Universiteit Utrecht

Does Foreign Direct Investment (FDI) Impact Livelihood Capitals?

A Bottom-Up Research in Indonesia

Nagan Raya Power Plant, Source: Indonesian News Outlet, DetikNews

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Abstract

This study explores the impact of Foreign Direct Investment (FDI) on the livelihoods of local communities. While previous research has produced mixed results on FDI effects, this thesis employs the livelihood capitals from Sustainable Livelihoods (SL) approach to analyze the impact of the two biggest FDI projects in Aceh Province, with both being recoursed-based FDI. Findings indicate differing impacts, PT MPG (steam power plants) negatively impacts most livelihood capitals except the financial capital, while PT Socfindo (palm oil plantation and CPO factories) exhibits positive impacts on livelihood capitals except the natural capital. These findings support the idea that FDI within the same category can exhibit different impacts which depend on company management, regional policies, and local institutions. The study also emphasizes that resource-based FDI leads to inevitable negative impacts on local environments, but the severity of it can be reduced. However, both projects positively influence local economic growth by increasing the income of locals.

Keywords

Foreign Direct Investment (FDI) – Livelihood Capital – Sustainable Livelihood (SL) Approach – Bottom-Up Perspective – Aceh Province – Indonesia

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1. Introduction

According to Organization for Economic Cooperation and Development (OECD), Foreign Direct Investment or popularly known as FDI is a type of cross-border investment with the aim to establish a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is inhabitant/resident in another economy (direct investment enterprise) (OECD, 2009). In addition, to be called FDI the economy of the direct investor and the direct investment enterprise need to be in different countries, otherwise, it will be called a Domestic Direct Investment (DDI).

The Organization for Co-operation and Development (OECD), one of the two most influential intergovernmental organizations besides the United Nations Conference on Trade and Development (UNCTAD) that oversees investment flow and development argues that investments particularly Foreign Direct Investment (FDI) are a major catalyst to development and an important pillars to create an effective and inclusive international economic system (OECD, 2002). However, it has also been noted that this effect does not come automatically, FDI can contribute to development when supported by domestic policies that promote FDI and a well-organized investment system in the local economies, this also the reason being that the benefits of FDI vary in different countries or regions (OECD, 2002; OECD, 2006).

Furthermore, FDI and development literature and report explained that there is a correlation between the two, with regard to their respective research focus and aim (OECD, 2002; OECD, 2006; OECD, 2022; Tintin, 2012; Jimale, 2017; Iyer et al., 2018; Moran et al., 2005; Moran, 2010; Hermes & Lesink, 2003). For instance, Hermes & Lesink (2003) argues that FDI could induce economic growth in the recipient countries/regions, but this benefit and effect heavily depend on the condition and circumstances of the recipient countries/regions. Their study explained how a more developed financial system inside a country/region contributes to the full benefit that FDI can bring to induce economic growth. Besides a developed financial system, the human capital role is also essential to maximize the effect of FDI in the recipient region/country.

FDI boosted by good quality institutions and economic freedom is also shown to be positively correlated with economic growth and fosters development (in terms of HDI [Human Development Index], GDP [Growth Domestic Product] per capita, health, and education) (Tintin, 2012). Also, FDI paired with a supporting domestic policy and stable investment climate contribute positively to increasing export levels, economic growth, and development in a post-conflict recovery region (Jimale, 2017). Another study shows a positive correlation between FDI in the health and research sector on health achievements and development (life expectancies and GDP per capita) (Iyer et al., 2018). Where the case study explained that foreign money flows in the health sector improved the condition of the disease monitoring systems and help the government of the region take better policies to address health issues. Investments in health research also create a better research environment that attracts foreign researchers to create a lasting connection with health institutions of the region, thus contributing to the health development of the region (Ilyer et al., 2018).

On the other hand, as summarized by Moran et al (2005) that there is no such thing as a “universal result” or a uniform impact of FDI on the development itself, as FDI can create differing impacts that depend on several factors on what is happening in the resident economy and domestic conditions, where it could lead to both positive and negative impacts. FDI also cannot be seen as a single phenomenon, as different sectors of FDI can impact in many different ways, and each category of FDI needs to be treated and studied in its own terms to be able to extract a much clearer and more definite answer (Moran, 2010). This is also the reason that this particular study will be conducted within the confined of a certain study case and take a couple of FDI projects in the area of Nagan Raya Regency, Aceh, Indonesia. Alternatively, another study argues entirely about the benefit of FDI and is strongly against the idea that prosperity and development are positively connected to economic growth and suggest abandoning the goal of increasing GDP entirely (Hickel et al., 2022). The study explained that for a region to grow it needs to remove dependencies, thus taking out factors such as FDI and focusing on a social and environmental factor to induce growth (Hickel et al., 2022).

This never-ending debate is what makes the topics relevant to this day, as it is very difficult to give a simple answer to the question of does FDI promote development. Moreover, many of the studies regarding FDI (OECD, 2002; OECD, 2006; OECD, 2022; Tintin, 2012; Jimale, 2017; Iyer et al., 2018; Moran et al., 2005; Moran, 2010; Hermes & Lesink, 2003) are seeing it from a relatively top-down perspective, and very few studies relating FDI are seeing it from the bottom-up perspective of development studies. Also, it mostly connects FDI with economic growth and development in terms of Economic Development. This does not sit well when we consider the more inclusive definition of development, where development in essence means making life better for everyone, and in the present context of a world full of inequalities and disparities, a better life is meeting the basic need that is required for better day-to-day living (Peet & Hartwick, 2015).

This is where the concept of “livelihood” comes to play, where notably it is often being used in the development studies literature in correlation with various research aims. Every person strives to improve to make their life better, to improve their quality of life, because of this people use and adopt strategies that would improve their overall livelihood conditions. The terminology of “livelihood” refers to the combination of capabilities, assets, and activities that is required for the means of living (Chambers & Conway, 1992; Scoones, 1998, Serrat, 2017). In essence, livelihood means the management of life to improve living conditions, thus improving quality of life. As every person aspires to live comfortably, therefore they plan their livelihood by taking their resources and capital into account (Mallick, Sultana, & Bennett, 2020; Chambers & Conway, 1992). Livelihood became sustainable when it can withstand stress and shocks, recover from them, and retain or improve its capabilities and assets/capital both today and in the future without compromising the natural resource base. Therefore, external events that can boost livelihood resilience and consequently lower their vulnerability have an impact on them (Chambers & Conway, 1992; FAO, 2009; Serrat, 2017).

The Livelihood and Sustainable Livelihood (SL) approach has been used in several development studies literature in responding to different questions and research aims. For instance, SL is linked with social-ecological systems (SES) to explain how different livelihoods condition in various SES influence the migration decision (whether it is to migrate or to stay) (Mallick, Sultana, & Bennett, 2020). It has also been used to explain the changes in livelihood conditions and quality of life after relocations that are caused by climate disasters (Bishawjit & Sultana, 2017). And another study explains how a more robust livelihood approach needs to be incorporated into the intervention policies of large-scale land investments to induce their relevancies to local development (Zoomers & Otsuki, 2017). The general hypothesis of the approach is that disturbance in livelihood conditions that makes it less secure, influences people to adopt livelihood strategies that would stabilize their livelihood conditions (Chambers & Conway, 1992; Serrat, 2017). Livelihood conditions itself is the combination of accessibility, availability, and ownership of the livelihood capitals (human, social, natural, physical, and financial), and developing livelihood strategies also requires capabilities and access to the livelihood capitals as well (Scoones 1998; Carney 1999; Farrington et al., 1999; Serrat, 2017).

Therefore, to comprehend the livelihood conditions, it is crucial to look into the state of these capitals both individually and collectively (Mallick, Sultana, & Bennett, 2020). With the different livelihood capitals at its core, the SL approach is given a multidisciplinary edge and makes it a holistic way of analyzing livelihood changes (Bishawjit & Sultana, 2017). However, FDI-related research has yet to integrate this approach into the research. With this in mind, this study aimed to explain the connection between Foreign Direct Investment Projects coming to a certain area and its impact on the different livelihood capitals of local communities in the surrounding area. This study addresses this subject by taking empirical evidence from four local communities in Nagan Raya Regency, Aceh, Indonesia that surrounds the two biggest FDI projects in the whole province.

Section 2 explains the study background and theoretical framework with the supporting literature review on why livelihood capital of the SL approach is used as the foundation to measure the FDI impacts. This section also presents the empirical settings of the study and why it has been chosen as the study area. Section 3 focuses on the methodology, operationalizations of concepts, and the measurement of concepts used in this research. Section 4 presents the findings of how FDI impacts each of the livelihood capitals corresponding to the indicators that are used. Lastly, Section 5 presents the discussions of the findings and the conclusion of this research.

1.1. Research Question (RQ)

Given the existing debate on the impacts of FDI on livelihoods and in correspondence with the research aim, this thesis will ask the following main research question:

- Does Foreign Direct Investment (FDI) impact livelihood capitals in Nagan Raya Regency, Aceh Province when viewed from the bottom-up approach of sustainable livelihoods?

Additionally, to analyze the findings and presents the discussion of this thesis, the main research question will be divided into three sub-research questions:

  - Does FDI induce livelihood capital from the perspective of the agency and households of the people of Nagan Raya Regency, Aceh?
  - Is their livelihood condition impacted by these FDI projects coming to the area?
  - Whose livelihoods are positively/negatively impacted, or not, and how?

2. Study Background

2.1. Theoretical Framework

2.1.1.1. Foreign Direct Investment and Implications

The topic of Foreign Direct Investment (FDI) has long attracted attention, both as a research subject and an investment activity, whether it's in the reports of intergovernmental organizations or scholarly research for the past few decades. Between the 80s and the 90s, there is a $94 billion rapid growth of the global FDI flows from $45 billion in 1985 to $139 billion in 1998, this phenomenon became a spark that ignited intergovernmental organizations and scholars to study both its popularity drive and its impacts (Lizondo, 1990). Nowadays, there are intergovernmental organizations such as IMF, OECD, and UNCTAD that foresee the global FDI flows and created comprehensive reports annually. Scholars also contribute plenty to this subject, while at first predominantly studied by economics scholars now has become a multidisciplinary subject that is studied by scholars from different fields, including development studies. As a result, debates on the subject rises between scholars in questioning the implication of FDI itself. FDI is a type of Direct Investment, where in simplest terms it is the means for investors to seek profit for a long-term stake in foreign operations (Galeza & Chan, 2014). There are two basic ways for investors to gain profit from a foreign economy, they can make use of what in terminology called “portfolio investments” such as buying stocks or bonds. Or they can go the other way by implementing a long-term, hands-on approach of investing in foreign economy (i.e. building brand-new facilities, or keeping full control over the operations of the newly purchased enterprise). The latter way is done with the intention of building a lasting interest in the foreign economy, which is the essence of FDI (Galeza & Chan, 2014).

The World Bank defines direct investment as an activity where either a company, individual, or institution directly puts their money into a developing region in order to have a lasting interest in the enterprise or region that they're investing in (World Bank, n.d.). While OECD further extends this definition by explaining that FDI is a type of cross-border investment with the aim to establish a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is inhabitant/resident in another economy (direct investment enterprise) (OECD, 2009). In addition, to be called FDI the economy of the direct investor and the direct investment enterprise need to be in different countries, which makes the direct investor change into the foreign direct investor. Additionally, the term "lasting interest" denotes both a substantial level of managerial influence and a long-term relationship between the direct investor and the direct investment enterprise (OECD, 2009).

OECD further explained that a foreign direct investor is an institutional unit (entity) that is a resident in one economy which has acquired at least 10% of the voting power of an enterprise (corporation) resident in another economy (another country). A foreign direct investor can be classified into any sector of the economy and can be any of the following institutional units (an individual; a group of individuals; a private or public enterprise; an incorporated or unincorporated enterprise; a group of enterprises; social organizations, trust, or estate; a government body; or any combination of the above) (OECD, 2009). The recipient side of FDI is known by the term “foreign direct investment enterprise”, which is an enterprise (corporation) in one economy that is owned (at the very least 10%) by an entity investor in a foreign economy. So from this definition, we can concur that in the FDI scheme, the investor can be a various entity (as mentioned above), but the recipient must be a corporation or company (OECD, 2009).

