in Afghanistan (Ritchie 2016). It fosters both bonding and bridging social capital among local chain actors to change *Purdah*, a deeply seated cultural and religious belief restricting women mobility outside household area (Ibid). Similarly, fragility contexts transform new social structure, norms and formal institutions that facilitate both bonding and bridging social capital in affected community (Duffield et al 1994).

In addition the critical perspective contends that there is no direct causal relationship between social capital, cohesiveness and conflict (Goodhand and Hulme 2000). It critiques the mainstream school that it tends to view fragility in relation to social capital from ‘positive angles’ (Ibid). As a consequent, conflict is pictured as the absence of “confrontational and violent activity and lack of trust and accountability” (Ibid 392). Thus, growing of cooperation and organisation both horizontal and vertical which bring community together peacefully and doing economic activity more efficiently (Edwards 1999). It seems that the critical perspective maintains that conflict is triggered by political economic interest and inequality (Goodhand and Hulme 2000). So fragility or violence may produce both positive and negative outcomes in term of bonding and bridging social capital (Ibid).

Goodhand and Hulme’s (2000: 401) case study in Sri Lanka revealed that post-war affected communities were not resulted in the destroyed of social capital. For

example, in particular villages and areas in Sri Lanka, prolonged militarised violence has led to re-strengthen bonding capital such as among caste and religious followers and simultaneously erode bridging capital. Nevertheless, it has also transformed social and economic structures in which new entrepreneurs and new gender norms and social hierarchy have been emerged, replacing old one (Ibid). In turn this has formed basis for building and fostering bridging capital among affected communities (Ibid; Judy et al 1994). Goodhand and Hulme (2000) argue that these of kinds of social transformation of bonding and bridging social capital have not been highlighted or failed to be taken into account by the mainstream school viewing fragility on cost it entails, *and this might be derived from circular reasoning* (Ibid-emphasis added).

### **3.6 Dynamics Relationship among Social Capital, Trust and Institution in Fragile Context**

Social capital, trust and institutions are closely linked each other (Nooteboom 2008: 27). These intertwined concepts are preliminary conditions as well as outcome of each other (Ibid). Here I subscribe institution to that of North and Hodgson (2006: 2; North: 1990:3), describing that institutions are “the rules of the game in society or more formally, are humanly devised constraints that shape human interaction” and “systems of established and prevalent social rules that structure social interaction”, respectively. In the light of these two definitions, trust is an integral part of institution and thus I will not provide further definition about it and nor do I defined social capital as I already subscribed to that of Van Staveren previously.

While scholars characterised trust in different ways, it seems they agree that trust encompass both intrinsic and instrumental values (Ibid 28). In the environment where legal enforcement is absent or dysfunctional particularly in fragile context, trust is pivotal in order to mitigate risk and transaction cost of social interaction (Ibid: 28). However, it is important to take note that trust in its intrinsic value does not necessarily lead to complete elimination of risk and transaction cost in social relationship (Arrow 1974; Chiles and MacMakin; 1996; Nooteboom 1996). This is largely because in social interaction and precisely in economic relationship trust derives not merely from sustained interaction but also legal-formal enforcement (Nooteboom 1996). Yet some degree of trust remain important even when legal formal is cost-efficient to pursue (Nooteboom 2008: 28). This line of argument substantiates Enzama’s contention (2015: 217) that in the post war-setting poor or absent of formal

institutions poses particular challenge for collective action to thrive in particularly when it comes to bridging capital.

Besides, Nooteboom (2008: 33) maintains that the relationship between social capital and institutions is that the former is relatively speaking resulted from the latter and is potentially contribute to enhance it. Reflected from this line of thinking, institutions both formal and informal senses is pivotal in order for social capital or collective action to function properly and evolve effectively. Moreover, social capital is context-contingent, as a result it is only apply for particular setting, and unlike institutions which is applicable 'universally' in a given context (Ibid). Therefore the intricate nexus among trust, institution and social capital has been salient in the critical literature of social capital (Schuller 2008). Hence it is argued that neither social capital nor trust nor formal institution can be easily measured quantitatively (Van Staveren 2003).

Difficulty in measuring trust, social capital and formal institution not only lies in its methodological individualism but also these concepts are context dependent (Van Staveren and Knorringa 2008; Schuller 2008). For example, the world survey measures trust and is social capital in term of 'generalised trust' (Van Staveren 2003) Moore (1999) and Van Staveren and Knorringa (2008) argue that evaluating generalised trust is unclear and does not specifically address trust on whom and about what. Also Van Staveren (2003: 419) contends that trust that includes value and norms are likely differ from one group to another or for one community to another. Indeed, Van Staveren and Knorringa found (2008: 5 and 129) found that respondents in their two cases studies difficult to answer question about trust and norms. This line of argument is consistent with that of Nooteboom (2008:35) arguing that trust encompass "intentions and competence" in the sense that people may trust other with whom the socially interact on the basis of trustworthiness or their capability of performing something.

### **3.7 Analytical Framework**

The ways how fragile context is viewed positively correlate with how social capital, institutions, trust and VCD are conceptually developed and measured (Goodhand and Hulme 2000; Van Staveren 2003). In addition VCD in fragile contexts is a developmental tool to promote social capital, rebuild trust and institutions. In turn the interaction between these concepts are expected to foster collective action,

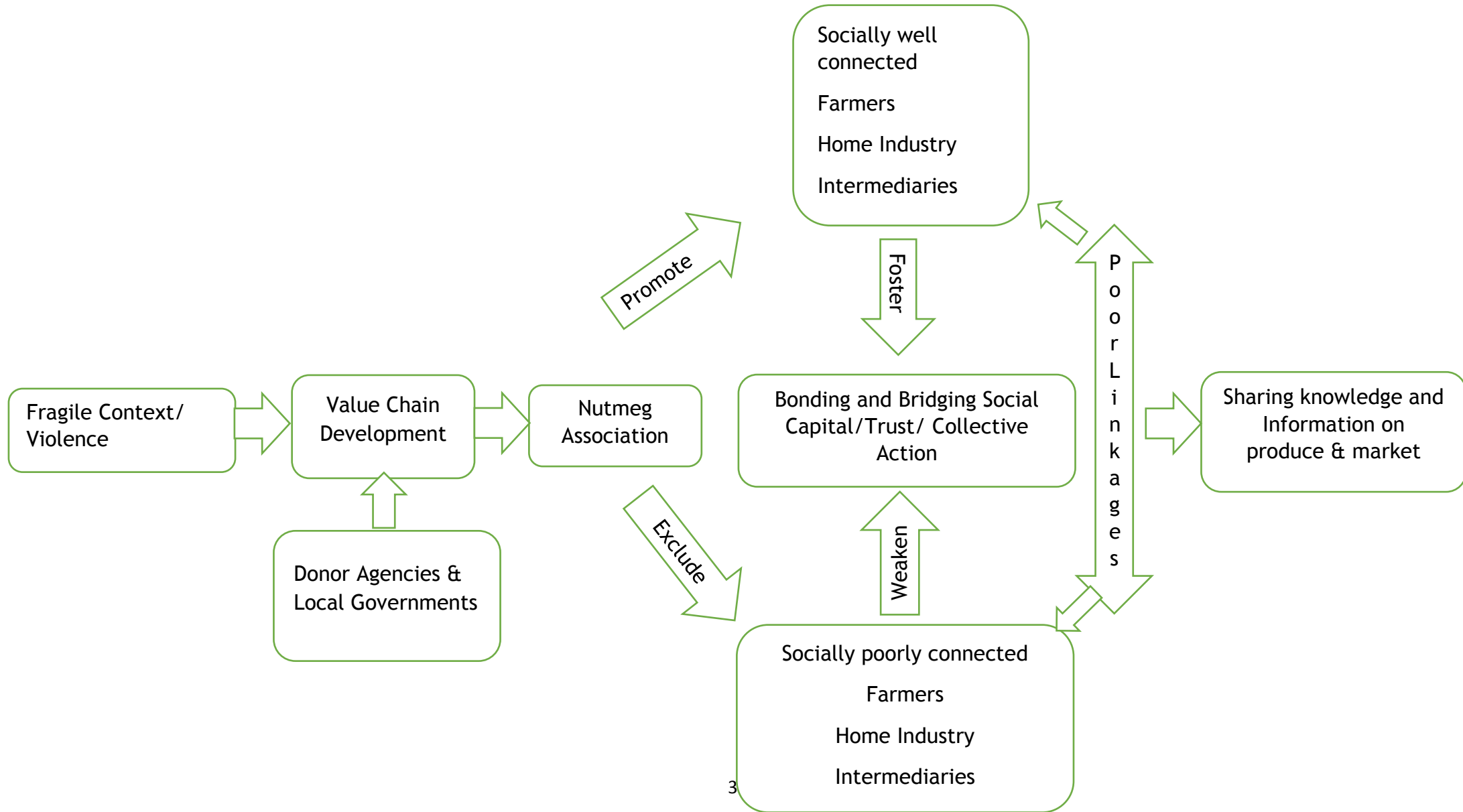


manifested in the form scaling up of economy, reduction of transaction cost and increasing bargaining power among smallholders of value chain actors. And establish internal mechanism to mitigate risk and prevent further violence.

