

MOBILIZING CORPORATE ENGAGEMENT AT SUB-NATIONAL LEVEL

How companies are supporting sustainable development action plans in Indonesia

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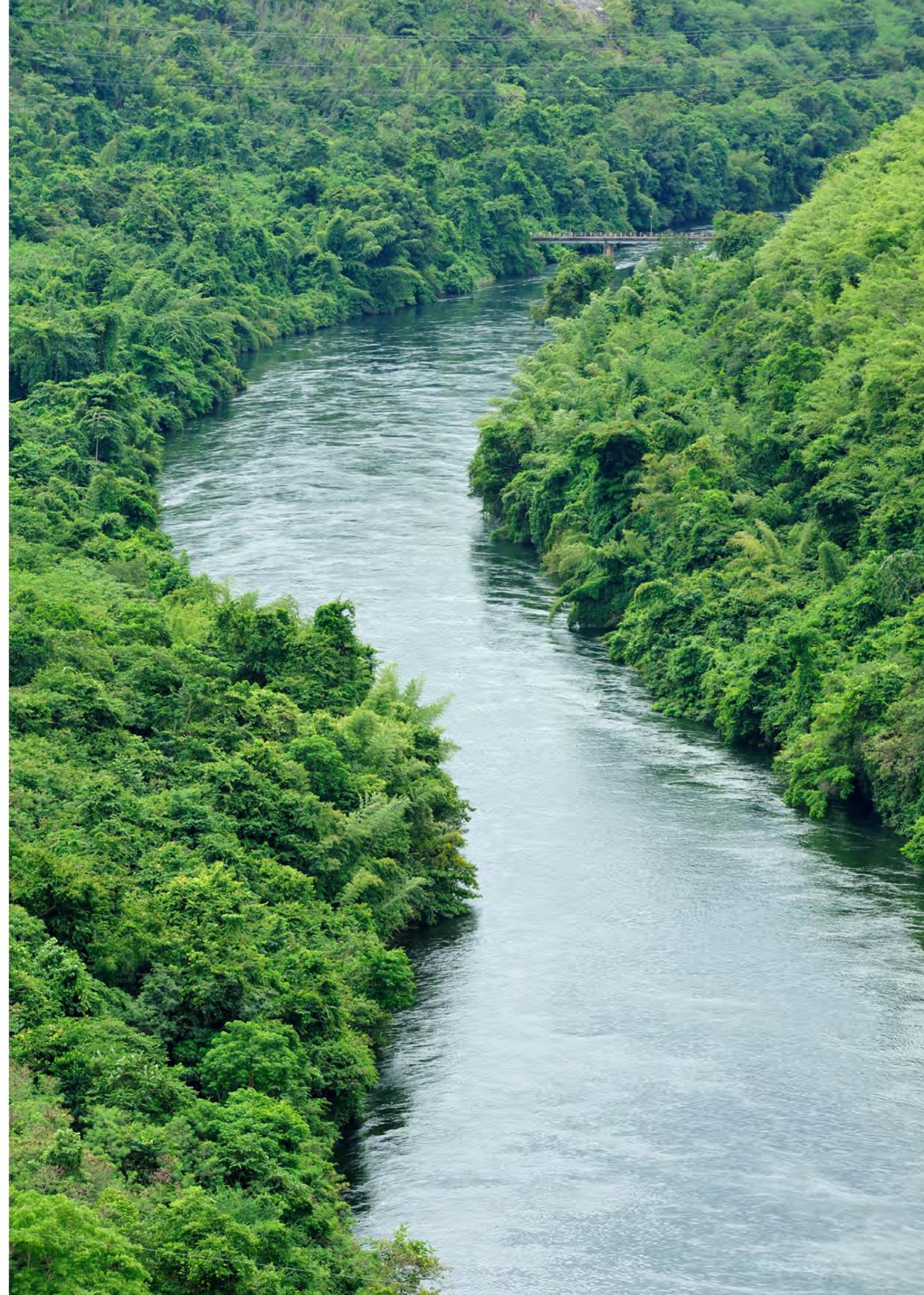
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ABOUT THIS BRIEFING

This policy brief is our analysis on the actions disclosed by companies through CDP's forests questionnaire that are aligned with Indonesian sub-national governments' sustainable development plans. It is aimed at regency-level policymakers in Indonesia to help elucidate the role of the corporate sector in halting deforestation and developing sustainable commodity supply chains in order to incentivize and scale corporate-government collaboration.