UNCTAD also oversees the FDI flows which they put inside their World Investment Report annually, where they define FDI as the flow of capital that is provided by a foreign direct investor to an enterprise, as well as direct capital that is received by an enterprise from a foreign investor, which in the terminology the former is named “outward FDI” and the latter is “inward FDI” (UNCTAD, 2007). As FDI became a global trend, the issue of FDI has received more and more attention both at national and international levels. Following on this scholars also make their contributions to FDI-related studies, other than studies regarding the theory of FDI, scholars questioned the so-called benefit of FDI and proceed by looking at the empirical data of the impacts of FDI on the recipient end (recipient economy). At the very least, the word “complex” comes to mind when we look at the previous empirical studies on the impacts of FDI (Denisia, 2010; Moran et al., 2005; Moran, 2010; Tintin, 2012; Jimale, 2017; Iyer et al., 2018; Hermes & Lesink, 2003; Kotrajaras, 2013). On one side empirical studies shows that FDI induces economic development (i.e. market competitiveness, higher productivity, access to the international market, increasing export, and access to international currency), creates technology spillover, generates new employment opportunities, also being a crucial source of financing (that substitutes loans from the domestic bank) (Denisia, 2010). But on the other side, FDI also has a negative impact on local development, such as dominating the local market and diminishing competitiveness, harming the environment, limiting the access of locals to natural capital, lastly, it can harm the local economy if the economic system and market are not ready (Denisia, 2010; Cole, et al., 2017).

When looking at the empirical evidence of the FDI impact research, it could be classified into three categories. The first category is research that explains FDI has a positive impact but with certain supporting conditions (Tintin, 2012; Jimale, 2017; Iyer et al., 2018; Gurupandi & Eswaran, 2019; Kumar & Gopalsamy, 2019). Second, research that found empirical evidence of both positive and negative impacts of FDI, which explain the impact of FDI can result in mixed or both results simultaneously (Moran et al., 2005; Hermes & Lesink, 2003; Moran, 2010; Denisia, 2010; Cole et al., 2017). and Lastly, research that found empirical evidence of negative impacts, no significant impacts of FDI, or disagree entirely about the concept of beneficial FDI (Kotrajaras, 2017; Epaphra & Mwakalasya, 2017; Hickel et al., 2022)

Let us dive into research on the first category, Tintin (2012) concludes that FDI induces economic growth and development in the least developed, developing, and developed countries. Although it is noted that the precondition of good quality institutions and economic freedom is positively correlated with economic growth and fosters development (by measuring HDI, GDP per capita, health, and education). Furthermore, the positive impact of FDI is not to the same extent in every country, it also depends on the domestic condition of the countries. Each country has a different level of economic freedom and institutional quality, which correlates with the positive impacts of FDI. It is also shown that FDI induces more economic growth and development in developing countries than in least-developed countries (Tintin, 2012). Jimale (2017) explained that FDI paired with a supporting domestic policy and stable investment climate contributes positively to increasing export levels, economic growth, and development in a post-conflict recovery region. This conclusion is based on the comparison between Rwanda and Burundi, two countries with similarities in geographical conditions and history, also both are post-conflict areas. Both countries received foreign aid and foreign investor that see investment opportunities in the area, but the political stability and supporting domestic policies in Rwanda attract more investors as it creates a stable investment climate in the country, whereas the opposite happen to Burundi (Jimale, 2017).

Iyer et al (2018) show a positive correlation between FDI in the health and research sector on health achievements and development (by measuring life expectancies and GDP per capita). Where the study compared the health achievements of Rwanda and Burundi. Furthermore, the study explained that foreign money flows in the health sector improved the condition of the disease monitoring systems and help the government of the region take better policies to address health issues. Investments in health research also create a better research environment that attracts foreign researchers to create a lasting connection with health institutions of the region, thus contributing to the health development of the region (Ilyer et al., 2018). Gurupandi & Eswaran (2019) explain in their study case of India, which receives $9.08 billion worth of FDI in the food processing industry and agriculture between the year of 2000 and 2019. This FDI flow into the region became a path that enhance the agriculture sector of India to penetrate into the global marketplace. Moreover, it also creates a domino effect that facilitates growth in areas related to agriculture (i.e. roads, rural infrastructure, water supply, irrigation, electricity infrastructure, and telecommunication infrastructure) (Gurupandi & Eswaran, 2019).

Next, we move on to the second category. Hermes & Lesink (2003) explained that FDI could induce economic growth in the recipient countries/regions, but this benefit and effect heavily depend on the condition and circumstances of the recipient countries/regions.

Their study explained how a more developed financial system inside a country/region contributes to the full benefit that FDI can bring to induce economic growth. Besides a developed financial system, the human capital role is also essential to maximize the effect of FDI in the recipient region/country. The study further explained that among 67 countries that are included in the data set, 30 countries show a lack of financial systems to support the coming of FDI. This has resulted that FDI does not contribute positively to the economic growth of the country. It is also noted that the readiness of human capital act as a precondition for the positive impact of development (transfer of technology and knowledge), but at the same time if it is successfully absorbed could enhance the human capital in the region (Hermes & Lesink, 2003). Moran et al (2005) explained that there is no such thing as a “universal result” or a uniform impact of FDI on the development itself, as each FDI can create differing impacts that depend on several factors on what is happening in the resident economy and domestic conditions, where it could lead to both positive and negative impacts (Moran et al., 2005). On the positive side, FDI can generate technology spillover, wage spillover, and increase competitiveness in the domestic market. Whereas on the negative side, FDI can lead to improper use of local resources and reduce the economic welfare of the community (Moran et al., 2005).

Moran (2010) also noted that FDI cannot be seen as a single phenomenon, as different sectors of FDI can impact in many different ways, and each category of FDI needs to be treated and studied in its own terms to be able to extract a much clearer and more definite answer. In this study, Moran classified FDI into 4 categories, which are FDI in extractive industries, FDI in manufacturing, FDI in infrastructure, and FDI services, to which each of them needs to be analyzed regarding their impact individually as each is impacted by different domestic policies and conditions. Even in each of these categories, the impact can also be various, as explained in the study that FDI in extractive industries can be quite positive, or exceedingly negative which depends on the policy framework and institutional setting of the host region (Moran, 2010). FDI in extractive industries can lead to to “resource curse”, where the exploitation of local resources outweighs its tax revenue benefits, thus harming both the natural resources and economic growth of the host countries. This negative impact is further increased when the host country lacks governance transparency and is filled with corruption (Moran, 2010).

Lastly, studies that fall into the third category. Epaphra & Mwakalasya (2017) in their case study of Tanzania tries to see the impact of FDI inflows to the region on the agriculture sector and economic growth. The empirical result of the study shows there is no significant impact of FDI inflows on economic growth (GDP) despite the FDI inflow to the region has been very high in the past two decades. The agriculture sector quantifies around 30% of the total GDP, which is a big portion of the GDP of Tanzania, also over 70% of the labor force is employed in this sector. However, the study indicates that the ratio of the value added by agriculture to the GDP is not significantly impacted by FDI inflows to the region (Epaphra & Mwakalasya, 2017). Following this, Hickel et al (2022) explained that prosperity and development are not necessarily connected to economic growth and suggest abandoning the goal of economic growth and increasing GDP entirely. This implies that FDI which is often associated with economic growth is also not needed. The study further explained that for a region to grow it needs to remove dependencies, thus taking out factors such as FDI and focusing on social and environmental factors to induce development. For instance, reducing unnecessary forms of production and increasing economic activity that revolves around meeting human needs and well-being (Hickel et al., 2022). Similarly, Kotrajaras (2017) concludes that FDI does not positively correlate with economic growth in low-income countries. FDI only give a positive impact in high-income and middle-income countries that have a good infrastructure, trade openness, and well-educated workforce (human capital). Therefore in low-income countries and in countries that do not have good infrastructure, trade openness, and well-educated workforce, FDI does not promote economic development.

As previous studies have shown the variety of FDI impacts and how they can differ in various cases, this thesis will further investigate the impacts of FDI, particularly on local livelihoods by using the SL approach and seeing it from the bottom-up perspective. Also, following the definition of FDI that is explained above (OECD definition), this study will look into the case of resourced-based FDI from foreign enterprises/companies to companies resident in the Nagan Raya, Aceh Province, Indonesia. The term resource-based FDI in this thesis is adapted from the term FDI in extractive industries explained by Moran (2010). FDI in extractive industries is an FDI activity by foreign companies that sought out to take advantage of the rich natural resources of the host countries (e.g. natural gas, oil, gold, copper, iron, nickel, and other extractive natural resources) (Moran, 2010). Resource-based FDI shares this definition and includes natural resources that are not procured in extraction activities (e.g. monoculture plantation).

Two FDI project is selected for the study case as it is the top two biggest investment project in the province and fall into the resource-based sector of FDI. One is an FDI project on steam power plants and the other is an FDI project on palm oil plantations and CPO factories. The FDI project in steam power plants requires coal extracted from the nearby coal mine as its foundation to operate. The palm oil plantation and CPO factories require vast land resources with fertile soil as their foundation. To look at a more holistic approach to the impacts of selected FDI projects, The five capitals of Sustainable Livelihood (SL) approach will be examined individually thus will give a more comprehensive answer to the impact of FDI.

2.1.1.2. Bottom-up Approach

In this research, I will capture people's perspectives through a bottom-up approach and take into account the five capitals of the SL approach. The bottom-up approach in the grand scheme of development theories has a definition where the key actor of development is not an institution, country, corporate, or organization, but it is the voice of the community and individuals (Peet & Hartwick, 2015; Waibel, 2012).

In line with the foregrounding of the voice of the community and individuals by the bottom-up approach, this research does not limit the term development to economic or financial development. Peet & Hartwick (2015) define development as a broader much more inclusive approach that in essence means making life better for everyone. Development in the present context of a world full of inequalities means that a better life for people is meeting the basic need that is required for better day-to-day living, including sufficient food and the capability to get nutritious food, maintaining good health and access to health facilities, safe and healthy place to live, affordable services, and being treated with respect and dignity (Peet & Hartwick, 2015).

Following on this, in this study the voice of local communities regarding how they define development itself, how they perceived the concept of investments and FDI, and to what extent their knowledge and involvement in the decision-making process in bringing FDI to their region matter, and will be captured through a bottom-up approach.

2.1.1.3. Livelihoods and Sustainable Livelihood (SL) Approach

Livelihood as an approach is rooted and shares the same moral philosophy as the words of Robert Chambers (1983) which honors local knowledge, interact with locals, and aims to "put the last first", whereas, at the time of its conception, this is not a common development practice. It also takes its root from Sen's (1985) Capabilities Approach which views the individual as the main central point of development (Natarajan et al., 2022). Livelihood and Sustainable Livelihood (SL) as an approach is closely linked with Robert Chambers, it is popularized by his publication titled *Sustainable Rural Livelihoods: Practical Concepts for the 21st Century* in IDS working paper of 1992, where this publication serve as a foundation of SL approach (Natarajan et al., 2022). In the simplest term livelihood definition is means to gain a living, and sustainable livelihood is a livelihood that can cope with stress and shocks yet still able to maintain its capital and capabilities both in the short and long term (Chambers & Conway, 1992).

SL as an approach is born from the combination of three preceding concepts in development studies, which are capabilities, equity, and sustainability. SL approach integrates these three concepts as both a means and a result (Chambers & Conway, 1992). In a more comprehensive definition “livelihood” refers to the combination of capabilities, assets, and activities that is required for the means of living (Chambers & Conway, 1992; Scoones, 1998; Serrat, 2017). Livelihood means the management of life to improve living conditions, thus improving quality of life. As every person aspires to live comfortably, therefore they plan their livelihood by taking their resources and capital into account (Mallick, Sultana, & Bennett, 2020; Chambers & Conway, 1992). Livelihood became Sustainable Livelihood when it can withstand stress and shocks, recover from them, and retain or improve its capabilities and assets/capital both today and in the future without compromising the natural resource base. Therefore, external events that can boost livelihood resilience and consequently lower their vulnerability have an impact on them. Sustainable livelihood also takes into account next-generation livelihood and how to be beneficial to the livelihood of others in the local and global context (Chambers & Conway, 1992; FAO, 2009; Serrat, 2017).

