



SUMMARY REPORT 2021

# Forests, Agriculture and Commodity Trade Indonesia Multi-Stakeholder Dialogue



## EXECUTIVE SUMMARY

As President of COP26, the United Kingdom is leading the FACT Dialogue on sustainable land use and trade in forest and agricultural commodities. Indonesia accepted the invitation to co-chair the dialogue together with the UK which will be initiated with a Ministerial Roundtable Dialogue in mid-April 2021. FACT aims for countries to mobilize and achieve collective, ambitious and transformative commitments, laying the foundation for soft commodity agricultural production systems that avoid tropical deforestation while assuring food security and economic development through trade. FACT is a Government led dialogue (G2G), supported by wider multi-stakeholder consultations (MS Track), aiming to strengthen political commitment and increase financial flows for nature-based solutions to climate change and biodiversity loss through transformative ideas.

FACT Multi Stakeholder Track Dialogue, is one of the facilities for parties, especially non-state actors to be involved and contributing to support the government in shaping principles & roadmap, forward planning and to ensure Indonesia's strategic agenda are incorporated considering a South to North perspective, not only a North to South perspective, and to move towards deforestation-free commodity production.

In parallel, The UK Government requested Tropical Forest Alliance (TFA), a leading public private partnership focused on commodity driven deforestation hosted by the World Economic Forum, to organize and convene the MS track. It is being set up to provide feedback and recommendations to the government process as well as align multi-stakeholder actions.

As part of the Forest, Agriculture and Commodity Trade Dialogue or FACT Dialogue Tropical Forest Alliance hosted the first dialogue in Indonesia on 10 March 10, 2021. Just recently, on 9 April 2021, the second dialogue was conducted online. The dialogue involved non-state stakeholders from supply chain actors (growers, traders, buyers) and civil society actors that have the same commitment to reducing commodity driven deforestation and building a forest positive future in Indonesia.

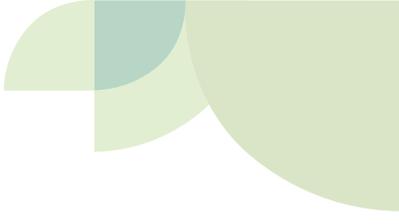
The dialogue aims to identify key trends, issues and opportunities for collaboration amongst stakeholders to support trade in commodities that have been produced sustainably, particularly in the area of trade and market development, smallholder support, traceability and transparency, and lastly research, technology and innovation. The dialogue resulted with two interlinked recommendations as follows.



### **Support from the Government of Producing Country, Support to Smallholders, Need for Sharing of Responsibility, and Multi Stakeholder Involvement**

Trade and market development is to some extent related to smallholders as part of the supply chain, especially for some commodities such as palm oil, coffee, and rubber. Support from both national and local governments in the producing country are key, especially in terms of issuance of supporting and enabling policies and regulations as a form of long-term commitment.

Support to smallholders can also be done indirectly but channelled through the companies who buy from them. In this case, the company will be the one having access to financial mechanism, which the fund then be channelled to smallholders in different forms including provision of good seeds, training, and as premium price.



Social commensurate efforts to create more demand for sustainable products is important to develop a sustainable market and to close the gap between supply and demand. It is important to ensure that sustainable products can all be absorbed by the market to allow premium price and proper price level for producers.

Multi stakeholders' involvement will be real implementation of sharing of responsibilities, not only between governments involved in international trading but also domestically amongst different actors be it central government, local governments, growers, buyer companies and other actors including local communities. A system that links upstream (smallholders and small suppliers) with off-takers (guarantee off-taking) and investors/financiers with the oversight of local government is one of the models for multi stakeholders' involvement.



## Transparency & Traceability, Research & Development (Innovation & Technology)

Recommendations for providing the incentives in transparency & traceability, research & development involve a combination of the leadership of the government but also the multistakeholder approach in the mammoth task to sustain a thriving transparent & traceable commodity, research & development that could support reducing expansion of businesses into carbon rich ecosystems, such as forests.