The actions taken and influence companies can exert throughout their value chains is recognized as a **vital ingredient for countries to meet their Nationally Determined Contributions (NDC), deforestation targets, and the Sustainable Development Goals (SDGs)**. There is therefore a need for greater alignment and coordination between companies, their operational stakeholders and governments on shared sustainability goals. 'Jurisdictional Approaches' is emerging as a promising means to unite stakeholders to extend the reach and longevity of positive action. However, as a nascent concept, there is limited awareness on its impact and applicability.

This brief reviews published Indonesian regency-level roadmaps, designed to implement 'sustainable development regencies' and improve the sustainability of palm oil supply chains. It discusses the importance of companies working in lockstep with regency governments towards shared sustainability goals and presents case studies and key actions that companies producing and sourcing in Siak and Pelalawan Regencies are already taking in support of these action plans. We introduce the concept of **Jurisdictional Approaches**, outline the challenges that need to be overcome to bring them to scale, and present a set of recommendations for regency-level policy makers to drive greater integration of corporate stakeholders.

What is the existing alignment between regency-level sustainability plans and company actions?

CDP conducted an analysis on 17 group-level companies, disclosing through the 2019 CDP forests questionnaire, who are producing and sourcing forests-risk commodities from Siak and Pelalawan Regencies, to provide a measure of corporate sector contribution in support of key elements of regency-level roadmaps.

KEY FINDINGS



Companies are more likely to engage with **multi-stakeholder forums** than directly with governments or policymakers to further the implementation of their sustainability policies.



The majority of producers and sourcing companies have pledged to eliminate deforestation from their value chains, however commitments to **forest landscape restoration** and limiting forest degradation are lacking.



Companies are aligned with national and regency-level action plans on **'no burning'** commitments.



Peat restoration activities need to be stepped up and disclosed to demonstrate support for government goals.



The level of **traceability** is currently insufficient to guarantee a sustainable commodity supply.



Companies are actively engaging with their **smallholders and direct suppliers**, predominantly through training and workshops.



There is a low **level of disclosure** on commitments, actions and impacts by concession owners operating in Siak and Pelalawan Regencies, giving limited visibility on the ground.

THE IMPORTANCE OF PUBLIC-PRIVATE SECTOR COLLABORATION

Preserving the world's existing forests is essential in the fight against climate change. Indonesia's forests are considered globally significant in keeping the global temperature rise below 1.5°C due to their extent, biodiversity, and carbon storage capacity¹. The country contains the third largest area of 1 tropical forest and is considered by Conservation International to be 1 of the 17 'megadiverse' countries in the world. Its forests support 10% of the world's flowering plant species and 12% of the world's mammals, 2nd only to Brazil.² The livelihoods of over one third of the population rely on the 2 ecosystem services these forests generate.³

Indonesia's forests have been under threat for decades. 26.8 million hectares of tree cover was lost between 2001-2019, representing 10.9Gt of CO₂ emissions⁴. This is the equivalent to a third of the world's emissions in 2018⁵. Palm oil and wood fiber plantations have been identified as the two greatest drivers of deforestation—between 2001-2015 approximately 1.6 million hectares and 1.5 million hectares were converted to palm oil and pulp and paper respectively⁶. The rate of forest loss has declined in recent years due to, inter alia, government moratoriums on primary natural forest and peatland permits and a drop in the price of crude palm oil. 2017 and 2018 saw a 30% drop in forest loss compared to the average annual loss rate between 2001 and 2016⁷. However, the recent Coronavirus pandemic has led to an uptick in illegal deforestation, likely due to reduced enforcement personnel. A 130% increase in tropical forest loss was observed in March 2020 compared to the average rate over the same period in 2017-2019⁸.

As part of Indonesia's contribution to the Paris Climate Agreement, detailed in its Nationally Determined Contribution (NDC), submitted in 2016, the Government of Indonesia has committed to reduce greenhouse gas emissions by 41% by 2030 with international assistance

(29% with its own resources). The Forestry sector alone is expected to deliver 60% of this reduction⁹. In 2020, as part of a standing REDD+ agreement, Norway sent the first payment of \$56.15 million to the Government of Indonesia for successfully reducing the deforestation rate in 2016-2017 - the equivalent of 11.23 million tons of CO₂¹⁰.