Following this, with the publishing of another IDS working paper by Ian Scoones in 1998, sustainable livelihoods transitioned from an approach (SLA) to a framework (SLF). This is the first attempt where SL is visualized as a framework, which has become an integral foundation in the development of the SL approach (Natarajan et al., 2022; Scoones, 1998). Later on, in just one year time the second version of the SL framework is introduced by the UK’s Department of International Development (DFID). This version further developed Scoones (1998) framework to further embody the SL approach to the point it can be better visualization of SL as a methodology (Carney, 1999; Natarajan et al., 2022). Nowadays, the DFID version of the SL framework has been used in multiple livelihood research and studies, both in its original form or in a slightly modified form.

For instance, Serrat (2017) has its visualization of the SL framework, although not the same as the DFID SL framework, it shares many of the same traits. According to Serrat (2017), the sustainable livelihood (SL) approach is a way of thinking, a way of seeing, and a way of prioritizing development activities or practices that are based on the evolving thinking of the vulnerable living their lives and the importance of institutions & policies that can enable them, then formulate development activities based on that approach (Serrat, 2017). SL approach helps to better manage the factors that constrain or enhance livelihood opportunities and describe how they relate to each other (Serrat, 2017). One of these factors is livelihood assets/capital, where each household has different access to livelihoods asset to go about their everyday life, where they often make trade-offs and decisions regarding the livelihood asset/capital to better their livelihood conditions (Serrat, 2017)

The sustainable livelihood (SL) approach and framework have been used in several development studies literature and linked with other concepts to reach different research aims. For instance, SL is linked with social-ecological systems (SES) to explain how different livelihoods condition in various SES influence the migration decision (whether it is to migrate or to stay) (Mallick, Sultana, & Bennett, 2020). The study explains the interconnection of SES and SL which incorporate the same attributes, and how factors that influence livelihood are deep-seated in a SES. The study incorporated a modified version of the DFID SL framework which put the SES and migration decision into the framework (Mallick, Sultana, & Bennett, 2020). Other studies such as Bishawjit & Sultana (2017) used SL with a focus on analyzing livelihood capitals/assets in the SL approach to explain the outcome of government-led relocated livelihood due to climate disasters and the changes in livelihood conditions as well as the quality of life (Bishawjit & Sultana, 2017). Another study explains how a more robust livelihood approach needs to be incorporated into the intervention policies of large-scale land investments to induce their relevancies to local development (Zoomers & Otsuki, 2017).

Similar to the study by Bishawjit & Sultana (2017), this study will not use the whole SL framework, instead, it will take focus on analyzing livelihood capital/assets, as it is the aim of the study to see the impact of FDI projects on the livelihood capitals of the local communities in the area. Taking from DFID’s (1999) and Serrat's (2017) SL framework this study will analyze each of the five capital (human, social, natural, physical, and financial) individually. With the different livelihood capitals at its core, the SL approach is given a multidisciplinary edge and makes it a holistic way of analyzing livelihood changes (Bishawjit & Sultana, 2017). Accordingly, this research will consider the five types of livelihood capital/assets of the sustainable livelihood approach (adapted from DFID, 1999 and Serrat, 2017) as listed below:

- Human Capital (access to health facilities, impacts on health condition, access to education, access to knowledge and skills, work opportunities),
- Social Capital (relation between people in the community, relation between people and newcomer workforces in the region, relation between local communities and FDI company, donation or contributions to cultural events),

- Natural Capital, (access to land resources, access to water and aquatic resources, impact on local environment, environmental services),
- Physical Capital (access to roads, access to communal buildings/facilities, access to clean water and irrigation, access to energy),
- Financial Capital (impact on wages/income, access to loans or credit)

2.2. Empirical settings: Nagan Raya Regency, Aceh Province, Indonesia

Upscaling the investment flow to the country has been the goal of the Indonesian government since 2016, this has been actualized by adding and reforming several presidential decrees (*Perpres* in Indonesian) regarding investment. From Perpres No.44/2016; No.91/2017; No.10/2021; and finally No.49/2021. This is done to reform the entirety of the investment climate in Indonesia thus attracting more foreign direct investment and at the same time triggering domestic direct investment inside the country. This strategy is implemented to enhance economic growth and development in Indonesia (Kemkominfo, 2018). Among these investment reforms, the two presidential decrees that are issued in 2021 were deemed to further improve the Indonesian investment climate. These investment reforms focus on improving the investment institution management and systems, also liberalizing several prioritized sectors, especially several non-commodities sectors. This is done to pull the attention of foreign investors to not only invest in the commodities sector but instead see the potential in the non-commodities sector.

A study has shown that the newly adopted investment reforms of the Indonesian Government are linked with increases in realized foreign direct investment, planned foreign direct investment, and realized domestic direct investment, particularly in the fully liberalized sectors (Montfaucon et al., 2023). Furthermore, the study noted the increases in planned foreign direct investment are likely to continue as long as the reforms are in place, where the findings of the study show a suggestive evidence of the complementary impacts of the newly adopted investment reforms (Montfaucon et al., 2023). These investment reforms to increase foreign investment coming to the country is also carried out by all of the 34 provincial government of Indonesia, especially in the less developed provinces. The central government also expresses its keen interest in attracting foreign investors to provinces outside Java island, in the hope of accelerating economic growth and leading to better development of the region. Following this, among all the 34 provinces one of the success stories is Aceh Province, at least when we looked from the numbers perspective. According to Aceh Investment Agency (DPMPTSP Aceh), there was a significant increase in total realized investment in the province from 1.28 trillion Rupiah in 2018 to 5.8 trillion rupiah in 2019, with more than quadruple increase in just one year span (DPMPTSP, 2019, 2020).

This is followed by a further increase in the following years with a total realized investment of 9.1 trillion Rupiah in 2020, 10.9 trillion Rupiah in 2021, and 6.2 trillion Rupiah in 2022 (DPMPTSP, 2021, 2022, 2023). The total realized investment is comprised of total realized FDI and total realized DDI calculated in one year span. The data also shows that there is consistency in the money flows of FDI to the region, where since 2019 total realized FDI is always above the 500 billion Rupiah threshold, with some years it even reach tripled and quadrupled the threshold. Because of this Aceh is also chosen as an investment priority region by the Central Bank of Indonesia, which is then given access, facility, and assistance from the Central Bank of Indonesia to further increase its investments promotions, investment policy, and overall investment climate.

Furthermore, after acquiring the completed investment data from Aceh Investment Agency, it is shown that among the twenty-three Regency that is dividing Aceh Province, the Nagan Raya Regency consistently sits on the highest spot of receiving FDI money flows since 2019. With the highest ever recorded was around $147 million of realized FDI in 2021. After further investigations, almost 90% of the FDI money flows coming to the regency are caused by two FDI projects in the region. The first project is PT Meulaboh Power Generation (FDI from Hong Kong-China), which is the construction project of two steam power plants that could generate power of 230 Mega Watt each, this project is associated with the nearby coal mine as its power source. The second project is PT Socfin Indonesia (FDI from Belgium), which are the palm oil plantations and CPO (Crude Palm Oil) factories that have two main locations in the regency. Since the two projects are the reason behind Naga Raya regency's abundant FDI Inflows, and Nagan Raya is the top FDI-receiving regency in the province, this implies that the two projects are also the biggest FDI project in Aceh Province. As the two projects rely on the natural resource of Nagan Raya Regency both projects are categorized as resource-based FDI. The first FDI project (steam power plan) is located in between two local communities, the village (or Gampong in Acehnese) Suak Puntong and Gampong Peunaga Cot Ujong, although the majority of its vicinity is located in Gampong Suak Puntong. The second FDI is located in two different areas as they have two main locations for its operation, which are the District Kuala Pesisir and District Darul Makmur.

On paper, the two project looks very promising as they bring money flow to the region consistently for the last 5 years and keep continuing, however, the report regarding the impact of the two projects have not been seen yet. The same goes for studies regarding the impact of those projects, where this is concerning, especially when we're talking about the two biggest FDI projects in the province. Therefore to be able to study the impact of the two biggest FDI projects in the province this study will conduct research in four local communities in Nagan Raya Regency. These are the local communities of Suak Puntong

Village, Peunaga Cot Ujong Village, District of Kuala Pesisir, and District of Darul Makmur (see *Table 1*). The last two are districts because the second FDI project (palm oil plantation and CPO factories) encompasses a vast land area, thus bordering many villages in located the two districts, whereas the first FDI project (steam power plants) occupies a smaller land area and border with just two villages. These four local communities are selected based on their location which surrounds the two FDI projects. As this study would like to see the impacts of the FDI on the livelihood capitals of local communities, it is important to choose the local communities that have the highest exposure to the FDI projects.

Table 1. List of the selected local communities for field study

Local Communities	FDI Project	Company Abbreviations
Gampong Suak Puntong (Village)	PT Meulaboh Power Generation (Steam Power Plant)	PT MPG
Peunaga Cot Ujong (Village)	PT Meulaboh Power Generation (Steam Power Plant)	PT MPG
Kuala Pesisir (District)	PT Socfin Indonesia (Palm Oil Plantation and CPO Factories)	PT Socfindo
Darul Makmur (District)	PT Socfin Indonesia (Palm Oil Plantation and CPO Factories)	PT Socfindo

3. Methodology

3.1. Data Collection

The data collection for this research will be based on the Qualitative research method, where the data-gathering process will be conducted through in-depth interviews in the selected local communities. An in-depth interview is a one-on-one method of data collection that involves an interviewer and an interviewee discussing a specific topic in depth, where the purpose is so the researcher can gain insights into a certain issue using a semi-structured interview (Hennink, Hutter, & Bailey, 2020).

An empirical study was conducted in the selected local communities of Nagan Raya Regency between March and April 2022. A total of 24 people participated in the in-depth interview, with 17 people from the selected local communities (see *Table 1*) and 7 people being government officials at the provincial level that oversees the investment projects. Participants were selected using the strategy of Gatekeepers mixed with Snowballing (Hennink, Hutter, & Bailey, 2020). Gatekeeper is a participant recruitment strategy to utilize reputable community leaders who are familiar with the local population to help with the recruitment of qualified participants. Whereas Snowballing is a strategy to utilize the local community social networks and coherences to recruit qualified participants (Hennink, Hutter, & Bailey, 2020).

During fieldwork interview participants from Suak Puntong and Peunaga Cot Ujong Villages, the interview participants are gathered evenly from village members and village representatives (e.g. village secretary and other prominent figures in the village). As for interview participants from Darul Makmur and Kuala Pesisir Districts are mostly village leaders from different villages in both districts. This happened because of two reasons. First, the local community members mostly refer to village leaders when approached or when asked to be interviewed. Second, village leaders have more access to information both internally (problems within the community) and externally (relationship with FDI company) rather than village members.

For these in-depth interviews, an interview guide was followed, where there are two derivations from the main interview guide. One is used as a guide for interviews with locals and the other is for interviews with government officials. The in-depth interviews lasted between 60 to 120 minutes each, where the interview is conducted in Bahasa Indonesia mixed with Acehnese, with some cases Acehnese being the more dominant one as the local's day-to-day language. The interviews were conducted through the means of face-to-face meetings. When conducting field research in Nagan Raya two research assistant is selected to make the means of the interview process proceed as intended. The first research assistant helped with the logistics, travel, and preparation for the field. As the field locations are quite far and only accessible through land travel over long hours. The second research assistant is a local that helped with easing the connection with the local communities and better understanding of local culture and language.