Forming and enhancing associational group are argued to act as a vehicle to perform these completed tasks. The end is to generate sustainable peace and inclusive development. However, VCD is a generic prescriptive developmental tool. It fails to address asymmetry power distribution among diverse value chain actors that characterise social capital, trust and institutional building. Therefore, VCD aims to build social capital, trust and institutions which form the basis for creating sustainable peace and inclusive development may produce both intended and unintended objective. Fostering collective action in general sense and simultaneously is likely to perpetuate inequality and social exclusion. This in part because it tends to employ imported institutional arrangement rather than home grown one.

Nature of interdependence among VCD, social capital, trust and institutions characterises nutmeg VCD in south Aceh-Indonesia. On the one hand it fosters collective action, reduce transaction cost among particular group of the local nutmeg value chain actors. At the same time it has excluded the disadvantaged group. It employs 'technical and technocratic' institutional mechanism to govern how VCD improve and foster social capital, trust and institution among diverse local nutmeg chain actors. The nutmeg VCD promotion through the nutmeg association has played role at least micro at level by creating new home industry entrepreneurs and discovering new nutmeg seedling. Together nutmeg VCD foster social capital, trust and institutions among local nutmeg value chain actors. What has been missing is that it fail to 'scale up' this social capital and, trust and institution at broader level and simultaneously has not addressed inequality and exclusion for diverse nutmeg actors accessing 'common pool resources' it provided.

Analytical frameworks of Social Capital and Nutmeg VCD in South Aceh-Indonesia



### **3.8 Conclusion**

In this chapter I have discussed concepts that will be used as the basis in which the analysis will be point of reference. VCD and social capital are cardinal concepts through which trust, institutions will be centred on. Both VCD and social capital have been discussed from two competing point of views, the mainstream and the critical perspective. The opposing narratives of these two schools not only derives from theoretical underpinning but also methodological by which social capital and VCD are evaluated in the fragile contexts. I also have discussed how these concepts are intertwined each other and complicated nexus make it difficult to quantitatively measure in fragile contexts. In the following two chapters, I will analyse the research finding by referring to these discussed concepts. Particularly in the chapter four I will discuss all the local value chain nutmeg actors in the South Aceh-Indonesia. It places emphasis on whether each actors has harmoniously play their roles to improve linkages among nutmeg value chain actors and how does affect nutmeg VCD and market development.

## Chapter IV Nutmeg Value Chain Development in Fragile Context: Actors and Markets

### 4.1 Introduction

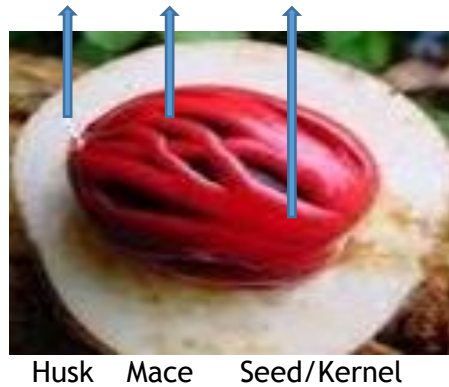
This chapter will firstly describe brief profile of nutmeg and discuss characteristic of nutmeg value chain actors especially farmers, home industry and intermediary and simultaneously analyse how heterogenous characteristic affect negatively VCD intervention. This is in term of distributing and providing 'equal access' to all diverse nutmeg value chain actors. Secondly it will discuss roles of value chain actors particularly nutmeg association, the central and local government of Indonesia and donor agencies. It will analyse whether each actors has played their roles harmoniously one another and whether it has produced intended objective, improving nutmeg value chain performance as a whole. Finally it will discuss nutmeg value chain market both local and global and concurrently analyse how value chain actors have developed and improved link between nutmeg market with small producers (farmers, home industry and intermediaries).

### 4.2 History and Profile of Nutmeg

Nutmeg, *Myristica fragrans Houtt*, is origin to Banda Islands, Maluku province of Indonesia (UNDP-ILO 2013). Singh et al (2003: 3) provide detail description of nutmeg as follows:

The tree, described as a tropical evergreen and dioecious, grows to 10m with a spreading or conical canopy, leaves are thick and the root network is shallow. Cultivation is in the lowland tropical rainforest although there are some mountainous species (on hillsides, primarily for the purpose of preventing soil erosion). At 5 years old the tree will flower and the sex determined. Males are culled to a ratio of 1:10 females. Commercial production commences at about the 7th - 8th year and by age 15 years the tree will reaches its maximum productivity (~2,000 nutmeg/year) and attain a height of 40-50 feet. Fruiting continues for another 40 to 80 years.

**Figure 1.2 Nutmeg**



Husk Mace Seed/Kernel

Source: Peter parker Blog

While nutmeg and mace were commercially traded by Portuguese sailing to India by 16<sup>th</sup> century, it was firstly introduced into Europe by 11<sup>th</sup> century (Singh et al 2003: 3). Across Indonesia archipelago, in particular in Java and Sumatra Islands, nutmeg was brought out ‘outside of’ Banda Island centuries back and it was Marcopollo, a Venetian merchant traveller, who recorded this account on his way to China through Java and Sumatra Island from 1271 to 1295 (Bustaman 2008). In addition, by the 17<sup>th</sup> and 18<sup>th</sup> Indonesia was famously known as the only producer of nutmeg in the world (Singh et al 2003: 3). Consequently, Banda Islands was isolated by Dutch and imposed strict monopoly of it (Ibid). Arab Merchants and Chinese labour came to Banda Islands as a result of civil war in 1621 and these two events led to the end of monopoly and nutmeg was brought in to Grenada by Hon. Frank Gurney in 18 where it was planted on the Belvedere Estate (Ibid).

### **4.3 Local and National Actors**

#### **4.3.1 Local Nutmeg Farmers and Home Industries**

South Aceh is the biggest nutmeg producer in the Province of Aceh and is the 3<sup>rd</sup> key producers in the Indonesian nutmeg sector (Provincial Bureau Statistics Agency 2015). In addition, nutmeg estates in the South Aceh are owned by small nutmeg producers exclusively like in other province in Indonesia (Ibid). It has been

observed and found that nutmeg farmers are heterogeneous group be in gender, asset endowment, social network and social structure, ethnicity and so forth<sup>5</sup>. While statistics does provide exact number of farmers based on described characteristic, it is estimated that there are 18,732 households in the South Aceh who cultivate nutmeg, though they do not entirely depend on nutmeg as their livelihoods strategy (Bureau Statistics Agency of South Aceh 2014).

Furthermore, there are two kind of home industries in nutmeg value chain in the South Aceh. First is those home industries making beverage and food from nutmeg husk and the second is those distilling nutmeg kernel and mace for producing nutmeg oil. Moreover like nutmeg farmers, home industries are diverse in characteristic<sup>6</sup>. It has been observed that some home industries possess more asset endowment than other's and hold different social structure in community where they live in. It is important to highlight that home industry distilling nutmeg oil are dominated by male and are relatively 'well off' compared to nutmeg farmers and the other type of home industry. In contrast, women are predominant in home industry making beverage and food from nutmeg husks.