On transparency & traceability the government leadership is sought to among others: (i) Revise current regulatory framework related to transparency and traceability because the current framework is not encouraging the disclosure of the commodity supply chain information; (b) Enforce ISPO and find ways for Surat Tanda Daftar Usaha Budidaya Perkebunan (STDU-B) to be a tool to encourage traceability; and (c) Facilitate the development of a “universal traceability system” that should include independent small-holder’s.

Meanwhile on research & development the government leadership is also sought to among others: (i) Enhance the current research grant program that pairs universities with private sector actors and the topics for research may be directed to focus on supply chain issues; (ii) Encourage pairing of big companies to provide transfer of technology to smallholders in good seeds and eventually improving yields of smallholders and ease the pressure on forests; (iii) Provide investment in R&D and agricultural intensification and (iii) Capitalize on South-South cooperation beyond G2G but also bring South-South companies to co-invest in R&D, innovation.

Indonesia has now been undergoing transformation, building on existing actions to do better at protecting natural resources and continues the journey while also substantially reviving the economy into growth trajectory where the government encourages collaboration with stakeholders to reduce deforestation in the commodity supply chain.

The results of the FACT dialogue shall be leveraged to bring producers and forest country voices into the table and become a valuable input in the form of a strategic profile of sustainable supply chain discussions with which the government could utilize to obtain a better position in the wake of conversations with consumer countries.

## CONTEXT

This FACT Dialogue aims to understand key trends, issues and opportunities from multi-stakeholders in Indonesia to provide recommendations for the government to continue and build collaborative action to protect forests, enhancing livelihoods and supporting economic development with sustainable supply chains. The dialogue is divided into four key themes following the structure of the Ministerial Roundtable, which are Trade and Market Development, Smallholder Support, Traceability and Transparency, and Research, Technology & Innovation. Explanation for each theme are as follows:



### a. Market and Trade

This theme covers how to support the development, implementation, and alignment of domestic policies (across producers and consumers) that govern trade, market development and finance for agricultural commodities and forests.

### b. Smallholder Support

This theme aims to develop proposals to support to smallholders within the agricultural commodity supply chains, including identifying policy measures to support their participation in markets, access to finance, support forest management and standing forest preservation.

### c. Traceability and Transparency

This theme includes technical discussions around the proof and acceptance of any standards being met (i.e., certification), support information collection, monitoring and disclosure.

### d. Research, Technology, and Innovation

This theme focuses on supporting research, development, and deployment of innovative approaches to reduce land expansion into sensitive ecosystems.

Participants (please see the last page of this report for the list of participants) were divided into two groups. The first group covers topics on trade and market development & small holder support, while the second group covers topics on traceability and transparency & research, technology, and innovation.

The first group discussed questions related to Indonesia on: what actions Government could take to increase trade in commodities that have been produced sustainably; what examples of good practice and learning are; what measures are needed to support smallholders to transition to climate resilient agriculture; what a good model would look like and how could it be taken to scale; and who are the champions in the region and what are their best practices.



The second group discussed questions on: what actions Governments could take to help the traceability of sustainably produced commodities; how good practice can become widespread; what actions governments could take to help agriculture research and development be better aligned with farmers’ needs; what examples of successful partnerships in this area are and what lessons can be learnt; who the champions in the region are and what their best practices are?

Prior to the group discussions, survey was conducted with two questions on: what is the biggest hurdle to achieve sustainable commodities productions; and what can consumer countries do to support sustainable commodities production?



## FINDINGS

### Plenary

Stakeholders shared their thoughts and opinions on both questions as follows.

#### *What is the biggest hurdle to achieve sustainable commodities productions?*



*\*Issues on data was the most mentioned by the participants to be followed by incentive, finance and policy. Innovation as well as partnership also mentioned significantly.*

## What can consumer countries do to support sustainable commodities production?



\* Significant participants responded that consumer countries can assist by supporting the effort to ensure traceability of the commodities, while issues of premium price, support to smallholders and transparency were mentioned next in terms of responses.