With the permission of the participant, all the data and the interviews are recorded using an audio recorder and later transcribed. A consent form was always presented first and then signed as a non-force agreement and the willingness of the participants to partake in the interview process. Names of the interviewee will not be shown and will be changed when used in this study, due to the ethical considerations of academic research.

3.2. Data Analysis

Qualitative data analysis involves a process of immersion in data so that you can identify and interpret the experiences of your study participants (Hennink, Hutter, & Bailey, 2020). This process of discovery enables the researcher to remain close to the data and come to a conclusion with an evidence-based understanding of the research issues

(Hennink, Hutter, & Bailey, 2020). After the interviews have been conducted, the results will be transcribed into a transcript, later on, the transcript will be the basis to create codes, and the codes will be categorized into codebooks and then will be further analyzed by the process of coding the whole data set (Hennink, Hutter, & Bailey, 2020). A mix of deductive and inductive strategies will be used in the data analysis process, but it will be more inclined toward the inductive strategies since this research will focus more on the responses and statements of the participants and interpreting their views on the subject matter. The interview transcript will be transcribed manually or by using transcription software, after which it will be manually double-checked again.

3.3. Operationalization of Concepts

Table 2 demonstrates the operationalization of the key concepts applied in the research. The table shows the indicators that will measure the concepts with an explanation of how this will happen in practice.

Table 2. Operationalization of Concepts (Modified from DFID, 1999 and Serrat, 2017)

Concepts	Indicators	Explanation
Bottom-up Approach	• How do they define development • How do they define investment (FDI) • Involvement of local communities in the decision-making of FDI projects coming to the area • Communication and information regarding the FDI project coming to the area	The bottom-up approach will be measured by asking the selected local communities of Nagan Raya Regency and the government officials of the FDI project development area about the levels of participation and involvement of the local communities to affect the decision regarding FDI projects coming to the area (both ongoing or potential project). How they perceived investment and development, and their knowledge or information regarding FDI in the region.
Human Capital	• Access to health facilities • Impacts on the	Questions will be asked about do the FDI projects in the area have affected the human capital assets and the access to human

	health condition ● Access to education ● Access to knowledge and skills ● Work opportunities	capital assets of the local communities
Social Capital	● Relations between people in the community, ● Relation between people and newcomer workforces in the region ● Relation between local communities and FDI company ● Donations or contributions to local communities (e.g. cultural events)	Questions will be asked about do the FDI projects in the area have affected the social capital assets and the access to social capital assets of the local communities
Nature Capital	● Access to land resources ● Access to water and aquatic resources ● Impact on the local environment ● Environmental services (Services provided by companies that helped the local	Questions will be asked about do the FDI projects in the area have affected the nature capital assets and the access to nature capital assets of the local communities

	environment)	
Physical Capital	• Access to roads • Access to communal buildings/facilities • Access to clean water and irrigation • Access to energy	Questions will be asked about do the FDI projects in the area have affected the physical capital assets and the access to physical capital assets of the local communities
Financial Capital	• Impact on wages/income • Access to loans or credit	Questions will be asked about do the FDI projects in the area have affected the financial capital assets and the access to financial capital assets of the local communities

3.4. Measurement of Concepts

Table 3 shows an overview of the concepts that are chosen for this research and the interview questions that will be asked to measure these concepts. The left column shows the concept and the right column shows an example of interview questions, with local communities as the specific target.

Table 3. Concepts and Measurement

Concept	Examples of Interview Questions
Background Information	Can you tell me about your: • Name • Age • Gender • Marital Status • Number of people living in the households • Occupation • Education • Gampong (Village) - how long have you stayed here?
Bottom-up Approach	• How do you define "development"? • How do you define "investments"? • Are you aware of the ongoing or potential investment project in the area?

	● If you are, what investment projects? ● Are you aware of the government plans regarding the investment project in the area? ● If you are, what investment projects? ● Do the investment projects in your area impacted your life in any way? ● Do you think that the government involves local communities when promoting investments project from the area? ● Do you think that the government involves local communities when making a decision about investment projects in the area?
Human Capital	● Do you believe that investment (FDI) projects are beneficial to your community/village? ● If you do, in what sense/how? ● Do investment (FDI) projects in the area affect your human capital or access to human capital? [Probes: access to health facilities, impacts on health condition, access to education, access to knowledge and skills, work opportunities]
Social Capital	● Do you believe that investment (FDI) projects strengthen the bonds in your community/village? or is it the other way around? ● Do investment (FDI) projects in the area affect your social capital or access to social capital? [Probes: the relation between people in the community, the relation between people and newcomer workforces in the region, the relation between local communities and FDI company, donations or contributions to local communities (e.g. cultural events)]
Nature Capital	● Do you think that investment (FDI) projects have impacts on the natural environment of the area? ● Do investment (FDI) projects in the area affect your natural capital or access to natural capital? [Probes: access to land resources, access to water and aquatic resources, impact on the local environment, environmental services]
Physical Capital	● Do the investment (FDI) projects bring infrastructure development that is beneficial to your community/village? ● Do investment (FDI) projects in the area affect your physical capital or access to physical capital? [Probes: access to roads, access to communal buildings/facilities, access to clean water and irrigation, access to energy]
Financial Capital	● Do investment (FDI) projects affect your monthly income? ● Do investment (FDI) projects in the area affect your financial

	capital or access to financial capital? [Probes: impact on wages/income, access to loans or credit]
Closing Questions	● Do you think that investment projects affect your day-to-day life or the day-to-day life in your community? ● Do you think that investment projects affect your access to the basic needs or the basic needs of your community?

3.5. Ethical Considerations

The research will attempt to interview selected local communities in Nagan Raya Regency about the impacts of FDI projects on their livelihood capitals. Therefore, it requires an ethical standard to be upheld in the data-gathering process in the local communities with the interviewees. To prevent any harm the anonymity of the interviewee is also an integral part since there is a possibility of sensitive information being shared by the interviewee. Before the interview, a consent form will be signed by the interviewee. The interviewee will also be informed that they have the right to not respond to any of the questions given to them or walked out at any given time during the interview and that all the information that is given will be treated confidentially. All recordings of the online interviews, notes, and transcripts will be stored securely and not publicly to ensure the privacy and anonymity of the participants. Finally, to ensure the neutrality of the data this research will be accepting all answers as legitimate and would not show any favoritism towards certain answers or research participants as per guidelines of qualitative data collection.

3.6. Reflections on Positionality

In research, it is important to pay attention to the issues of positionality to have ethical and participatory research (Sultana, 2007). My predetermined position as a researcher in this research is both an insider and an outsider. My position as an insider is because I am originally from the province of Aceh, as it is my home province and I spent my teenage years growing up there. Also, as I mentioned above my previous work before undertaking my master's is in the Province of Aceh as an investment consultant. Growing up there gave me an insider perspective and experience about the local norms, general cultural views, as well as the local language to better build trust and connection to the target participant of this research. My work experience as an investment consultant also gave me insights into how things are working inside the province regarding the investment scheme, whether it’s the bureaucracy, connections, or priority projects. But when diving deeper into the context of Nagan Raya Regency, I’m an outsider. As I’m from a different regency and there is a sub-culture and local norms that the communities of Nagan Raya Regency upheld that I must respect and take into consideration when engaging with the locals, especially when interviewing them.

I'm also an outsider in the sense that I used to work with the government, which is based in the capital of the province. This has caused my perspective to be unavoidably biased when perceiving FDI projects for development in the area, as my past work requires me to follow certain rules and goals and follow a set of guidelines, knowledge, and training regarding investments for development issues. Therefore it is integral that I understand my positionality in this research, thus giving me the ability to capture the voice of locals and to better understand their views pertaining to the impact that the FDI project brings on the livelihood capitals of local communities.

On a more personal note, Aceh province is my hometown, and seeing the development of the region where I grew up has been both a blessing and a concern. In conducting this study, hopefully, it can bring a fresh perspective regarding the impact of FDI on the livelihood capital of local communities in the region. Also, with little hope that this study could spark future discussion regarding money flows coming to the area for development purposes, and for the betterment of development in the region.

3.7. Limitations and Risks of the Research

This study has a few potential limitations of this research. First, the limitation of time, due to limited time, gathering data on the field has limitations, for instance, it is difficult to add more participants in the interview process since the trust building and finding the right participant itself is a time-consuming activity, thus selecting the key participant is an integral part of the research. Second, the possibility of limited access to information, even though my previous work has provided me with connections to the government's officials in the province, there is no guarantee that they would give the information that is also important to the research. Although the main required information for this research is the people's perspectives, thus there is still a way in facing this limitation. Third, due to limited time, this thesis focuses on only the two biggest FDI projects in the province, with both categorized as resource-based FDI. It would be interesting for future projects to incorporate more FDI projects to study their impacts in the same category or focuses on another category entirely, for instance, FDI in manufacturing, FDI in infrastructure, and even FDI in the tourism sector.

3.8. Timeline

Table 4. Research Timeline

Date	**Activities**
December- February 2023	Writing thesis proposal draft
7th of February	Thesis draft proposal submission
14th of February 2023	Arrived in Indonesia
5th of March 2023	Arrived in Aceh
The second week of March 2023	Discussions, meetings, getting permits, and data gathering with government officials at the provincial levels (DPMPTSP Aceh and KPw BI Aceh)
The third week of March 2023	Preparations to go to Nagan Raya Regency
16th of March 2023	Embark to Nagan Raya Regency
The third week of March 2023	Conduct research (interview) in the selected local communities in Nagan Raya Regency
The fourth week of March 2023	Conduct research (interview) in the selected local communities in Nagan Raya Regency
27th of March 2023	Return to Banda Aceh
The first week of April 2023	Conduct research (interview) with government officials at the provincial levels (DPMPTSP Aceh and KPw BI Aceh)
The second week of April 2023	Conduct research (interview) with government officials at the provincial levels (DPMPTSP Aceh and KPw BI Aceh)
The third week of April 2023	Conduct research (interview) with government officials at the provincial levels (DPMPTSP Aceh and KPw BI Aceh)
26th of April 2023	Returning to the Netherlands
28th of April	Submission of the interim report
1st and 2nd June 2023	Return day of IDS Student from the field

The first week of July	Submission of the 1st draft
11th of August 2023	Submission of the final thesis

4. Findings

This chapter is dedicated to presenting the findings following the research questions and the operationalizations of the concepts. The findings are based on the data gathered during fieldwork in 4 local communities in Nagan Raya Regency that took place between March and April of 2023 (to see the detailed local communities, see *Table 1*).

4.1. Definition of development and Investment (FDI) according to the local communities

Before delving further into the FDI project's impacts on each livelihood capital of local communities, questions were asked regarding how the local communities perceived and defined the term development and investment (FDI) during in-depth interviews. All of the participants show a familiarity with the term “development” and the majority of the participants define development as a grand physical phenomenon that brought change in the area. For instance a big-scale building or house complex, a coming of a new factory or company, a new industry being built, or a grand infrastructure that affects changes in the village, district, or even the whole regency. However, there are also several participants (only 2 out of 17) who define development as more than a physical phenomenon. They define development as a phenomenon that brings new work opportunities, strengthens the local economy, and raises the standard of living in the future.