These diversity in characters both home industry and nutmeg farmers have been found to have influence on value chain development intervention indirectly<sup>7</sup>. For example, the interviewed nutmeg farmers and home industry have shown that having connection with those officers or 'elite' either from nutmeg association or local government are more likely to have greater access to provided services than those who do not<sup>8</sup>. Another example is that those nutmeg farmers who own more land for cultivating nutmeg trees than others' are more likely to be prioritised for receiving agricultural extension services<sup>9</sup>. Consequently, this has not only resulted in one group benefit over another but also affected the capability of nutmeg value chain as a whole. Similarly, 'heterogeneity in characters-influenced access to common resources' has been found to be one of plausible explanation why trust

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<sup>5</sup> Farmer 1, farmer 1, home industry, Female-Home Industry 1, Farmer 2, Lower intermediary 1, lower intermediary 2, 3. Interviews respectively on the 20<sup>th</sup> July, the 8<sup>th</sup> to 13<sup>th</sup> of August

<sup>6</sup> Ibid

<sup>7</sup> It influence negatively in which one group gain at the expense of others. Then improving coordination among value chain actors in this case is among nutmeg local chain actors is questionable

<sup>8</sup> Ibid

<sup>9</sup> Farmer 4, 5, Male farmer 6 and Nutmeg association officer 1. Interviews with nutmeg farmers and nutmeg representative at sub-district level. On the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> of July.

has not built and collective marketing has not taken place in nutmeg value chain in the South Aceh<sup>10</sup>. This finding is consistent with Laven (2010) study's findings, suggesting that group characteristic influence on cocoa upgrading process in Ghana. Also it echoes Van Staveren and Knorringa's finding (2008: 124) that social capital in the form of social network with government official and political parties have positive correlation with performance of footwear industry in Vietnam.

#### 4.3.2 Local Intermediaries

Two types of nutmeg intermediaries can be classified in the South of Aceh. First, those at lower tier buying nutmeg directly from nutmeg farmers and exchange occurs at farm gates<sup>11</sup>. Second, those upper tier buying nutmeg from lower intermediaries. Both lower and upper tiers intermediaries are key nutmeg players of value chain in the South of Aceh. Though they work independently one another, connection is well-established among themselves<sup>12</sup>. These connection and exchange are governed by informal institutional arrangement<sup>13</sup>. 'Trust and respect each other' are salient informal institutional arrangement among nutmeg intermediary. For example, one upper tier intermediary reported that he does not buy nutmeg directly from farmers not only because it is cost-effective and quantity consideration but also it respects lower tier's means of livelihoods<sup>14</sup>.

Intermediaries both lower and upper are heterogeneous group. Like home industry and nutmeg farmers, these diverse characters influence access toward 'common pool resource' and affect their business activity<sup>15</sup>. And therefore it is argued that it might be responsible for the unsuccessful of nutmeg VCD intervention in one way or another. For example those lower intermediaries having close connection with 'local political elite' are likely to have access to loan from a local bank and other necessary resources compared to those who are poorly connected to 'local elites'<sup>16</sup>. Similarly those lower buyers who have social network with upper tier and hold sufficient financial capital are likely to be trusted by nutmeg farmers to have

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<sup>10</sup> Ibid

<sup>11</sup> Field observation when doing interview nutmeg farmers on the 20<sup>th</sup> July

<sup>12</sup> Lower Intermediary 2, Lower Intermediary 1, Upper Intermediary 1. Interviews on 19<sup>th</sup> 22<sup>th</sup> July the 1<sup>st</sup> August lower and upper tier respectively.

<sup>13</sup> Ibid

<sup>14</sup> Upper tier 1. The 1<sup>st</sup> of August 2016

<sup>15</sup> Field observation

<sup>16</sup> Lower Intermediary 3. Interview on the 19<sup>th</sup> of July

transaction with<sup>17</sup>. In some cases upper intermediary provide financial capital for those lower intermediaries and this ‘informal contract’ is built largely based reputation and other sort of social networking<sup>18</sup>.

Viewing from value chain perspective, the nexus between lower and upper tiers intermediaries resulted in contradictory outcome. On the one hand, having close social relation between lower buyers with upper tiers has increased trust from nutmeg farmers and secure market and financial as discussed previously. Dependence on upper tier on the other hand, prevent lower tier access directly to more remunerative market, national exporters. This largely because upper tier is reported to ‘block access’ for lower tier<sup>19</sup> to have exchange with national exporters as well as trust-competence not intention (Nooteboom 2008) has not established between lower tier and national exporters.

#### **4.3.3 Nutmeg Association**

The Nutmeg Association was established in 2010 by joint partnership between UNDP and UNCTAD and the local government of South Aceh- Indonesia (Stork, 2010:1).The establishment of the Nutmeg Association was implemented under the programme on disarmament and demobilisation of ex-combatants of the Aceh Free Movement (Ibid). In addition, the programme’s core objective was to revive local economic development and tackled devastating impact of sustained violence on rural women, IDPs and ex-combatants. (Jaramillo and Durleva: 10).

It is important to highlight the objective for the establishment of the association as it lies the foundation on how it achieves its intended objective. It has pinpointed and developed four main objectives as follows:

“To develop collective action with which its members can channel their aspirations and contribute to local, provincial and national economy. To build mutual business network amongst diverse stakeholders ranging from nutmeg farmers, local traders, exporters and international buyers. To establish both nutmeg cooperative and nutmeg association at sub-district level” (The Constitution of Nutmeg Association 2015- translated)

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<sup>17</sup> Ibid

<sup>18</sup> Field observation. Lower and intermediary exchange

<sup>19</sup> Intermediary 3. 23 July 2016



The nutmeg association is a formal organisation. Hence it is legally registered at the Indonesian Ministry of Law and Human Right (Constitution of Nutmeg Association 2015). It has developed its own institutional arrangement to govern how it operates and provides services (Ibid 2015). UNDP and UNCTAD as funding agencies for the nutmeg association also contributed to development of its institutional arrangement and this is part of technical assistance these two UN agencies provided to promote collective action (Jaramillo and Durleva 2016). The institutional arrangement of the nutmeg association can be classified into several major themes as follows: membership responsibility and entitlement, organisational structure, organisational objective, activities and organisational decision- making process (Bachtiar 2015e). Moreover, it is clearly stipulate in the nutmeg constitutions that the membership of nutmeg association is inclusive in nature, encompassing economically and educationally and ethnically diverse backgrounds (Ibid).

By the time of writing this paper it has been found that the nutmeg association has not achieved intended objectives entirely successfully. Core objective of VCD is to improve linkage between value chain actors both horizontal and vertical in order to pursue 'common end', increasing chain capability and efficiency and distributing benefit to all chain actors (Enzama 2015; Hiller 2014; Parker 2008; Helmsing and Vellema 2011). Market development is fundamentally important in VCD intervention both in fragile context and stable environment (Parker 2008: Hiller 2014; Nourse et al 2007). These established parameters of VCD has not clearly been visible from nutmeg VCD intervention. A wide range challenges might provide plausible explanations. Limited competent human resources on BDS and other required skills to implement VCD may contribute to these issues.

Time and budget constraints from donor agencies has been likely to pose serious challenge in pursuing intended objective. Reviewing the nutmeg activities reports it has been found the project cycle implemented very shortly, from July 2011 to 2012 (Bachtiar 2012a). Locke and Byrne (2008) found that VCD in fragile context require long term investment to build collective action and inform smallholders about market demand. Equally important, it has been well documented that time and budget constraints influence funded organisations to focus more on meeting donor's objective rather than addressing complex realities on the ground (Platteau and Abraham 2002; Mosse 2001; Cooke and Kothari 2002).

#### **4.3.4 Local and National Government**

Local government either at district, provincial and central levels play role as ‘policy enabler’ by developing policy and political environment permit to promote this initiative and to some degree also provide financial incentive (Jaramillo and Durleva 2016). In similar vein, universities particularly Syiah Kuala and IPB- Institute Pertanian provided technical support and train nutmeg farmers (Bachtiar 2013c). These two universities involved in this project mainly through research development and capacity building, focusing mainly on issues nutmeg farmers, traders and processors as well as industry encounter (Ibid). For example, Syiah Kuala University team conducted research on ‘nutmeg community’ recommending some local policy measures especially at district level, among others things (Bachtiar 2012a: 35).

While the Indonesian governments at all levels has created ‘generic supportive environment policy’ enabling the promotion of nutmeg value chain development, policy should be tailored-enacted to address specific condition in which VCD take place (Enzama 2015; Parker 2008). This true in the case of nutmeg VCD where local government at district level fail to create policy to address specific need of value chain intervention<sup>20</sup>. For example, it has identified that no mechanism in place on how to foster strategic coordination among nutmeg chain actors<sup>21</sup>. Another example is that local policy on regulating quality of control of nutmeg oil at district level has been in place<sup>22</sup>. Consequently, it has been thought that some nutmeg oil buyers either at district and national level mixed nutmeg oil with other substance in order to increase quantity which led to rejection of nutmeg oil from South Aceh entering European market (Serambi Indonesia 2013). Together, this has influenced the promotion of nutmeg VCD negatively.