### Group 1: Market and Trade & Smallholder Support

All stakeholders actively share their thoughts, opinions and input to each guiding question as highlighted below:

#### ***What actions could Government take to increase trade in commodities that have been produced sustainably?***

During the discussion in Group 1, participants agreed that the government could support the effort by providing umbrella regulation for a better facilitation for stakeholders to achieve the market standards.

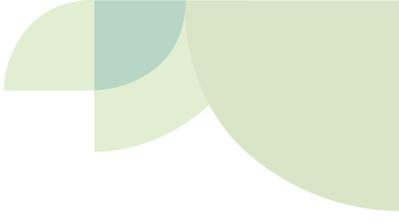
Some other participants believed that funding and other financial support are keys, especially as incentives for sustainable practices and disincentives for those unsustainable ones. Provision of more funding incentives and impact investing funds to companies with Landscape Protection Plan is also seen as a role of the government. To add to the incentives needed, some participants are of the view that incentives beyond funding are also needed including facilitation for getting the necessary permits.

Understanding that sustainability is and will be key for current and future commodities market and trading, participants saw the need for mandatory sustainability practices, similar to ISPO for palm oil, not only for companies but also for smallholders as important part of the supply chain.

Creation of demand for sustainable commodities can be part of the government support to this effort. Such demand creation can be done domestically through mandatory procedures mentioned earlier as well as government to government process for increasing international trading.

#### ***What are examples of good practice and learning?***

Participants responded to this question with some good practices in Indonesia, including good implementation of SVLK and ISPO as well as IDH-PPI. Some others also mentioned the need to learn for implementation of other activities and efforts such as training, verification of no deforestation (i.e. NDPE) and verification of any certified products in general.



Shared cost of sustainability and green investment were mentioned by some participants, which was also raised and discussed during the 10 March session. The provision of green investment and sharing of cost of sustainability will lessen the burden on the supply side, especially for the smallholders and growers. Premium price was also mentioned, and it is aligned with shared cost. However, participants were also discussed about the effectiveness of premium price only to the overall cost.

It was agreed that application of premium cost for sustainable commodities should not be a stand-alone effort, combining premium price with a certainty from the off-taker side can be one of the approaches. Another participant mentioned that what is needed is social commensurate efforts to create more demand for sustainable products. One key issue with ensuring sustainable products is the gap between the existing supply and limited demand, which will lead to lower price and more burden to the producers. It is important to ensure that sustainable products can all be absorbed by the market; and this can only happen when higher demand can be created.

Another good practice and learning is an initiative that to business models for farmers or small-scale suppliers that lead to increase revenue and in return getting access to finance and market. To have such models works, collaboration with multi stakeholders is important.

### ***What measures are needed to support smallholders to transition to climate resilient agriculture?***

Participants agreed that there is a need for provision of basic needs especially for smallholders, including of good seedlings, access to financial mechanism, access to know-how and technology for sustainable farming, including training and country wide agriculture extension services.

The issue of premium price came up again as a mean to support smallholders for adopting climate resilient agriculture. Strengthening and empowering smallholders were also mentioned by participants, which can be done through regular training complemented with better and environmentally friendly agriculture techniques and technologies, access to know-how and relevant and appropriate technologies, as well as access to funding. One participant raised the need for a farmer business model that is equipped with internal control system, financial know-how and capacity.

Another suggestion is to provide smallholders with a better internet access, which consider as a way to get better information as well as to allow for access to training.

One participant raised that yield intensification should be the first step in supporting smallholders to do sustainable practices. Another participant added the need to have a country wide agriculture extension services, to directly interact with smallholders in the field.

Again, incentives and disincentives were raised by participants as part of the efforts to support smallholders. There is also a need to have local banks to join hands in financing smallholders.

There was also a suggestion to establish group arrangement among the smallholders for shared conservation areas.