In contrast, when asked about the term investment (FDI), most participants display a lack of comprehension of the term “investment (FDI)”. Only 4 out of 17 participants display familiarity and define “investment (FDI)” from their perspective, while the others stated that either they never heard of the term or don’t understand the meaning of the term. The participants define “investments (FDI)” as capital investment by an outsider to the village or local communities, for instance, a new company coming into the area. Interestingly, the participant perceived outsiders as everyone outside the province of Aceh, so if a capital investment is done by a company or individual from outside of the province it is considered as an outsider or a foreign entity. This is interesting because when looking at the definition of FDI from OECD and Aceh Investment Agency, what considers to be foreign is capital investment from outside of the country, and if it originated from within the country it's called

DDI. However, in the eyes of locals, every entity outside of the province is considered a foreign entity. An interviewee said how he views investment from outsiders:

> *“If I'm not mistaken, an investment is where outsiders come in to invest or provide capital to the village, for example, companies that emerge can help community members” (Village Leader in Kuala Pesisir District, 19 March 2023, personal interview)*

4.2. Local communities' understanding of the FDI projects in their region

In the in-depth interview, all of the participants from selected local communities indicate a certain degree of understanding regarding the FDI project that is present in their area. Participants from Suak Puntong Village and Peunaga Cot Ujong Village stated that the newly build steam power plants (PT MPG) in their area belong to a private company and not the government or state own company (like the prior steam power plants in the area). The origin of the FDI company from China and its management run by foreign influence is also known by the participants. When further asked regarding where they acquired this information, they mostly stated they know from word-of-mouth in the communities. Although some participants stated they knew because they have met with the company representative or conducted business inside the premises of the steam power plants. As one of the interviewees stated:

> *“if it's steam power plant 3-4 [PT MPG] it might be called an investment because its management system is directly from China,” (Man from Suak Puntong Village, 17 March 2023, personal interview)*

Similarly, participants from the local community of Kuala Pesisir and Darul Makmur districts also stated that they know the palm oil plantation and CPO factories of PT Socfin are joint venture between the Indonesian government and a company originating from Belgium. Therefore, this suggests that even though the majority of participants do not grasp the term investment (FDI), they are aware of the FDI project's origins in their region. Additionally, a fascinating fact that was found during the fieldwork is that PT Socfindo has had its roots in the region since the 1930s. Whereas the data gathered from Aceh Investment Agency and the Investment Realization Report do not indicate that the company has roots in the region since the 1930s and the in-depth interview brought up new facts regarding the company. The participants stated this while sharing their stories regarding the origin of the company, and how it has been there growing since the time of their grandparents. With even some of their predecessors are the first generation workers in the company. An interviewee explains this:

> *"[…] if I'm not mistaken Socfindo came here around 1927 and there were no villages yet, but Socfindo came first […] Socfindo, as far as we know, in the past, it was Belgium" (Village Leader in Darul Makmur District, 20 March 2023)*

Furthermore, the findings suggest that the people in their respective local communities only show interest in the FDI project near their local communities but little interest nor knowledge of other FDI projects in other parts of the region, as the participants from Suak Puntong and Peunaga Cot Ujong Village stated that they didn't know much about the palm oil plantation (PT Socfindo), and those who took part from Kuala Pesisir and the Darul Makmur District showed little concern for and knowledge of the new steam power plant (PT MPG).

4.3. Communication and the involvement of local communities in the decision-making of the FDI projects coming to their region

In the case of the FDI project of PT MPG (steam power plant), prior contacts were made with village leaders of Suak Puntong and Peunaga Cot Ujong and their subordinates by the representative of PT MPG. It makes the first attempt with the local communities to convey the potential project to build a new steam power plant complex in the region. Then it was followed by creating a team that consists of representatives of Suak Puntong, government officials from the District and Regency level, as well as representatives of the FDI company. This team's foremost task is to ask for the cooperation of the local community to ratify and address the issue of possible land acquisition in the village with a proper settlement. The findings suggest that in this process the village of Peunaga Cot Ujong is excluded as the priority of the local community the company due to it will be built on the land of Suak Puntong and only borders the village of Peunaga Cot Ujong. Thus from that point, PT MPG is only concerned about the village of Suak Puntong.

Following that, there is another agreement that involves the representative of Suak Puntong, PT MPG, and government officials from the environment agency to discuss and ratify regarding AMDAL (Environmental Impact Assessment) agreement. In this agreement, the involvement of Suak Puntong Village is key because without the consent of the village the project cannot come to be. When deciding on each agreement the village representative discusses it with village members. After discussing within the village, they agree to both the certain land acquisition and the environmental agreement. The interview participants from Suak Puntong stated that at the time the company assure to uphold the agreement and if any occurrences were caused by the company that would create an environmental disturbance, the company will provide compensation and deal with the matter quickly. Although a process of local community involvement in the decision-making process was seen, it is later discovered that the agreement is one of the root problems that lead to the deterioration of the relationship between Suak Puntong Village and PT MPG.

The findings of the FDI Project of PT Socfinfo (palm oil plantation and CPO factory) have a different story altogether. Since the roots of the company predate many of the villages in the Kuala Pesisir and Darul Makmur Districts, the interview participants stated that they have no information regarding the first communication of the company before its arrival to the region, since it occurred a long time ago. Nevertheless, the involvement of local communities in the decision-making process is seen in the form of the annual meeting called MUSREMBANG (Development Planning Conference), held by the BAPPEDA (Regional Development Planning Agency) of the regency level. The meeting is attended by approximately 18 village leaders from the districts of Kuala Pesisir and Darul Makmur. These 18 villages are the ones that border the palm oil plantation and factories, with even some of them are within the premises of the company grounds. These 18 villages are called “inner ring” or “ring satu (in Bahasa)” by locals due to their being the priority of the company. These 18 villages in both districts became priorities because they border the plantation and CPO factories of the company, with several villages located in between the plantations. This also implies that the FDI Project of PT Socfindo encompasses an exceedingly larger land area compared to the FDI project of PT MPG.

In the MUSREMBANG annual meeting, the discussion includes the CSR money and program of that particular year, complaints or suggestion toward the company, and meeting with the executive of the company. The distribution of the CSR money yearly among the 18 villages is decided by the village leaders themselves, as long as it is within the total budget, the decision is all left to the local communities to decide. As the palm oil plantation and factories are built on HGU (Cultivation Rights) land, which is the land belongs to the government that they lease to the company and the right is given to managing the land as a place of business, PT Socfindo requires to extend this right every 5 years or so. Therefore, every 5 years or so, in the MUSREMBANG of that particular year those 18 village contributes to the decision making whether the company could extend the rights or not. In the case of rejection then the company will have to move its business elsewhere or shut down immediately. However, it is also to be noted that the final saying to extend the right to manage is in the hands of local governments since the land is an asset of the government.

4.4. Human Capital

Access to health facilities

The results indicate that there is no significant impact on access to health facilities from PT MPG (steam power plants), the participant from Suak Puntong and Peunaga Cot Ujong villages stated a uniform answer. At present, there are no health facilities or health-related programs given by PT MPG to local communities, and the presence of PT MPG in their local communities does not impact their access to health facilities. Therefore, PT MPG brings no significant impact on access to health facilities of surrounding local communities.

Whereas the opposite impacts are seen from PT Socfindo (palm oil plantation and CPO factories. The result found that there are several health programs and facilities provided by the company for the local communities of Darul Makmur and Kuala Pesisir. For instance, there are health clinics that belong to the company, although this is primarily for the workers of the company, the clinics are also available for the public. But, since many of the workers are recruited from the local communities, they have full access to the clinics, and for the public mostly they only have to pay for the prescribed medicine instead of the health services, so it is an affordable option. There are also free medical check-ups for locals, where this program collaborated with villages in Darul Makmur and Kuala Pesisir, but this program is upon request of the village leaders through a proposal for the company. Furthermore, there is also free medical circumcision that is open to boys in the local communities annually. As the majority of the locals are Muslims, circumcision is an important practice for boys or young men that have not done it, and the program provided by the company has helped locals where they can access that free of charge. The participants also mentioned a nutrition assistance program for infants and toddlers in the local communities.

Also, in the rare occurrence that the locals have a serious illness that requires more advanced medical facilities the company provides transport for better health care (for instance taken to the province capital of Banda Aceh). This has happened through the request of village leaders to the company, although it is a rare occurrence, and for households that have a low financial capital. Therefore, the findings suggest that PT Sofindo has a positive impact on access to health facilities for the local communities and this also impacted the health conditions of the locals.

Impacts on health conditions

Results that are taken from Suak Puntong and Peunaga Cot Ujong village reveal that the presence of PT MPG (steam power plants) negatively impacts their health condition. This is mainly caused by the air pollution that the activity of the company brought. PT MPG and its new power plants are an addition to the power plant and coal mine complex in the region, which previously consist of PT PLN (prior steam power plants) and PT MIFA (coal mine), both are DDI and PT MPG is the new addition as an FDI company. This air pollution is caused by coal dust that takes into the air because of the activities of transporting coal as the main source of the two companies' steam power plants, whether through land vehicles or conveyor belts. The presence of PT MPG as the new addition and located near the local communities exposed the air pollution in Suak Puntong and Peunaga Cot Ujong. Participants from these villages gave a uniform answer that air pollution impacts their health conditions. The nature of the coal dust itself is very fine dust, which caused several negative health conditions, for instance, cough, runny nose, and breathing difficulty. It is even stated that the coal dust has caused lung infection, which is very much alarming, particularly for the children and elderly in the local communities. Where an interviewee stated this:

> *"[when asked about health impact] it has definitely impacted, it's just that we don't pay attention to it, the health experts said that now many of our residents are affected by coughing, the health experts said it's has impacted our health, but we don't pay attention because we don't understand […] including me I had been to a specialist in internal medicine at that time I had a cough, I had an X-ray, the doctor said why didn't you just move from Suak Puntong, I asked why, the doctor said your lungs are filled with dust, you had a coal infection"*
> *(Village Secretary in Suak Puntong, 18 March 2023)*

In contrast, the findings in Darul Makmur and Kuala Pesisir District show that there is no alarming negative impact on the health condition of locals caused by the activity of PT Socfindo (palm oil plantation and CPO factories). In fact, it has impacted positively because of the access to health facilities and programs conducted by the company.

Access to education, knowledge, and skill

As for access to education, knowledge, and skill, local communities in Suak Puntong and Peunaga Cot Ujong villages stated that there is no significant impact in relation to the presence of PT MPG (steam power plants). The local community of Suak Puntong has tried to raise this issue with the company and stated that the last time they talked about this with the company representative was in 2022. They requested specific skill and knowledge training for locals that would raise their chances to get a permanent work position in the company but, there are no response since then. This also impacts the reputation of the FDI company since locals compare it with the other two DDI companies in the steam power plant complex (PT MIFA and PT PLN) that have programs of foster groups (livestock and farming) in collaboration with locals in Suak Puntong and Peunaga Cot Ujong.

Whereas the findings in Kuala Pesisir and Darul Makmur districts indicate the opposite, that PT Socfindo (palm oil plantation and CPO factories) correlates positively with the access to education, knowledge, and skill of locals. In education, PT Socfindo provides a scholarship program for outstanding students with good grades. This program is open for workers' family members and local communities to join, or it can be entered through the recommendation from village leaders and validated by the company representative. There is also student housing that belongs to PT Socfindo in the cities with the prominent university in the province, primarily this is dedicated to family members of company workers, but family members of local communities can also use that facility through village leaders' request. Furthermore, PT Socfin has assisted with the construction or rehabilitation of several public schools in local communities; kindergartens, primary schools, and Islamic boarding schools. Donations are also given to public school teachers from the company. As for knowledge and skill, PT Socfindo has facilitated several foster groups to provide training and supervision in agriculture, fish cultivation, livestock, and other skill for local communities.

Work opportunities

The findings indicate one of the most important things the selected communities care about when new companies arrive in the region is having access to employment opportunities. Expectations of local communities are that a new company means new work opportunities, which would raise their local economy and standard of living in the future. To acquire a stable job and a steady income. Both PT MPG (steam power plants) and PT Socfindo (palm oil plantation and CPO factories) bring work opportunities to surrounding local communities, although there are big differences between the two. Participants from the local communities of Suak Puntong and Peunaga Cot Ujong stated that the presence of PT MPG brings new work opportunities for locals. Before that, the majority of local occupation was either farmers or fishermen. Because of the construction and operation of the steam power plant, the company needs a supply of unskilled labor, which they acquired from the two villages. Participants stated that since then its easier for locals, especially the unemployed to get a job. Many of the locals also opt out of farming and fishing to do unskilled labor, this has happened because the income of farmers and fishermen is heavily dependent on the seasons, and in some months they may not have enough money because there are fewer fish to catch or crop failure. With unskilled labor, they got paid daily with a pre-determined amount so it becomes a more viable option.