#### **4.4 International Actors**

##### **4.4.1 UNDP, UNCTAD and USAID-IFACS**

UNDP and UNCTAD worked in close collaboration with nutmeg ‘keys actors’ especially local government of South Aceh district. These two UN agencies were responsible for financing and providing technical support to promote durable peace and livelihoods by employing value chain development approach in combination with Bio-Trade principle.

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<sup>20</sup> Head of nutmeg forum. Interview on 13<sup>th</sup> of August 2016. Local Government Representative 2. Interview on the 5<sup>th</sup> of August 2016

<sup>21</sup> Ibid

<sup>22</sup> Nutmeg Association officer 2 at sub-district level

The intervention took one and half year, from July in 2011 to December 2012 (Bachtiar 2012a). Moreover, nutmeg VCD was aimed explicitly in the project design though it was not yielded intended objective, improving linkage between nutmeg farmers through nutmeg association with lead firms at national level (Ibid).

In contrast, the USAID-IFACS's project overall objective was to reduce deforestation and land degradation (Bachtiar 2013b). Specifically USAID-IFACS aimed to enhance livelihoods of nutmeg farmers and strengthen nutmeg association at sub-district level. It also focused on tackling pest attack and disease by introducing *epicotyl grafting*, literally translating 'cloning wild nutmeg seedling with domesticated one in order to produce nutmeg seedling that is pest and disease resistant' as it is the main issues nutmeg sector in the South Aceh encounter (Ibid). USAID-IFACS supported the nutmeg association from September 2012 to December 2014 (Ibid: 10).

These two donor agencies have different objectives. This research notes that different objective between donor agencies affect promotion of VCD and on the nutmeg association itself (Bachtiar 2014d). It is fair to say that in the case of UNDP and UNCTAD time and probably budget-constraints, among other things, have resulted in unsuccessful of improving nutmeg value chain performance both at local level and vertical linkages (Jaramillo and Durleva 2016). Contrary to UNDP-UNCTAD, USAID-IFACS' project objective was not designed specifically to value chain development, rather it focused on its own objective as discussed previously. These different objectives among aid agencies have produced unanticipated outcomes. Discontinuity of intervention to promote nutmeg market development and improve linkage among local nutmeg value chain actors and vertical linkages. (Bachtiar 2012a).

This unanticipated outcome might be informed by several plausible explanations. From the nutmeg association side, incompetent human resource on VCD and BDS could be a justifiable explanation. Some nutmeg officers at sub district level reported that the nutmeg association is a non-profit organisation<sup>23</sup>. This may imply that it is perceived more as a local NGO oriented rather than VCD focused organisation. This analysis is consistent with that of Locke and Byrne (2008: 2) arguing that ill-informed of IRC field officers on VCD and BDS presented serious challenges for promoting cotton VCD intervention in IDPs camp in Northern Uganda. Similarly from donor side, time and budget constraint coupled with limited knowledge on VCD and BDS might be a

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<sup>23</sup> Nutmeg association officer

reasonable answer. Prior investigations suggested that donor agencies working in fragile contexts tend to focus more on delivering humanitarian assistance than developing market development (Nourse et al 2007).

## 4.5 Local, and Global Markets

### 4.5.1 Local Market

Local market refer to exchanges of nutmeg kernel, oil nutmeg, beverage and food from nutmeg husk take place at local, either provincial or district market. Exchange between nutmeg farmers and low tier intermediaries occurs at farm gates. Meanwhile upper tier intermediaries buy and transport products from lower tiers after nutmeg is dried and separated into different quality<sup>24</sup>. Local market for both nutmeg kernel and oil are not end consumers but they are exported to global markets (National Nutmeg Oil Association 2016). Unlike exchange on nutmeg kernel and oil, beverage and food from nutmeg husk is sold at local supermarket in which end buyers is located<sup>25</sup>. These different market arrangements between these products have not resulted in significant gain among farmers, home industry and low tier intermediaries. Nonetheless, upper tier intermediary earns more gain as they bulk (scale up) their produce<sup>26</sup>.

Nutmeg farmers have not seen collective marketing is beneficial. Some interviewed farmers reported that it is because exchange occurs at farm gates and thus there is no significant gain to sell their produce collectively. While other revealed exchange at farm gates is practical. Cash can be held straight away which is important for domestic need<sup>27</sup>. This finding in part is consistent with prior studies, suggesting that collective marketing occurs when market not easily be access individually (Markelova 2010). Unlike farmers, home industry has not perceived organisational marketing beneficial is mainly because lack of trust-intention, and sense of competition among themselves<sup>28</sup>. Similarly for lower tier intermediary where organisational marketing does not occurs and trust-intention

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<sup>24</sup> At local level, nutmeg is classified based two criteria: 'fully ripe nutmeg is sold for spice purpose and 'half ripe' nutmeg is distilled to produce oil nutmeg.

<sup>25</sup> Farmer 2,3,4 and Lower intermediary 1,2

<sup>26</sup> Farmer 1,3 and home industry 2

<sup>27</sup> Male Farmer 6

<sup>28</sup> Home Industry 1 and Female Home industry 2, 3

and competition might be plausible explanation<sup>29</sup>. However whether it is result from sustained conflict is difficult to establish as trust the sense of-intention and competence is complicated concept to measure (Nooteboom 2008; Van Staveren and Knorringa 2008).

Surprisingly, majority of nutmeg farmers and lower tier intermediaries are not familiar with nutmeg association. In some cases those who have been in contact with nutmeg association found that it is not helpful for their business<sup>30</sup>. Also, the nutmeg association fails to engage those buyers in their VCD promotion while those buyers play critical role in nutmeg value chain. Rather, the nutmeg association tried to reach out bigger lead firm at national level and it was not successful (Bachtiar 2012a). Nutmeg Association unable to meeting agreed quantity (Ibid). Insufficient knowledge about market and VCD might be plausible explanation<sup>31</sup>. Parker (2008) suggested that identifying accessible and valuable market should be the point of departure for promotion value chain development especially in fragile context. Similarly (Locke and Byrne 2008) found that sufficient knowledge about value chain and how market works among farmers association play pivotal role for the successful of cotton value chain development in Northern Uganda.

#### **4.5.2 Global Market**

Singh et al (2003:5) described the market structure of nutmeg, mace and nutmeg oil or extracts is particularly unique in the sense that two extremes control the production and market predominantly. On the one end, Indonesia and Grenada ‘monopolise’ the production of nutmeg as well as nutmeg extracts in the world, accounting for 70% and 20% respectively other countries fill up the remaining (Ibid; CBI-Ministry of Foreign Affairs 2015). On the other extreme, Europe and the USA’s brokers govern and control the market completely (Sigh et al 2003: 5). Moreover, the world nutmeg markets distinguish two types of nutmeg, mace including nutmeg extracts, and this distinction is bearing on the price of nutmeg (Singh et al 2003; CBI-Ministry of Foreign Affairs 2015). The first, East Indian nutmeg produced by Indonesia and Grenada and the second is West Indian nutmeg which mostly grown in Sri Lanka and India. East Indian nutmeg is richly aromatic, flavours and thus is more favour in the world markets than that of West Indian (Ibid).

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<sup>29</sup> Ibid

<sup>30</sup> Farmer 1,2,3,6, Home Industry 1,3, July and August 2016

<sup>31</sup> Farmers, 1,2,3,4 Home Industry, 1,3, Lower and upper tier intermediary 2,3, July and August 2016

## 4.6 Conclusion

This chapter has discussed and analysed actors and market of nutmeg VCD in fragile context, South Aceh Indonesia. Viewing from VCD perspective it is fair to say that the nutmeg VCD has not implemented entirely successfully. Nutmeg market development and coordination among value chain actors have not developed and evolved progressively. For nutmeg farmers and intermediary exchange occurs at farm gates and linking with lead firm has not yielded positive outcome. Similarly, organisational marketing for home industry either those making beverage and food or distilling nutmeg kernel has painted similar picture though those identified issues differ from that of farmer and intermediary. Limited human resources, absence of local government tailored-enacted policy and other institutional challenges by and large are responsible for the unsuccessful nutmeg VCD initiative. Moreover, unmatched donor's objective with that of 'local realities' and budget and time constraint may have contribute to partial success of VCD intervention. This finding will be analysed further in the following chapter and it will place emphasis on how VCD and social capital have been implemented in fragile context and whether this lead to greater exclusion that may place sustainable peace at greater risk.