### ***What would a good model look like and how could it be taken to scale?***

One of good models raised in the discussion was a model that links upstream (smallholders and small suppliers) with off-takers (guarantee off-taking) and investors/financiers with the oversight of local government. Leaderships by local government by issuing local government policies and regulations, which can be assurance for long-term commitment. At the national level, such commitment can be put as a law to support sustainable practices. The existence of such policies and regulations will play significant role as a framework for a good model as mentioned previously.

One participant raised an interesting suggestion about access to financial mechanism, which mentioned that such access can be channelled through the companies who buy from smallholders. This is a form of incentives for companies that has inclusivity and Landscape Protection Plan metrics. With such financing, the producer companies can give incentives and support smallholders to do replanting and other efforts to ensure its sustainable supply chain.

Other participants mentioned the need for premium price for smallholders and off-take contract from buyer, bank aggregating finance for smallholders, CPO fund providing half as committed, local government support, and producer companies providing support for replanting, yield and quality.

There was also an interesting suggestion by one of the participants that taxes on palm oil trees that are beyond productive age should collected and the funds use to fund replanting which is a form of sustainable practice as well.

### ***Who are the champions in the region and what are their best practices?***

Participants agreed that basically smallholders and farmer groups are the champion with support by company and other stakeholder related. On the other hand, big growers and processors are doing a great job in the current difficult circumstance.

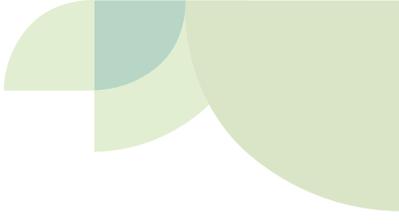
The currently implemented platform in some Kabupaten, such as in Aceh Tamiang, Siak, Musi Banyuasin, and Seruyan can be regarded as champions which heavily rely on multi stakeholders involvement from smallholders, off takers, government and financiers. One important lesson learnt is the provision of policy and regulation as a form of long-term commitment and leadership of the local government.

Participants agreed that champion in this case cannot be singled out as the good model has to be a good system involving multi stakeholders.

## **Group 2: Transparency & Traceability, Research & Development (Innovation & Technology)**

### ***What actions could Governments take to help the traceability of sustainably produced commodities?***

During the discussion in Group 2, the government facilitates change to the existing regulatory framework that supports companies who adopt transparency on how they conduct their businesses, to be distinct from other companies that do not. Therefore, the government is challenged for managing these two ends of the spectrum and managing balanced efforts between promoting transparency and handing of legacy issues. It is a “two-way street”.



The government needs to remain in a leadership role on transparency and traceability while rightly expecting that all stakeholders be constructive in adopting transparency and traceability requirements. Nevertheless, the incentive of being transparent is somewhat reputational. That is to be acknowledged of moving responsibly to the right direction and that can potentially change the current narrative which in the consumer countries perceive that such commodities are affiliated with countries that support unsustainable business practices.

The discussion raised that in support of transparency the government should intervene, increase the enforcement of the ISPO certification in the palm-oil business and that businesses themselves should also be transparent in disclosing their supply chains in support traceability so that all stakeholders clearly understand the complex nature of supply chains in the palm-oil business. It is hoped that by taking the initial step to be transparent may create opportunities for those actors in the supply chain to transform themselves into sustainable businesses.

The government has taken effort to promote transparency through various tools, ISPO (amongst many) and further needs to ensure that enforcement is in place.

The government needs to protect companies who comply transparency requirements from any misuse of such information.

### ***Who are the front runners in the region and what are their best practices?***

A good example like in Malaysia has set a best practice in the region for publishing their publicly accessible, downloadable data of RSPO members' concession maps, a policy which was provided and implemented since last year.

One of the NGO participant facilitates a collaboration with a state-owned company located in Siak Regency to develop a platform to trace supply chain of commodities from the farms all the way to the end buyer, with a good balance between privacy and transparency of data sharing. However, there still been observed that independent smallholders have yet to be covered in the large companies' sustainability systems and therefore a form of a "universal traceability system" can also be applied to independent smallholders, noting that they are a significant part of the industry (approximately 2 million smallholders) and therefore more attention and involvement be provided for the smallholders on transparency and traceability.