However, this is also where the problem lies, unskilled labor is a non-permanent daily paid job, and the locals understand they can be replaced easily. Their expectation in receiving PT MPG in the region is that they will bring permanent job opportunities, but this has not happened, cause the majority of the permanent workers are from China or recruited from outside of the province, and the locals knew about this fact, where they stated that they were brought to the region discreetly. There was no announcement nor coordination with the village officials regarding permanent work opportunities, yet when the locals tried to apply the company said the position has already been filled. The company's behavior regarding this matter is considered as not honoring the approved agreement between the locals and the company. This issue has been raised by locals multiple times, even to the point where a demonstration was conducted, yet to this day it was not fully resolved. It has been pointed out that very few locals were accepted in a contract or permanent position in PT MPG. This issue has also impacted the relationship between the local communities and PT MPG, as well as the relationship of local communities with the new workforce coming to the region. The interviewees shared views regarding work opportunities:

“[When asked about work opportunities] Now there are none, they are very discreet. PT MPG, for the recruitment of permanent jobs, that's one real obstacle that is very unfortunate for the local community, even though were are told to be the priority, only a few people might pass from the dozens of people who applied. Very little, so people really feel disappointed”

(Man from Suak Puntong, 17 March 2023)

“so it is like this, they need workers, we have asked them if they need workers to coordinate with the village first, if from the village is not available what they need then they can take it from outside, but it seems they are a bit secretive, that's the proof, now there are lots of foreign labor” (Village Secretary in Suak Puntong, 18 March 2023)

As for PT Socfindo, the majority of their worker are recruited from local communities of Darul Makmur and Kuala Pesisir District, and only a few at the managerial level are sent from headquarters in Medan, North Sumatra to the region to oversee the company. The 18 “inner ring” villages that border directly with the company lands are prioritized in the recruitment process whenever the company is hiring, but the recruitment is open to all villages in both districts, it even extends to the whole province. PT Socfin absorbs many local workers in various levels of employment, locals can choose between unskilled labor, semi-permanent, or permanent work. And working as a semi-permanent and permanent worker in the company opens access to plenty of benefits and facilities from the company. The village leaders of the 18 prioritized villages are contacted when the hiring process is open. This privilege and option to choose different types of work opportunities have benefited the local communities. As some people may have their own farm, palm oil plantation, shop, or business to attend to, so choosing unskilled labor or a semi-permanent job with fewer working hours is a more viable option, and they can attend to their business after working hours. Therefore locals have an opportunity to earn a steady income and still go about their business. An interviewee stated this:

> *"Thank God so far the impact has been the best because now the majority of our people are 80% employees, employees at Socfindo"*
> *(Village Leader in Darul Makmur, 20 March 2023)*

Table 5. Human Capital Impacts from FDI Companies

Indicators	PT MPG (steam power plants)	PT Socfindo (Palm oil plantation and factories)
Access to health facilities	No significant impacts	Positive
Impacts on the health condition of local communities	Negative	Positive
Access to education	No significant impacts	Positive
Access to knowledge, and skill	No significant impacts	Positive
Work opportunities	Moderately positive	Positive

4.5. Social Capital

Internal relations of local communities

The results indicate that the presence of PT MPG (steam power plants) and PT Socfindo (palm oil plantation and CPO factories) does not have any significant impact on the internal relation of their respective local communities, and the coherence of locals are not impacted by FDI companies in their region. Although there are a couple of findings that were a key of interest regarding this matter. For instance, work opportunities from PT MPG absorbed locals in Suak Puntong and Peunaga Cot Ujong as their daily paid unskilled labor. As this job is energy consuming and with long working hours, locals who worked there became more prioritized with their work and became disengaged with cooperation in the local communities, for instance when organizing cultural events. Even so, this phenomenon did not impact the unity of the locals as stated by the interviewees. As for PT Socfindo, the 18 “inner ring” village leaders in Kuala Pesisir and Darul Makmur districts are in good relationship with each other, since they have meetings and frequent encounters to discuss the matter of CSR from PT Socfin and discuss any matter related to the company, with sometimes the company representative also joined. These meetings are even encouraged by the company to strengthen unity in the local communities, thus strengthening the relationship between PT Socfindo and local communities. However, the findings did not give any indication of the whole unity of the local communities is strengthened by this, as only village leaders attend these meetings.

Relationship between local communities and newcomer workforces in the region

The findings indicate that the relationship between the local communities of Suak Puntong and Peunaga Cot Ujong with the newcomer workforce of PT MPG (steam power plants) is non-existent in terms of social integration. Although the newcomer workforce Other than unskilled labor workers, PT MPG hires workers from outside the province, very few permanent or contract-based workers are from the province let alone the villages. Many workers were also brought from China, where they work and live on company grounds. This has caused friction between the outsider workers with local communities, as the company chose to hire outsiders in a rather discreet manner. Furthermore, there is no social integration between the outsider workers and the local communities, as interview participants stated that the newcomer workforce is unconcerned about making relationships with the local communities. Also, outsider workers who are hired by the company often do not respect the rules of the village, for instance, reporting to the village administration that they will be working and staying in the region. This has caused a bad image of the outsider workers from local communities' perspectives. An interviewee shared his view regarding this matter:

> *“Nothing, you could say there is no relationship, they wanted to bring in an outsider” (Man from Suak Puntong, 18 March 2023)*
>
> *“They don’t care about our village rules, there must be a domicile permit, if it only 1x24 hours it isn't necessary, but apart from that, there must be a domicile permit, so that's what they don't have” (Man from Suak Puntong, 18 March 2023)*

As for PT Socfindo (palm oil plantation and CPO factories), they absorbed many workers from the local communities of Darul Makmur and Kuala Pesisir, and the number of outsiders that are working in the company is few in numbers. Even so, the findings indicate that they have a good relationship with the locals. The company representatives are involved with the locals, especially regarding CSR and coherence with village leaders. Whenever the local communities organize cultural events they invite the company representative, and vice versa. Even when the company organizes cultural events people from the local communities are welcomed. An interviewee stated this:

> *"Yes, we also with Socfindo once every 3 months or once every 5 months we often sit together for coffee and also discuss together about any village problems, with Socfindo management [when asked about social integration] yes we are very close" (Village leader in Darul Makmur, 20 March 2023)*

Relationship between local communities and FDI Companies

There is plenty of friction regarding the relationship between the local communities of Suak Puntong and Peunaga Cot Ujong with PT MPG (steam power plants). First, there is the matter of air pollution caused by coal dust in the region, followed by other negative environmental impacts (see sub-chapter on environmental impacts). Second, the air pollution caused by coal dust also affected the health conditions of the locals. Third, the work opportunities problem, where locals are only able to work as unskilled labor in the company, and the permanent jobs are recruited from outside the region discreetly. Fourth, the are certain company behavior and policies that did not heed local culture and village rules. For instance, the matter of short break time, as the locals are Muslim majority they need a break for their praying time. A short break time for the daily unskilled labor workers absorbed from local communities makes it difficult to make time for prayer, on top of that there are no praying facilities in the company premises. This issue has been addressed by the local communities to the company but has not been responded to.

All of these problems violate the prior agreement between the local communities and PT MPG, particularly the air pollution which violates the AMDAL (Environmental Impact Assessment) agreement. In the occurrence of environmental impacts that harm local communities, compensation is in order from the company, however, until now (August 2023) there is no compensation given. These problems piled up and add to the conflict between local communities and PT MPG. However, it is also noted that PT MPG gave donations to the local communities coinciding with the cultural events (such as Maulid, Ied Al Fitr, and Ied Al Adha), as well as donations to the orphans in the local communities. Unfortunately, this does not help alleviate the conflict, as the locals also stated that compared to two other companies in the coal mine and steam power plant complex (DDI companies: PT MIFA and

PT PLN), PT MPG has given the least in terms of donations to local communities. An interviewee shared his view regarding the relationship between the company and local communities:

“that's the case, it's difficult for us to talk to them [PT MPG], for example, if we want to ask them to work there, it's difficult. It's actually like we are being stepped on by them” (Village leader in Peunaga Cot Ujong, 17 March 2023)

In comparison, the local communities of Darul Makmur and Kuala Pesisir have a good relationship with PT Socfindo (palm oil plantation and CPO factories). The findings indicate that the good relationship between the two is caused by the positive impacts that PT Socfindo brought to local communities. For instance, the majority of the workers are from local communities, health programs and facilities from the company, good waste disposal and management by the company, various foster groups and training programs from the company, routine donations to local communities, assisting in the construction or rehabilitation of public building or facilities, and local communities are a priority in terms of hiring new workers for the company. Furthermore, the management level and company representative maintain a good relationship with locals through village leaders and are very considerate toward the needs or complaints of local communities. An interviewee stated this:

“PT Socfindo which is in our area and territory in the sub-district of Darul Makmur, we are very grateful and proud of the company PT Socfindo which has been very helpful to the people in the circle of PT Socfindo and also CSR given by Socfindo in their maximum capacity” (Village leader in Darul Makmur, 20 March 2023)

Table 6**.** Social Capital Impacts from FDI Companies

Indicators	PT MPG (steam power plants)	PT Socfindo (Palm oil plantation and factories)
Internal relations of local communities	No significant impacts	No significant impacts
Relationship between local communities and newcomer workforces in the region	Negative	Positive
Relationship between local communities and FDI Companies	Negative	Positive

Donations or contributions to local communities (e.g. cultural events)	Positive	Positive

4.6. Natural Capital

Access to land resource

The presence of PT MPG (steam power plant) as a new addition to the coal mine and steam power plant complex (PT MIFA and PT PLN) affects changes in the landscape of Suak Puntong and Peunaga Cot Ujong villages, as the two villages have to make room for PT MPG company grounds. PT MPG has caused the displacement of land and houses in two villages, although the company did purchase the lands from locals at a fair price that followed the determined price from KJPP (public appraiser service), which is bound by rules from the Ministry of Finance of Indonesia when appraising the value of the land. The land purchases also have the consent of locals as stated by the interviewees. Of those who have to relocate, people in the community help them find a new home or land still within the two villages or close by. Since most of them would like their neighbors that had to relocate to still be kept within the community.

Even though land availability within the two villages is reduced because of the company, locals stated that is not a significant problem since they can find land outside the village, where more land is available. In the rainy season, lands that are used for agricultural purposes are flooded because of the presence of the company that disturbs the sewage and drainage system that flows into the ocean, this problem adds to an already poor sewage and drainage infrastructure in the villages. Air pollution caused by coal dust also disturbs agricultural and land use in both villages. Furthermore, The activity of daily sand extraction on the nearby beach by the three companies of coal mine and steam power plants complex (PT MPG, PT MIFA, and PT PLN) has caused a negative impact of coastal abrasion, even impacting the coconut plantation that belongs to local communities.

In contrast, because PT Socfindo (palm oil plantation and CPO factories) and its company grounds predate even some of the villages in Darul Makmur and Kuala Pesisir districts, it does not cause any land displacement, as the company uses HGU (Cultivation Rights) land that belongs to the local government and not part of the local communities land. Where basically the villages grew surrounding the company itself. However, there are several villages that are part of the 18 “inner ring” villages that cant expand and have little land resources because they are surrounded by company plantations. In this particular problem, the locals opted to purchase or use land outside the villages but are still within the two districts. PT Socfin through its environmental services and CSR also helped open new roads to access agricultural land belonging to local communities, by lending their heavy equipment with an operator (e.g. excavator) free of charge.

Access to water and aquatic resource

The findings indicate that PT Socfindo (palm oil plantation and CPO factories) does not have a significant impact on the access to water and aquatic resources of the Darul Makmur and Kuala Pesisir districts. Although, there are several programs and donations regarding water and aquatic resources given to the local communities. For instance, creating foster groups of various fish cultivation and providing fish seeds for local communities. Donation of giving boats to fisherman villages in the local communities. Donation of fish ponds and fish seeds to the less fortunate in the local communities, to increase their economic resilience. Also, donations of fish seed and fish ponds to the locals with disabilities.