Table 4.1 the top 10 exported destination countries of Indonesian Nutmeg Seed & mace (kernel) 2006-2011

No	Destination Countries	Volume (tons)						Value (US \$ 00)					
		2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
1	Vietnam	4,222	4,392	3,455	4,076	3,777	3,727	7,099	6,292	6,281	9,498	10,216	16,440
2	USA	1,226	779	1,539	1,417	1,397	1,812	4,546	2,781	5,704	5,791	7,194	16,542
3	Netherlands	2,471	1,968	1,472	1,247	1,929	1,808	9,799	8,282	6,272	6,386	17,190	22,804
4	Germany	709	700	601	989	1,265	1,206	3,058	3,447	3,820	4,905	8,449	13,621
5	Italia	241	404	439	366	664	1,006	1,098	2,246	2,313	2,599	6,343	13,507
6	India	2,485	1,148	621	559	848	902	5,792	4,775	3,110	3,092	7,144	10,437
7	Japan	544	522	533	544	558	713	3,809	4,173	4,672	4,426	6,054	11,816
8	Malaysia	758	682	697	575	727	620	1,902	1,892	1,713	751	1,905	2,509
9	Francis	319	103	57	131	198	423	1,127	558	436	1,043	2,297	3,985
10	Singapore	1,349	1,085	916	505	448	324	5,822	4,872	4,925	3,074	4,586	4,802
11	Others	2,377	2,873	2,591	2,685	2,373	2,444	6,842	11,702	11,483	12,495	14,719	19,470

Source: Indonesian Bureau Statistic Agency

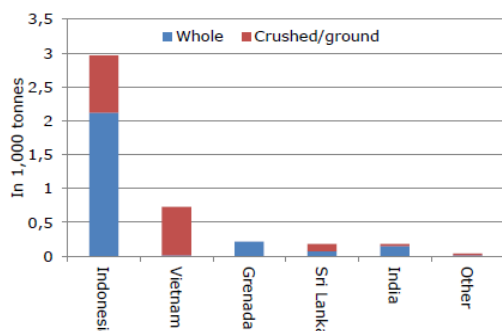


Figure 1. 3 Most important developing countries supplying nutmeg to the EU, 2014

Table 1.4 US Imports of Nutmeg Oil, tonnes  
imports of Nutmeg Oil, US\$/kg

Table 1. 5 US

Countries	Years				
	2009	2010	2011	2012	2013
Indonesia	162	231	264	192	209
India	22	30	43	43	36
Sri Lanka	6	3	13	16	12
Netherlands	0	0	1	4	4
France	0	1	1	2	1
United Kingdom	1	2	2	1	1
Canada	2	2	1	1	0
Others	15	7	6	15	0
<b>Average</b>	<b>209</b>	<b>276</b>	<b>238</b>	<b>274</b>	<b>236</b>

Countries	Years				
	2009	2010	2011	2012	2013
Indonesia	60	67	79	98	102
India	49	50	80	71	49
Sri Lanka	60	70	96	100	103
Netherlands			87	100	100
France		139	122	120	186
United Kingdom	111	73	85	88	87
Canada	56	58	80	95	139
Others	52	79	67	97	112
<b>Average</b>	<b>59</b>	<b>66</b>	<b>79</b>	<b>94</b>	<b>95</b>

Source: Eurostat, 2015

Adapted from International Trade Centre



## **Chapter V: Value Chain Development and Social Capital in Fragile Context: Critical Reflections on Sustainable Peace and Inclusive Development**

### **5.1 Introduction**

This chapter will be organised into three main sub- topics: social capital and VCD in fragile context, economic dimension of social capital and VCD and social capital in relation to inclusion and exclusion. In the first sub topic the discussion and analysis will mainly be centre on social capital in fragile context and how it has changed the social structure in Aceh. Also it will challenge and questions the Bank's research finding on social capital in Aceh and its methodology in measuring social capital respectively. This critique has been informed by work of Moore (1999) and Van Staveren and Knorringa (2008). In the next sub topic it notes how social capital has reduced transaction cost and promote collective action-sharing information and knowledge among home industry. And how bonding and bridging social capital is context-contingent notion that closely link to institution and institutional change which affect collective action. And finally this paper will elucidate how social capital and VCD are impacted exclusion and inclusion among local nutmeg actors who are economically, ethnically and educationally diverse background. It notes that VCD focuses more on 'technocratic and procedural mechanisms' to ensure inclusion of underprivileged group and prevent rent-seeking behaviour and elite capture than adopting indigenous intuitional arrangement which may more relevant with local realities.

### **5.2 Social Capital and Post-Militarised Violence in Aceh**

At a meso level, the sustained conflict in Aceh in general including South Aceh in has resulted in decreasing and strengthening bonding and bridging social capital<sup>32</sup>. The peace agreement between the conflicting parties has transformed new political elite and businessman especially among ex-combatants both the province of Aceh and South Aceh. The previously 'freedom movement fighters' have taken up new political position both at districts and provincial level as well as run

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<sup>32</sup> Field observation.

business<sup>33</sup>. Aspinall (2009: 5) investigated this new phenomena in Aceh province and revealed that violent conflict has strengthened bridging capital between ‘ex-combatants entrepreneurs’ and existing entrepreneurs irrespective of at expanse of public interest. At the same time bonding capital among ex-combatant has decreased. Previously they were united by the shared ideology, gaining independence from Indonesia<sup>34</sup>. Political economy may offer plausible explanation to this observed phenomenon as few of the ex-combatant gain more advantaged be it is in political arenas or being ‘entrepreneurs while majority of the ex-combatants gain very little. This finding is consistent with Goodhand and Hulme’s study in post-armed violence in Sri Lanka that violent conflict creates new social structure and conflict violent should not be understood from isolation of political and economic interest.

In addition while this research finding is still tentative, it has been found that there is little consistency with the World Bank research finding in Aceh, showing that social capital-trust, norms and participation destroyed as a result of conflict (Baron 2009, World Bank). It is obvious that the Bank views militarised violence in term of the cost it entails, reducing cooperation and destroying institutions among affected communities (Keen 1997; Colletta and Cullen 2000; Dudwick et al 2013; Hiller et al 2014; Enzama 2015). In contrast, while this research has taken into account destroyed social fabric as a result of conflict, it has taken more nuance perspective that the sustained violence in Aceh has led to both decreasing social fabric and transform new one regardless whether it produces good for some and disadvantage the others. Moreover difference in theoretical underpinning might be responsible for this contradiction as Van Staveren and Knorringa (2008: 5) argued that the Bank measure social capital in term of generalised trust and it is not specific enough in measuring trust on whom and about what.

At micro or village level where this research has been conducted, it has been observed that social capital-bonding and bridging has also enhanced and reduced at the same time. For example, newly entrepreneurs have emerged at micro-level resulted from sustained militarised conflict in Aceh and the South Aceh in

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<sup>33</sup> Field observation and interview with ex-combatants who are nutmeg farmers receiving assistance from nutmeg association in July 2016

<sup>34</sup> Field observation and interviews with ex-combatants on 15 July 2016

particular (Bachtiar 2012). Nutmeg value chain development has created new home industry entrepreneurs making beverage and food from nutmeg husk, creating employment in particular for women (Ibid). Similarly, this newly emerged entrepreneurs have allowed them to build bridging social capital-economic exchange with buyers coming from economically and ethnically diverse<sup>35</sup>. Concurrently, bonding social capital has reduced among new home industry entrepreneurs, preventing them for organisationally market their products in order to improve bargaining power and gain more remunerative income (Ibid).

However it is difficult to establish whether lack of trust-intention (Nooteboom 2008) among existing and newly establish home industry for collective marketing resulted from prolonged conflict in Aceh. In addition it is fair to argue that sense of competition among home industry might be plausible explanation for this observed phenomenon<sup>36</sup>. Equally important unresponsive local government to create a conducive policy environment and formal institutions for flourishing entrepreneurship could be another explanation<sup>37</sup>. Parker (2008; Hiller et al 2014) suggested that in fragile context tailored-passed policy is pivotal to govern and promote economic exchange. In addition, unlike what Enzama (2015) and Ritchie (2016) observed in Northern Uganda and Afghanistan respectively that associational groups and local NGOs play role to create informal institution, the nutmeg association has not been able to assume this role, at least at the time of this research has conducted. Limited human resource capacity and budget might be plausible explanation as discussed previous chapter.