### ***What actions could governments take to help agriculture research and development be better aligned with farmers' needs?***

The Ministry of Education & Culture is currently managing Rp250 billion budget for research grants in support of research collaborations between higher education institutions with the private sectors (industry). It may be best if also directed to specific topics for example on the governance of supply chains in the commodity sector.

Promote a "South-South" collaboration in research, imperative for governments and companies to co-invest in R&D in anticipating the medium and long term problem of food security.

Protect proprietary rights resulted from higher education institutions-private sector research collaborations.

With regards to innovation in monitoring beyond the yield improvements, it is about providing actionable data for effective monitoring of the development of the plantation, and this will be a mammoth, joint task to be scaled up and reach mid-size and smallholders.

## RECOMMENDATIONS

The discussion resulted on few highlighted recommendations as follows:



### • Support from Government of the Producing Country

Both national and local governments have played significant role, and this can be strengthened through policies and regulations, including umbrella regulation for better facilitations for growers and companies to achieve the required standard by international market. Issuance of regulations will indicate long-term commitment from the government. Incentives, both in terms of financial and access to technologies and know-how as well as access to market, are seen to be important part of government's role to support relevant stakeholders.

### • Support to Smallholders

Smallholders as part of the supply chain in this trading will need to be supported and empowered. Support to smallholders on their basic needs for sustainable farming can be done through provision and access to good seedlings, access to financing mechanism, access to know-how and technology for sustainable farming, including training and country wide agriculture extension services. Premium price for smallholders and off-take contract from buyer will help smallholder to operate in a more sustainable manner. Incentives and support for replanting can be provided by producer companies to ensure its sustainable supply chain.

### • Need for Sharing of Responsibility

Sharing of responsibilities is key, not only between governments involved in international trading but also domestically amongst different actors in the producing country, be it central government, local governments, growers, buyer companies and other actors including local communities.

### • Multi Stakeholder Involvement

A model that links upstream (smallholders and small suppliers) with off-takers (guarantee off-taking) and investors/financiers with the oversight of local government has been implemented in some Kabupaten, such as in Aceh Tamiang, Siak, Musi Banyuasin, and Seruyan. One important lesson learnt is the provision of policy and regulation as a form of long-term commitment and leadership of the local government.

### • Providing Incentives for Transparency & Traceability

The government needs to provide the following actions: (i) Revise current regulatory framework related to transparency and traceability because the current framework is not encouraging the disclosure of the commodity supply chain information; (ii) Enforce ISPO and find ways for Surat Tanda Daftar Usaha Budidaya Perkebunan (STDU-B) to be a tool to encourage traceability; (iii) Facilitate the development of a “universal traceability system” that should include independent smallholders involvement; (iv) Encourage adoption of best practices in multi-stakeholders forum such the Consumer Goods Forums, TFA to disseminate among its members to amplify the best practices on transparency and traceability; (v) Address the limit to transparency by possibly requiring essential information for disclosure and ensure that context is accompanied with such information to prevent misunderstandings or even misused.

### • Providing Incentives for Research & Development (Innovation & Technology)

The government needs to provide the following actions: (i) We welcome the government’s effort that has already put in place a research grant that pairs universities with private sector actors. Here the topics for research may be directed to focus on commodity supply chain issues; (ii) Encourage pairing of big companies to provide transfer of technology to smallholders in good seeds and eventually improving yields of smallholders and ease the pressure on forests; (iii) Capitalize on South-South cooperation beyond G2G but also bring South-South companies to co-invest in R&D, innovation; (iv) Facilitate efforts to jointly safeguard companies of their proprietary rights in research data and/or results, including within that South-South cooperation.

Sectors	Participant
Producer	8
Consumers	4
Finance	1
NGOs	9
Academia	6
Service Provider	3