Whereas findings in Suak Puntong and Peunaga Cot Ujong indicate that PT MPG (steam power plants) has a negative impact on the water and aquatic resource of local communities. This is primarily caused by two things, firstly the activity of sand extraction by the three companies of coal mine and steam power plants complex (PT MPG, PT PLN, PT MIFA), has caused abrasion on the nearby beach and disturbed the marine ecosystem. Secondly, the activities of moving coal to the coal barge also disturbed the marine ecosystem, since there are occasions when the transported coal drop into the ocean. The interviewees stated:

" We are a little disappointed with the company since the company port was built. Every day it is 1,000 cubic meters of sand extraction. If I'm not mistaken. It affects the coconut plantation of locals. The seaside beach where people's coconuts grow, about 100 meters have been taken by the sea of abrasion" (Man from Suak Puntong, 18 March 2023)

"[When asked about impacts to aquatic resources] There are drawbacks on our ocean, we are fishermen, before there was the power plant company port, when we look for fish, the fish are easier to catch. But now from Meulaboh to Nagan Raya, also including Suak Puntong, the fish are running low, there are not enough" (Man from Suak Puntong, 18 March 2023)

Services provided by the companies that helped the local environment

Findings in local communities of Darul Makmur and Kuala Pesisir districts indicate that PT Socfindo (palm oil plantation and CPO factories) gave numerous environmental services to the local communities. These environmental services included lending heavy equipment (e.g. excavator, road grader) and services to help local communities maintain and enhance their environment. For instance, watering the grass in local communities, cleaning the drainage systems, lending excavators and its operator to open access to locals plantation or farms, lending road graders and their operator to fix or enhance the local road, also lending bulldozers and their operators to excavate new lands in local communities.

In comparison, the findings indicate that PT MPG (steam power plants) hasn't given any environmental services to the local communities of Suak Puntong and Peunaga Cot Ujong villages. Although Suak Puntong and Peunaga Cot Ujong villages have received environmental services from other companies in the coal mine and steam power plants complex (PT MIFA and PT PLN).

Impact on the local environment

Findings indicate that both PT Socfindo (palm oil plantation and CPO factories) and PT MPG (steam power plants) have an impact on the local environment, although the severity between the two is very different. This is heavily influenced by the management of each company regarding their waste and pollution. For PT Socfindo, the waste that they produce is being managed and filtered thoroughly, this is done by creating different-level ponds that would filter the waste so that at the end process it would not cause damage to the environment. The participants from Darul Makmur and Kuala Pesisir districts even stated that fish can live in the water at the end of the waste filtering process, this implies that waste management is very thorough. An interviewee stated:

> *"[When asked about the company waste management]* […] There are 8 pools, that filters until the last one […] the end water is clear where fish can live there around the output of the disposal, even people are surprised" *(Village leader from Darul Makmur, 20 March 2023)*

The in-depth interview did not find any indication of harmful disturbances by the waste from PT Socfindo as stated by the interviewees. Although, it is also noted that there are several other plantations belonging to different companies in the region. The in-depth interview indicates that there are contrasts between the plantation companies regarding their waste management. The interview participants stated that among many palm oil plantation companies in their local communities, PT Socfindo is deemed to be better in its waste management by locals. The interviewees stated:

> *"[When asked about the company waste management]* […] but compared to the other 5 companies, this [PT Socfindo] is considered safe […] PT Socfindo have a good waste management" *(Village leader from Kuala Pesisir, 19 March 2023)*
>
> "[when asked about waste leakage] No, no, they did a sterile examination of that, in fact, they even got the waste breaker over there on the front" *(Village leader from Darul Makmur, 20 March 2023)*
>
> "[when asked about the waste impact on the environment] Yes, it's minimal, we say it's minimal because there haven't been any people who have contras, because if it has had an effect on the community, the community will definitely be contras, and they definitely report it to the village head, but for the time being it hasn't" *(Village leader from Darul Makmur, 20 March 2023*

However, on rainy days several villages located near the waste ponds reek of bad smells that become a disturbance in terms of odor pollution. There is also smoke and dust caused by burning activity by the company, but the locals stated that the air pollution is a minor disturbance, since the quantity is small and situated far from the local's house complex.

As for the case of PT MPG, the findings indicate that the company caused several major environmental harms to the local communities of Suak Puntong and Peunaga Cot Ujong villages. First, the establishment of the company, adding to the two previously established companies in the area has reduced the green space of the two villages. Second, the major air pollution caused by coal dust mixing with the air due to the activity of transporting coal using conveyor belts and land vehicles has caused a major disturbance in the local communities. Besides the environmental impacts, air pollution impact the health condition of locals, access to land resources, income and wages, access to roads, the daily life of local communities, and the relation between local communities and PT MPG itself. Third, sand extraction and coal loading to a coal barge on the nearby coastline have caused coastal abrasion and harmed the marine ecosystem of the local communities. Lastly, the presence of the company and its water waste disturbs the sewage and drainage system, adding to an already poor system caused by poor infrastructure, it also causes floods in local agricultural lands in rainy seasons. The interviewees stated:

"[when asked about environmental impacts] Obviously there has been a change, at first we were comfortable, there is no coal dust, as long as the company is here coal dust is here, that's for sure, that can't be denied anymore" (Man from Suak Puntong, 18 March 2023)

After that, it's like the weather is getting hotter, the greenery has been reduced, because of its (PT MPG) area is broad, and the land acquisition is also extensive" (Man from Suak Puntong, 17 March 2023)

***Table 7*.** Natural Capital Impacts from FDI Companies

Indicators	PT MPG (steam power plants)	PT Socfindo (Palm oil plantation and factories)
Access to land resource	Negative	Moderately Positive
Access to water and aquatic resource	Negative	No significant impacts
Impact on the local environment	Negative	Moderately Negative
Services provided by the companies that helped the local environment	No significant impact	Positive

4.7. Physical Capital

Access to roads

In terms of access to roads, there is a national road that passes through the local communities of Suak Puntong and Peunaga Cot Ujong villages. The interview participants stated that since companies are operating in the region including PT MPG (steam power plants), the national road gets more attention and rehabilitation from the government. PT MPG also paved new roads to access its facilities so as not to use the village roads. Although the company uses the national road to conduct several activities, such as transporting coal using transport vehicles from the mine to the company, these activities stated by the locals can cause the national roads to be impacted by coal dust and cause a disturbance. Furthermore, the air pollution caused by the company also disturbs locals' access to roads, where locals stated that because of air pollution, they have to use helmets or masks for protection from the dust since the majority of the vehicles that locals use are motorcycles. Although, these impacts on roads are deemed to be a minor disturbance by locals since the presence of companies in the region directs the attention of the government to build better road infrastructure in their region.

> *"So to meet the needs of the power plant from the supply of coal, the company used access for national roads, the only complaint is about the dust problem, right, even though it's a little, it caused the road to be dusty" (Man from Suak Puntong, 17 March 2023)*

As for PT Socfindo (palm oil plantation and CPO factories), they have their own roads around all of their plantations and company grounds, so their access to roads is separated from those which belong to the public. The company even allowed locals to use company roads since some villages in the districts of Kuala Pesisir and Darul Makmur are located in the heart of their plantation. The environmental services that the company provides also impact locals' access to roads. For instance, the company lends an excavator with the operator for opening up access roads to farmland belonging to locals, and also lending road graders with the operator to maintain or enhance village roads.

Access to communal buildings/facilities

The results indicate that PT MPG (steam power plants) have no significant impacts on access to communal buildings/facilities of Suak Puntong and Peunaga Cot Ujong villages. Until now (August 2023) there are no programs from PT MPG that assist in building or rehabilitating communal facilities/buildings in both villages, either through its CSR or by its own initiative. Where this is a uniform statement from all the interview participants from both villages. Both villages have received some form of assistance in building or rehabilitating communal facilities/buildings from other companies in the region (such as assistance in building several local mosques), but never from PT MPG.

In contrast, PT Socfindo (palm oil plantation and CPO factories) through its CSR has helped numerous communal buildings/facilities in the local communities of Darul Makmur and Kuala Pesisir districts. PT Socfindo has helped with the construction or rehabilitation of the village administration offices, mosques, football fields, volleyball fields, drainage systems, school buildings, village roads, and even a public cemetery. This is done by submitting a proposal of assistance to the company through village leaders, and then the company assisted by giving materials or equipment instead of money. On several occasions, the company also hired workers to help with the construction or rehabilitation of communal buildings/facilities.

Although because the CSR of the company is split into 18 different villages ("inner ring" villages) in Darul Makmur and Kuala Pesisir districts, the villages take turns in receiving the construction or rehabilitation assistance, with only several villages prioritized each year to fit the CSR budget. All the decision-making and discussions on which village should be prioritized each year are left to the leader of the villages. The company also has a program for the rehabilitation of unhabitable houses in the village, particularly which are owned by the less fortunate household, in which the villages also take turns in receiving this benefit each year.

" Our public facilities are assisted by the company, one of which is when we have religious events, there are activities to make assistance for mosques, assistance for schools, for our use, through CSR the company assisted us" (Village Leader in Darul Makmur, 20 March 2023)

Access to clean water and irrigation

The results indicate that both PT MPG (steam power plants) and PT Socfindo (palm oil plantation and CPO factories) do not have any significant impacts on access to clean water and irrigation in their respective local communities. The interview participants stated that most of the households in the local communities of Suak Puntong, Peunaga Cot Ujong, Darul Makmur, and Kuala Pesisir use water well drilling to get clean water and irrigation, this includes their own households. The interview participants also gave a uniform answer that the presence of the two companies in their region does not impact the access to get clean water and irrigation, either positively or negatively.

"[when asked about access to clean water and irigation] If it's related to clean water, okay, no problem […] We use our own wells, we use our own drills [water well drills]" (Man from Suak Puntong Village, 18 March 2023)

"[when asked if the presence of the company disturbs access to clean water and irigation] Ohh, no, there's no disturbance, there's no effect […] Over here there are those who use wells, there are those who use drills [water well drills] here" (Village leader in Darul Makmur, 20 March 2023)

Access to energy

The same thing goes for access to energy. The presence of both companies does not impact the access to energy in Suak Puntong, Peunaga Cot Ujong, Darul Makmur, and Kuala Pesisir households. PT Socfindo uses its own power sources and electrical grid, even the official residence of the management level in the company connects to its own electrical grid and not the public grid. Similarly, PT MPG, being a steam power plant company, produces its own energy. Although, the interview participants in Suak Puntong and Peunaga Cot Ujong villages expect at the very least their electrical bills to be subsidized, since both the coal mine and the two steam power plants that can produce 230 Mega Watt each are in their region, unfortunately until the present time the households in the two villages still paying the rate of electrical bill.

***Table 8*.** Physical Capital Impacts from FDI Companies

Indicators	PT MPG (steam power plants)	PT Socfindo (Palm oil plantation and factories)
Access to roads	Moderately Negative	Moderately Positive
Access to communal buildings/facilities	No significant impacts	Positive
Access to clean water and irrigation	No significant impacts	No significant impacts
Access to energy	No significant impact	No significant impacts

4.8. Financial Capital

Impact on wages/income

Findings indicate that the presence of PT MPG (steam power plants) and PT Socfindo (palm oil plantation and CPO factories) positively impacts the wages/income of their surrounding local communities. These findings are uniform in both FDI companies, although the extent of the impact on their respective local communities is different in each company. In the case of PT MPG, Suak Puntong and Peunaga Cot Ujong villages had their first impact on their income through the land acquisition process that the company had to do to build their vicinity. The company buys the lands from locals, for which they pay the land price that followed the determined price from KJPP (public appraiser service), which is bound by rules from the Ministry of Finance of Indonesia when appraising the value of the land. The locals whose lands are bought by the company acquire substantial amounts of money depending on the size of their land. There are also work opportunities from PT MPG as daily paid unskilled labor. Although people in the local communities demand a more permanent job from the company, they stated that the work opportunities as daily paid unskilled labor indeed have reduced unemployment and enhanced their local economies. This is because it is easier to find a job because of the presence of the company, and with daily payments, the workers have a steady income that can be calculated to a month's work. Interview participants stated that the daily payment is around Rp. 100.000 to Rp 200.000 per day/person, and a month's work amounts to around Rp 2.800.000 to Rp. 3.000.000 per person.