It has been identified that insufficient financial has restricted the nutmeg association to develop an innovative marketing<sup>38</sup>. Consequently home industry entrepreneurs have not seen any benefit for organisationally market their products as there is significant gain to do so<sup>39</sup>. Markelova (2010) indicates that collective marketing is more likely to occur among smallholders when gained remunerative income outweigh individual selling. Furthermore, the nutmeg association

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<sup>35</sup> Home industry 1 and 2. Interview July 2016

<sup>36</sup> Home industry 1, 2 and 3. Interviews in July 2016

<sup>37</sup> Head of nutmeg association and local government representative. Interview on the 13<sup>th</sup> and 2<sup>nd</sup> of August, respectively.

<sup>38</sup> Nutmeg association officer 2 and 3, Home Industry 2. interviews done separately on the 15<sup>th</sup> and 25<sup>th</sup> July 2016

<sup>39</sup> Ibid

representative at sub- district level revealed that in addition to lack of financial capital, poor marketing skills and knowledge among home industry entrepreneurs responsible for unorganised collective marketing among home industry entrepreneurs<sup>40</sup>. Similarly that the nutmeg association is not equipped with competent human resources on BDS and VCD might be another explanation (Ibid). Associational groups or NGOs is essential to be equipped with competent human capital on BDS and market development in order to promote value chain development both in politically stable environment and fragile context (Ritchie 2016; Parker 2008; Markelova et al 2008).

### **5.3 Economic Dimension of Social Capital in Aceh**

#### **5.3.1 Home Industry**

Van Staveren and Knorringa (2008) suggested that bonding and bridging social capital has positive correlation to the performance of footwear industry and leather in Vietnam and Ethiopia respectively. They further argue that social capital help to reduce transaction cost and allow acquiring new skills and knowledge in managing business (Ibid: 127). Parallel to their finding, it has observed that VCD intervention through the nutmeg association in the South Aceh has developed a space for both existing and new established home industry entrepreneurs<sup>41</sup>. It has built bridging and bonding social capital. Similarly, it has permitted transferring skills and knowledge from existing to newly formed home industry entrepreneurs that goes beyond project intervention<sup>42</sup>. Nonetheless, differ from that of Van Staveren and Knorringa (Ibid), bridging and bonding social capital has not resulted in collective action in the sense of organisational marketing. Rather, collective action takes place largely in the form of information and knowledge sharing among existing and newly home industry entrepreneurs<sup>43</sup>.

It seems home industry entrepreneurs both existing and newly established identify 'equal endowment' (e.g. quantity of production, shared buyers) as the basis for collective action- sharing knowledge and information rather than on other common

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<sup>40</sup> Nutmeg association officer at sub-district level. interview on the 18<sup>th</sup> July 2016

<sup>41</sup> Field Observation, home industry interview 18 July 2016

<sup>42</sup> Field observation

<sup>43</sup> Home industry 1. Interview on the 14<sup>th</sup> of July 2016

identity<sup>44</sup>. This is likely because a set commonly identified identity (religion, ethnicity etc) does not relevant for this case<sup>45</sup>. In contrast, I have found and observed that ‘less successful newly home industry entrepreneurs’ are unlikely to be included in the collective action-sharing information and knowledge<sup>46</sup>. Relatively speaking this finding is also consistent with previous empirical investigation on natural common pool-resource where ‘a shared endowment’ has positive correlation with collective action (Agrawal 2001; Markelova et al 2008). Equally important this finding also congruent with Schuller’s (2008:15) notion that bonding and bridging social capital is context-contingent.

This research finding is consistent with that of Staveren and Knorringa (2008). That social relation or network with government official and/or local political elite contributes positively toward home industry performance. For instance, both existing and newly established home industry benefit in accessing support services and products marketing from the Small and Medium Enterprise and Cooperative Local Agency (UMKM)<sup>47</sup>. On the other hand, those both newly established and existing home industry who have no connection with local political elite or government official tend to be excluded from support services local government provided<sup>48</sup>. Furthermore, similar finding has been found for the nutmeg association in which those home industry who has close social relation with those nutmeg association’s officer is more likely to be benefited from accessing services than those who do not<sup>49</sup>. Together, social capital encompass ‘a double edged sword’ and shares benefits disproportionately among community (Harris and Renzio 1997).

#### **5.4 Dynamics Relationship among Social Capital, Trust, Institutions and their effect on Collective Action**

It has been found through interviews that trust forms the basis for exchange-buying nutmeg either between lower tier intermediary and nutmeg farmers or between upper and lower tiers intermediaries<sup>50</sup>. In addition, common identity such as

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<sup>44</sup> Ibid.

<sup>45</sup> Field observation as those home industry entrepreneurs share common religious identity and ethnicity

<sup>46</sup> Home industry 2. Interview on the 3<sup>rd</sup> of August 2016

<sup>47</sup> Home Industry 3, 4. Interviews done separately on July and August respectively

<sup>48</sup> Ibid

<sup>49</sup> Ibid

<sup>50</sup> Lower and upper tier intermediary and nutmeg farmers respectively. Interviews done separately from 18<sup>th</sup> and 1<sup>st</sup> of August 2016, respectively.

kindship and social network are basic ingredient of trust building process among nutmeg value chain actors<sup>51</sup>. Once trust among local nutmeg value chain actors are built and reputation is earned which may reduce transaction cost between local nutmeg value chain actors. This is consistent with prior studies suggested that bonding social capital reduce transaction cost and allow sharing information and knowledge about market and products (Markelova et al 2008; Van Staveren and Knorringa 2008; Agrawal 2000; Chirwa et. all 2005). However, it has also been found that relying entirely on trustworthy behaviours among local nutmeg chain actors does not completely reduce risky or opportunistic behaviours. For example, one lower nutmeg intermediary whom was interviewed reported that he lose money about 50.000.000 IDR equivalent to € 3000 because he trusts his business partners based on kindship<sup>52</sup>. Nooteboom (2008: 36) argues that “trust entails limitation” and thus formal control is required to prevent opportunistic behaviours among exchanged partners.

This finding worth taking note at least two points. First, informal institution or social sanction is pivotal in particular circumstance to mitigate risk and opportunistic behaviour among transacting local nutmeg value chain actors as in the case discussed. Nevertheless, this type of informal institution cannot be applied to all cases especially when transacting partners expand across kindship boundary<sup>53</sup>. Second while the literature on organisational trust points out that formal control such as regulation or law is critical to prevent opportunistic behaviour and ensure reliance among exchanging partners (Bijlsma-Frankema and Jaramillo 2005), in the case of exchange among nutmeg value chain actors formal control is viewed as unviable solution<sup>54</sup>.

Nutmeg value chain actors themselves do not trust law enforcement officers because rent-seeking behaviour is prevalent on rule enforcement and this is

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<sup>51</sup> Ibid

<sup>52</sup> Lower Intermediary 2. Interview done on 19 of July 2016

<sup>53</sup> though he was betrayed by his trading partner but kinship help him to mitigate risk in the sense he was guaranteed to get his money back from his clan or kinship by selling ‘communal land owned by kinship’ in case his trading partner will not pay his money back. But in other cases, transacting parties between lower tier nutmeg buyer and nutmeg farmers coming from different kinship result in one party lose over other. Consequently trusting behaviour lost and transaction discontinue

<sup>54</sup> Lower intermediary 3 and Male Farmer 4: interviews done on the 22<sup>th</sup> and 28<sup>th</sup> July 2016.

exacerbated by the fact that pursuing for formal dispute is unaffordable<sup>55</sup>. Taken together informal institution-trust governs economic exchange among value chain actors. It reduce transaction cost and allow sharing knowledge and information to some extent. However it does not completely reduce risk. And formal control has not taken up to reinforce compliance among transacting actors.

The nutmeg association has not played a role to introduce institutional change to govern economic and non-economic exchange among local nutmeg value chain actors<sup>56</sup> (Bachtiar 2012a). Lack of human resource and financial capital may explain this phenomenon as discuss in previous chapter (Ibid). In addition, it has been found through interviews and reviewed its activities reports that the nutmeg association place more emphasis on addressing pest and disease attacking nutmeg trees than improving coordination among local nutmeg chain actors (Bachtiar 2012a; 2013b; 2014c). While this logic is understandable as it influences nutmeg productivity, improving local linkage by stimulating institutional change among chain actors is fundamentally important. Previous studies on value chain development promotion in fragile context stress the importance institutions to govern economic and non-economic exchange (Parker 2008; Hiller et al 2014; Hoffman et al 2006). Indeed, Enzama and Helmsing (2016) and Ritchie (2016) have suggested that interaction among value chain actors are likely to create institutional change governing economic exchange and non-economic coordination for smallholders. But it has been found that the nutmeg association has not assumed this strategic role as discussed previously.

#### **5.4.1 'Old Misconception' on Private sectors, Trust and Political Economy VCD**

It seems that both the nutmeg association and local government agency of South Aceh are still mistakenly belief that private sector (intermediary both lower and upper tiers) is source of problem rather than solution for nutmeg development<sup>57</sup>. This can be felt and perceived through interviews with head of nutmeg association and local government officers. For example, it was reported that private sector mixed nutmeg oil with other substance in order to control the price of nutmeg in

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<sup>55</sup> Ibid

<sup>56</sup> Nutmeg association officers 2, 3. Interviews done separately on the 20<sup>th</sup> and 22<sup>th</sup> July 2016.

<sup>57</sup> Ibid

the South of Aceh<sup>58</sup>. Similarly, private sector especially upper tier intermediary is accused of monopolizing nutmeg market by building ‘cartel network’ with national exporters<sup>59</sup>. While this accusation could be true but it is hard to verify, it was revealed that this held mistaken belief has negatively impact the nutmeg VCD development in the South Aceh<sup>60</sup>. Both upper and lower tiers informed that improving nutmeg sector development is important for their business as well as for farmers and community at large. Thus viewing them as ‘problem’ will not lead to better improvement of nutmeg sector development in the South of Aceh<sup>61</sup>.

This account is contradictory to the current discourse on private sector and development (Nourse et al 2007). While the exploitative nature of private sector is undeniable, current thinking on private sector and development contends that private sector is also part of solution in the realm of development (Hiller et al 2014). Thus it seems that a concerted initiative involving all key stakeholders need to be promoted in order to fill this gap. Locke and Byrne (2008) argue that building trust initiative among all value chain actors are fundamentally important to so that misconception can be diminished.

### **5.5 Inclusion and Exclusion: Social Capital and Value Chain Promotion in Aceh**

It has been well-established in the developmental, sociological and anthropological accounts in the global South that ‘local elites and their inner circle’ at any level are more likely to be benefited from public services whether it is locally or nationally government-sponsored projects or internationally funded (Verwilt et al 2013; McCarthy 2006; Platteau and Gaspart 2003; Barron et al 2007). This well-established account is prevalent in the case study research I have carried out<sup>62</sup>. Village heads and their apparatus took advantage on agricultural extension services provided by the nutmeg association<sup>63</sup>. Outspoken villagers and usually they are well-educated people were chosen to ‘represent their community’ at sub-district nutmeg associations<sup>64</sup>. In the name of representation (ethnicity and gender) as well as democratically elected leaders, those local elites and educated people

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<sup>58</sup> Ibid

<sup>59</sup> Ibid

<sup>60</sup> Upper and lower intermediary. Interview in July and August 2016

<sup>61</sup> Ibid

<sup>62</sup> Female Farmer, Farmer 6, farmer 3. 15<sup>th</sup> July and 10<sup>th</sup> and 1<sup>st</sup> of August 2016

<sup>63</sup> Ibid

<sup>64</sup> Nutmeg Association Officer 1, on 20<sup>th</sup> July 2016.



hold power at their disposal<sup>65</sup>. As a result, developmental public goods has distributed among nutmeg farmers, home industry and intermediary disproportionately.

The compelling argument of social capital and value chain development capable of fostering cooperation and promote inclusive development for all local nutmeg value chain actors is dubious. And this come to no surprise as the sceptics of social capital has critiqued, that inclusion and exclusion characters inherently situates in the concept is unavoidable (Goodhand and Hulme 2000; Harris and Renzio 1997; Fine 1999). In the case of nutmeg association as the form of social capital the finding has suggested that it has benefited particular group of local value chain nutmeg actors at the expense of others especially those powerless and voiceless ones<sup>66</sup>. Women nutmeg farmers have benefited disproportionately from the agricultural extension services compared to their counterparts. It can be argued that culturally gender construction bears little relevancy for separating women and men in relation to accessing development public services as they form in family unit<sup>67</sup>. However, women and even widows themselves are not homogenous group (Laven 2010; Kabeer 2000). Consequently, as it has been found that those widows who have no an adult son or brother are excluded from accessing the provided services culturally.

This research found that social capital and networking has advantaged ‘powerful and well-connected villagers’ in accessing assistance and trainings for home industry over the ‘powerless and poorly-connected villagers’. For instance a newly established home industry reported that it was her family working for a local government agency who informed about training and assistance from the nutmeg association<sup>68</sup>. As information is precious in this case thus it is common practice that it is not shared publicly<sup>69</sup>. Consequently, those villagers who are poorly connected with ‘local elite’ are very likely to be excluded from accessing information and receiving development public goods.

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<sup>65</sup> Ibid

<sup>66</sup> Ibid

<sup>67</sup> Ibid

<sup>68</sup> Home Industry 3

<sup>69</sup> Ibid

It has been found that as a technocratic approach VCD has discriminated local nutmeg value chain actors disproportionately rather than empowering them<sup>70</sup>. VCD especially in the fragile settings is built on the premise that participation among affected community is critical to foster trust and cooperation among value chain actors (Armstrong et al 2008; Enzama 2015; Gennip 2005). In addition, transparency, representation are key feature of value chain development (Parker 2008). These premises are dominants logic of thinking on how nutmeg value chain development was developed in the South of Aceh (Bachtiar 2012a; 2013b). For example, it was reported that nutmeg committee at sub-district level were selected by higher level of nutmeg association on the basis of representation, gender-composition, ethnicity and other identified criteria. Consequently as has been discussed previously elite capture and rent-seeking behaviours in distributing development public goods are prevalent.

Jaramillo and Stork (2015:254), the technical adviser for UNDP and UNCTAD in promoting VCD in the South Aceh and Colombia, explicitly recognise the shortcoming of employing value chain approach that involve wider local value chain actors. While ignoring the intricate nexus of political economy and local elite in value chain development is unreasonable, it is argued that preoccupying imported institutional arrangement promoting the nutmeg VCD is equally unreasonable. In addition in the context of Aceh and South Aceh these two concepts are foreign in which majority of community is illiterate on democracy and associated concepts<sup>71</sup>. Indeed, this is compounded by the fact in the context of Indonesia including Aceh patronage-client relations are prevalent (Aspinall 2009).

Therefore, it seems that building and strengthening indigenous institutional arrangement to govern and promote value chain development is more relevant at least a local level. In fact, previous experience on rainforest conservation in South Aceh has shown that *Seunebok*, an indigenous institutional arrangement which recognise the importance of rainforest for livelihoods and simultaneously protecting rainforest, has been found more successful in forest conservation than imported institutional arrangement (McCarthy 2006). Also it has been found that the nutmeg association as an organisation has not taken into account home grown

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<sup>70</sup> Observation in August 2016 and

<sup>71</sup> Farmer. Interview on July 24 2016

institutional arrangements on promoting value chain development<sup>72</sup>. Those interviewed research participants believe that should the nutmeg organisation would have considered the home grown institutional arrangement to govern the nutmeg value chain development it would have likely to distribute agricultural extension services more equitably among nutmeg value chain actors.

Equally important, it seems that value chain development is a generic and prescriptive approach. Thus it does not anticipate technical issues implementers encounter to address context specific issues. For instance the nutmeg association has introduced technologically agricultural nutmeg seedling or *epicotyl grafting*, cloning of wild nutmeg seedling with domesticated one to produce pest and disease resistant nutmeg trees (Bachtiar 2013b). However, it has been found that introducing this newly nutmeg seedling has not produced intended outcome by and large because majority nutmeg farmers have not seen it is viable solution<sup>73</sup>. Moreover, one nutmeg farmer whom was interviewed reported that the nutmeg association agricultural extension officer who discover *epicotyl grafting* does not train nutmeg farmers properly and seriously owing economic interest<sup>74</sup>. Regardless of this raised challenge, it is noteworthy that Acehnese community has tendency not easily to believe in a newly introduced thing until it is empirically proven feasible (Schröter 2010). In the light of this anthropological account, it is argued that adopting home grown institutional arrangement to address ‘institutional blockage’ is more likely to be viable than generic and prescriptive approach value chain development offers.