Before PT MPG reside in their local communities, most of the local's occupations are farmers or fishermen. These two occupations heavily depend upon the seasons and natural resources, and thus do not bring steady income each month. That is why even though it is only unskilled labor jobs that the company offer, the steady income gave positive impacts and stability to people's wages. Plus as many unemployed with previously very little income working as unskilled labor, it also impacts greatly to their income situations. Thus the findings indicate that people from the two villages who work for the company have a positive impact on their income. As for people who do not work for the company the impacts on their income are determined by their occupation. Those who have business establishments in the local communities, such as local grocery stores, food stalls, local restaurants, fruit shops, coffee shops, and others have also been positively impacted. This is caused by the newcomer workforce that PT MPG brought to the region, and as many outsiders are recruited for permanent and technical jobs, more people came and lived in the region. This leads to more customers for the business owners. For instance, Interview participants stated that before the company came, food stalls opening from morning till sundown only sells less than 10 units, but now the shop can be closed before sundown because they are sold out. Although this positive impact on income/wages does not apply to occupations like farmers and fishermen, as they have nothing to do with the company or company activities.

Similarly, in the case of PT Socfindo, the company impacts positively to the income/wages of people in the Darul Makmur and Kuala Pesisir districts. PT Socfindo absorbed most of its workers from the two districts, even giving them priority when hiring. As many people in the local communities work for the company their income became stable. As the working hours of the company are also pre-determined depending on what job people choose, it is not rare to see that locals have a job in the company and another job on the side. For instance, develop farmland, shop owners, have their own palm oil plantations, or others, thus adding more income stream for locals.

Access to loans or credit

The results indicate that both PT MPG and PT Socfindo do not have any significant impacts on local communities access to loans or credit for any purposes. Both companies never introduce any loans or credit programs to their respective local communities nor do they open access to loans and credit for locals.

Table 9. Financial Capital Impacts from FDI Companies

Indicators	PT MPG (steam power plants)	PT Socfindo (Palm oil plantation and factories)
Impact on wages/income	Positive	Positive
Access to loans or credit	No significant impacts	No significant impacts

5. Discussion

This chapter is dedicated to discussing the findings in relation to the research questions of the thesis, with a reflection on the concepts used and previous studies.

Following the modified concepts of livelihood capitals from the SL approach and in relation to the main research question the study aims to see the impacts of FDI on the livelihood capitals of local communities. Section 4 described the impacts of the two selected FDI companies on each of the livelihood capitals in their surrounding local communities. Looking at these findings both FDI companies (PT MPG and PT Socfindo) have impacted different livelihood capitals of their respective local communities. Although, as seen from the findings, the two companies show little uniformity in the impact on different livelihood capitals. Despite both FDI companies being resource-based FDI that utilize local's natural resources as their foundation to operate, the findings indicate differing impacts from both companies.

PT MPG (steam power plants) exhibits more negative impacts across different livelihood capitals, except for the positive impacts in financial capital, work opportunities (human capital), and donations to local communities from the company (social capital). Whereas PT Socfindo (palm oil plantation and CPO factories) exhibits more positive impacts, except for the negative impacts on the local environment (natural capital). The findings of little uniformity of FDI impacts that fall under the same category support the argument of Moran (2010) that stated FDI in the same category (e.g. FDI extractive industries) can lead to various impacts, where it can be quite positive, or exceedingly negative which depends on the policy framework and institutional setting of the host region (Moran, 2010)

However, it is also important to note there is some uniformity of impacts on the five livelihood capitals of local communities from both companies. First, both companies (PT MPG and PT Socfindo) impacts positively to the financial capital of their respective local communities. The findings indicate that both bring a positive impact on the income/earnings of their respective local communities. This is mainly caused by both companies introducing new work opportunities, thus attracting local communities to work for the company bringing a new stream of income for locals (see subchapter on impacts of income and work opportunities). In comparison, the previous occupations in the local communities are farmers or fishermen, with some working as unskilled labor in other people's farms if they don't have their own land. These occupations rely heavily on natural resources and the local climate to make a profit, when the corps is successful or the catch of the ocean is plenty locals gain a steady income, but when it is not, steady income is hard for locals. The presence of both companies that introduce new work opportunities brings access to steady income for locals and gives opportunities for those who do not have land to work. Also, locals who have their own land or business see work opportunities from FDI companies as another stream of income by locals on top of managing their farming lands or other businesses. Therefore, the presence of both companies impacts positively on the financial capital of local communities.

Similarly, the increase in income is also experienced by members of local communities that have their own businesses (e.g. small grocery stores, food stalls, local restaurants, fruit stalls, and coffee shops), This is caused by the attraction that the companies bring to the region, attracting people from outside local communities to come to the region for work opportunities or conducting business with the companies. Thus bringing new customers into local communities.

Second, both companies (PT MPG and PT Socfindo) impacts negatively towards the natural capital of their respective local communities, particularly bringing negative impacts on the local environment (see subchapter on the impact on local environment). Although the severity of the negative impacts is different between the two companies, where it heavily depends on the management of waste and pollution by the company and their compliance with government regulations regarding the environment. In the case of PT MPG (steam power plants), the findings reveal the negative impact on the local environment is very severe that it creates a domino effect on other livelihood capitals of surrounding local communities. Air pollution caused by coal dust impacts the health condition of locals (human capital), sand extraction activity caused coastal abrasion thus harming the marine ecosystem and local coconut oil plantation (other natural capital), and the company's presence disturbs the sewage and drainage systems (physical capital), thus damaging the relationship between local communities and the company (social capital).

Whereas for the case of PT Socfindo (palm oil plantation and CPO factories), the negative impacts on the local environment are less severe because of better management of company waste and pollution (see subchapter on the impact on local environment). But, even with a good waste management system negative impacts caused by the resource-based FDI is still inevitable. For instance, odor pollution in villages located near the waste filter ponds, air pollution because of smoke from burning activities by the company, and several villages in the two districts that surround PT Socfindo cant expand and have little land area because their location is between company plantations. Therefore the findings indicate that FDI projects coming to the region will sacrifice local natural capital, but the severity of it can be lowered with good waste and pollution management and compliance with local environmental regulations.

When discussing whether the FDI companies induce livelihood capital of local communities it is important to analyze the aggregate impacts from different livelihood capitals. Section 4 of this thesis has analyzed the impacts on each livelihood capital individually. In this section, we analyze the impacts of different livelihood capitals collectively, as this is important in the SL approach to comprehend the livelihood conditions and to see do FDI have inducing impacts on the livelihood capitals of the local community (Mallick, Sultana, & Bennett, 2020). In the case of PT Socfindo (palm oil plantation and CPO factories), the impacts are positive across different capitals, except for the negative impacts on the local environment (natural capital). But since the negative impacts on the local environment are less severe, it does not outweigh the positive impacts of the company on the other four livelihood capitals. Therefore in the case of PT Socfindo, it does induce livelihoods capitals of local communities

As for the case of PT MPG (steam power plants), the company has positive impacts on financial capital that are mainly caused by bringing new work opportunities (human capital) to local communities. Although, the few positive impacts do not outweigh the negative impact on the other livelihood capitals. The company did bring new work opportunities that create a stable income for locals and locals can find work easily since the company set foot in the region. But, at the same time, the severity of the negative impacts on the local environment that create a negative domino effect on different livelihood capitals has subtracted greatly from the collective livelihood capitals of local communities. The new work opportunities that give locals access to stable income come at the cost of negative impacts on health conditions caused by severe air pollution by coal dust. When seen collectively, this does not induce locals' livelihood capital. Because even though the local financial capital of locals is increased, locals are deprived of their health condition (human capital).

Deprivation of health conditions is a degradation of locals' livelihood capitals (see subchapter of impact on health condition), not to mention that when locals' health is negatively impacted, they need to go to the hospital or purchase medicine to treat their condition, which will expend their income for that purpose. The positive impacts on financial capital also come at a cost of coastal abrasion, harming the marine ecosystem and local coconut oil plantations by sand extraction activity. Also, it comes at the cost of disturbance to local community sewage and drainage systems which subtracted greatly from the collective livelihood capitals of local communities. Therefore in the case of PT MPG, the FDI company does not induce livelihood capital of local communities.

In terms of whose livelihoods are positively/negatively impacted by the presence of FDI companies, the findings of this thesis indicate that the local communities that surround the FDI companies are the one who is impacted the most. For instance, PT Socfindo divides its CSR money and programs among the 18 “inner rings” villages of the Kuala Pesisir and Darul Makmur districts. The decision-making process has also been given to the village leaders regarding the division of the CSR, in collaboration with the company representative. These villages became a priority because of their location which borders directly with the company grounds or plantations. These 18 villages are also put on the priority list when hiring workers for the company, this is done by coordinating with their respective village leaders. The odor pollution and air pollution of smoke are also experienced by the villages located near the waste filter pond and the burning facilities, which are villages among those 18 villages.

As for PT MPG, The disturbance of sewage and drainage system are felt the most by the local communities of Suak Puntong Village, as the majority of the company grounds in Suak Puntong Village. But, the air pollution caused by coal dust, the negative impacts on natural capital, and the health condition of locals extend to both villages (Suak Puntong and Peunaga Cot Ujong). Moreover, the land acquisition agreement and the AMDAL (Environmental Impact Assessment) agreement are between the company and Suak Puntong Village. This implies in terms of decision-making and company relationship with local communities, Suak Puntong village is more prioritized than Peunaga Cot Ujong. But the impacts on livelihood capital extend to both local communities that surround the company grounds.

6. Conclusion

The current era of world connectivity and globalization has increased the external effect on local development. As a result of FDI (Foreign Direct Investment), as a form of international money flows, foreign capitals are able to enter the development of local regions in different parts of the world. Most definitely, the impacts of FDI itself on local development are still up for debate. Previous studies present various findings regarding the impacts of FDI. Some present findings of positive impacts (Tintin, 2012; Jimale, 2017; Iyer et al., 2018; Gurupandi & Eswaran, 2019; Kumar & Gopalsamy, 2019), negative impacts (Kotrajaras, 2017; Epaphra & Mwakalasya, 2017; Hickel et al., 2022), and studies that present both positive and negative impacts of FDI (Moran et al., 2005; Hermes & Lesink, 2003; Moran, 2010; Denisia, 2010; Cole et al., 2017)

In this thesis, the livelihood capital from the SL approach is used to determine the impact of FDI in local communities. In addition to seeing it from the bottom-up perspective (local communities' perspective). Through the findings, this thesis has argued that the two biggest FDI projects in the province of Aceh have impacted the livelihood capitals of surrounding local communities in the region. However, despite both FDI companies being resource-based FDI, the findings indicate differing impacts between the two, with only a few uniformity. PT MPG (steam power plants) exhibits more negative impacts across different livelihood capitals, with an exemption of financial capital. Whereas PT Socfindo (palm oil plantation and CPO factories) exhibits more positive impacts across different livelihood capitals, with an exemption of natural capital. These findings support the argument of Moran (2010) that stated FDI in the same category (e.g. FDI extractive industries) can lead to various impacts, which can be quite positive, or exceedingly negative which depends on the policy framework and institutional setting of the host region (Moran, 2010).

Furthermore, this thesis argued that resource-based FDI cannot be free from negative impacts on the natural capital of local communities, particularly impacts on local environments. Where utilizing local resources is their foundation to operate, negative impacts on the local environment are bound to happen. The negative impacts can only be reduced, through good waste and pollution management and following environmental regulations, but not diminished completely (as in the case of PT Socindo). In terms of financial capital, both companies exhibit a positive impact, particularly in increasing the income/wages of people in the local communities, thus positively impacting local economic growth. Where these findings supported the arguments of Tintin (2012), Jimale (2017), and Hermes & Lesink (2003) that argues FDI can induce economic growth.

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