Prior study has suggested that employing home grown institutional arrangement to address ‘institutional blockage’ yield positive outcome. Ritchie (2016) while her study focused on interaction among actors induce institutional change, it has been found that indigenous institutional arrangement has played significant roles for changing *Purdah*, a deeply seated cultural and religious belief that restrict women mobility outside family compound.

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<sup>72</sup> Nutmeg Association officers in July and August 2016

<sup>73</sup> Ibid

<sup>74</sup> Ibid

## **5.6 Conclusion**

This chapter has discussed and analysed how VCD and social capital produced both intended and unintended consequences for nutmeg VCD in general. Dynamics relationship among trust, social capital, VCD and political economy are undeniable account that implicate the promotion of nutmeg VCD in the south of Aceh.

## **Chapter VI Conclusion and Policy Implications**

### **6.1 General Conclusion**

The present study has demonstrated that prolonged violence in the province of Aceh and the South of Aceh district has not necessarily lead to destroying social fabric. Rather it has both strengthened and reduced bonding and bridging social capital. Which groups gain more advantage economically and politically and which ones are left behind appears to be an important predictor on how bonding and bridging capital enhance and decrease. For example, at meso level, the sustained conflict has changed the social structure both at provincial and district level in the South Aceh. Ex-combatants and laypeople who prior to the conflict had no access to local political parties and elite entrepreneurs cycle, now they turn and part of new local political and entrepreneurs elites. This reality has allowed the former ‘freedom fighter’ to foster bridging social capital with those local and national political and entrepreneurs elites whom they ‘fight’ during the conflict. Simultaneously, it has led to decreasing bonding social capital among ex-combatants who during the conflict were united by a common ideology, gaining independence from Indonesia.

Similarly at micro level, this study has suggested that bonding and bridging social capital has increased and decreased as a result of the conflict. Specifically, the nutmeg VCD promotion created new home industry and enhanced existing one. For example home industry collectively share knowledge and information about their produce, market and other related information. In turn it has led to acquiring new insight and knowledge about marketing, packaging and so on. Similar story also found on nutmeg farmers and intermediary. Nutmeg VCD intervention provided them a space to share information particularly on tackling pest and disease attacking nutmeg trees. At the same time both home industry and farmer who were ‘excluded’ from accessing services from VCD intervention demonstrate little

trust on those farmers and home industry at least for sharing critical information related to their livelihoods activities

This research finding is consistent with that of Enzama to the extent that fostering social capital and VCD promotion in fragile context is necessary but not sufficient conditions. However it has also identified that social capital entails social exclusion and thus its claims to be able to ‘create sustainable peace’ and inclusive development and reducing poverty, at least among economically, educationally and ethnically diverse background of local nutmeg chain actors is questionable.

The nutmeg VCD through the nutmeg association has promoted organisational and institutional change very modest manner. It can be seen for example the nutmeg association has created newly formed home industry making beverage and food from nutmeg husk and enhancing existing ones. These home industries while have not reach organisational marketing stage, they collectively share information and knowledge each other that goes beyond project intervention. Similarly, the nutmeg association has discovered *epicotyl grafting*, cloning of wild nutmeg seedling with domesticated one to produce pest and disease resistant nutmeg trees. Yet it has not reached the stage at which it can be beneficial to as many nutmeg local chain actors as possible in the South Aceh district-Indonesia.

Moreover nutmeg VCD in the South of Aceh focuses on imported institutional arrangement (representation of gender, ethnicity, elected representative etc) to govern how it operates. This has led to exclusion of disadvantaged group in accessing ‘common pool resource’ provided through the nutmeg association. Therefore, adopting home grown institutions arrangement to govern how it operate so that it is expected to benefit as many beneficiaries as possible though it is not on equal basis. Moreover though social capital and value chain development entail exclusion, it has been found that it a useful concept to foster bonding and bridging social capital for particular groups which may produce economic efficiency-reducing transactions and sharing knowledge and information.

## **6.2 Policy Implications**

The governments of Indonesia both local and central play critical role to enable and create supportive policy environment for promotion of social capital and value

chain development. Providing strategic incentive for local value chain actors is important and establish mechanism on how to provide it is equally important. In addition it is critical for a local government to introduce policy both generic in nature and tailored enacted to specifically address issues arisen from particular commodity in this case is nutmeg.

Similarly, farmers associational groups in this case is the nutmeg association is important to identify home grown institutions on how to enhance trust and cooperation among chain actors as well as promoting value chain development. Imported institutional arrangements have to be taken or adopted in critical manner rather just simply taking them on board as it may not reflect social and cultural reality of community. Specifically, it has been identified that organisational marketing is not common practice in the context of South Aceh and Aceh in General. Thus the nutmeg association is important to introduce institutional change to address 'this socio- institutional blockage'.

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## List of Appendix

### Semi Structure interview Guide

#### 1. Nutmeg Farmers

- How long have you cultivate nutmeg?
- Where do get inputs (seeds, fertilisers etc)
- What process do you normally do before selling nutmeg?
- Have you face any difficulty in selling nutmeg?
- Where and how do you sell nutmeg?
- How do you transport nutmeg?
- What kind of services have you received from the nutmeg association and local government agency?
- Have you face any challenges in accessing support services from nutmeg association and local government agency?
- What the main issues have face in selling nutmeg following the conflict in Aceh?
- How do you address issues you mentioned previously?

#### 2. Home industry

- What kind of economic activities do make from nutmeg husk?
- How long have you made these economic activities?
- Where and how do you raw materials to make your produce?
- What are the process of making your produce?
- Have you faced difficulty accessing raw materials?
- To whom or which market do sell your produce?
- Have you face any issue in marketing your produce?
- Have you ever marketed your produce collectively with other home industry?
- Have you receive any support from the nutmeg association and local government agency?
- Have you find it difficult to get service support from nutmeg association and local government agency?

#### 3. Intermediary both lower and upper tier at district level

- How long have bought nutmeg?
- How do you buy and transport nutmeg?
- Have you faced any challenges in selling nutmeg?
- What process do you normally do before selling nutmeg?
- To which market or to whom do sell nutmeg?
- Have you ever received support services from the nutmeg association and local government agency?
- Do you find difficulty in accessing support from the nutmeg association and local government?
- Have you ever sell nutmeg directly to international buyers?

- What are your opinion about the nutmeg association?
- What are the main problem do you think impede nutmeg sector face in the south of Aceh?

#### **4. Nutmeg Association officers**

- What kind of services or activities has nutmeg association undertake?
- How many members does nutmeg association have?
- Does nutmeg association apply specific criteria for being a member?
- Who do think are the key players nutmeg sector in the south of Aceh?
- Has nutmeg association buy nutmeg directly from farmers?
- What kind of difficulty has nutmeg association face to address nutmeg issue and promote nutmeg sector?
- What do you think are the main achievement has nutmeg association attained so far?
- How does nutmeg association work with local government?
- To what extent local government has supported the nutmeg association?
- What the major concern of nutmeg sector in the South of Aceh?
- 

#### **5 Local Government (Small and Medium Enterprise & Agricultural and Estate Agencies**

- What are general your impression about nutmeg and home industry?
- What difficulties does your agency face to promote nutmeg and home industry sectors?
- What services does your agencies provide for nutmeg farmers, intermediary and home industry?
- Have your agencies introduce local policy in regulating nutmeg sectors?
- What are your opinion about the nutmeg association?

### Number of research participants and means of data collection and adjustment made in the field

No	Means of data collection during proposal design	Participants			Adjustment in the field due to logistical circumstance				
					Data collection technique	Male	Female	total	Remark
		male	Female	Total					
1	FGD with nutmeg producers in Meukek sub- district	6	4	10	In depth interview	5	4	9	2-non member
2	FGD with nutmeg producers in Tapaktuan sub- district	6	4	10	In depth interview	4	0	4	
3	FGD with Home Industry in Tapaktuan and Meukek sub districts	4	6	10	In depth interview	1	3	4	All- members
4	In- depth Interview with head of nutmeg association	2	2	4	In depth interview	2	0	2	
5	In-depth Interview with local government agency	2	2	4	In depth interview	1	1	2	
6	In -depth interview with nutmeg collectors at village level	4	0	4	In depth interview	3	0	3	
7	In -depth interview with nutmeg trader at district level	4	0	4	In depth interview	2	0	2	
8				46				26	