Government recognition of the influence of the corporate sector and their inclusion in implementation planning will be essential if they are to meet these public commitments. Whilst the government carries the mandate for land policy and related land use planning, they alone cannot achieve the scale of change in land use practices needed to address deforestation and related issues¹¹. Companies typically drive the majority of economic activity within a jurisdiction; their resource allocation decisions can shape the economic landscape and affect land use change; and their buying power has direct influence over how commodities are produced and supplied¹². Their contact with suppliers and smallholders, furthermore, creates an opportunity to develop technical expertise on sustainable practices and they add capacity and investment in addressing local social and economic challenges such as human rights abuses.



Early signs of government engagement with the corporate sector

The Indonesian Sustainable Palm Oil Forum (FoKSBI), led by the Ministry of Agriculture with active support from UNDP Indonesia, aims to coordinate all sectors and initiatives that are focused on the adoption of sustainable palm oil production and trade. FoKSBI has the active participation of three regency-level governments, including Pelalawan Regency (see page 11). FoKSBI actively support the implementation of Presidential Instruction No. 6/2019 on the National Action Plan for Sustainable Palm Oil (NAP-SPO), a wide-scale guidance for sustainable palm oil production in Indonesia¹³.

Jurisdictional approaches, where deforestation and other environmental and social issues are tackled at the level of a jurisdiction, is emerging as a new method for the corporate and public sector to work together, rather than independently, to deliver on common sustainability commitments. This form of landscape approach brings together all relevant actors within a political administrative boundary to co develop goals, align activities and share monitoring and verification¹⁴. Deforestation and other environmental and social challenges are complex and have impact drivers that tend to exist outside any one company's

areas of operation. Therefore, it is vital that all stakeholders active in the landscape are brought together. Commitment and political support from jurisdictional leaders, in this case the head of the regencies, are an essential ingredient to this approach, providing policy framework, the integration of principles and objectives of sustainability in development plans and enforcement capacity¹⁵. The possibility of sub-national government engagement can go further, to provide granular social, economic and environmental insight within their jurisdictions.



Jurisdictional Approaches present a number of opportunities, including^{16, 17}:

- ▶ **Addressing issues across sectors and at scale** – tackling deforestation through corporate or commodity-specific supply chains often results in patchy impacts on the ground. Jurisdictional approaches provide an opportunity to join up positive action on responsible production and conservation that lead to results on a wider scale.
- ▶ **Inclusivity and democratization of land use planning and management** – truly representative multi-stakeholder initiatives, where goals are co-created with all key actors in a jurisdiction, provides a space where smallholders are included. Smallholders don't tend to participate in certification due to cost and capacity constraints, however, through their engagement in such cross-cutting initiatives can lead to greater adoption of sustainable practices.
- ▶ **Connects up land use objectives** – e.g. where forest conservation objectives around ecosystem services such as water regulation is recognized as supporting improved commodity production.
- ▶ **Addresses leakage within a jurisdiction** – coordinated land use planning decisions and jurisdictional monitoring reduces the likelihood of displaced deforestation.
- ▶ **Aligns resources and investment** – cross-sector engagement encourages smart, coordinated and non-conflicting investment for maximum impact.
- ▶ **Resilience to political change** – accountability across multiple stakeholders with sufficient enforcement reduces the likelihood of initiatives being abandoned in the face of political change and can help to stabilize the supply of sustainable commodities.
- ▶ **Increased traceability** – by considering all stakeholders in a landscape that feed into supply chains, there is reduced risk of sourcing from irresponsible producers. Sustainable commodity production at jurisdictional level, where supply chains are 100% transparent and reinforced with monitoring and third-party validation, can provide assurances that commodities sourced within the landscape are being produced sustainably¹⁸.
- ▶ **Reduced regulatory risk for companies** – as the participation of government is a key ingredient of jurisdictional approaches, companies are more likely to be aligned to upcoming regulatory requirements.
- ▶ **Provides a framework to facilitate engagement of proactive companies** - the Jurisdictional method, where there is government buy-in, provides an opportunity for concession owners to align their sustainability activities¹⁹.

Despite the opportunities this approach presents, there has been limited engagement from companies, who prefer sustainability activities that can be more quickly and easily measured. It can be complex and costly to assess the impact of their actions outside of their direct influence, especially inherently complex, multi-faceted issues like deforestation, making it difficult to justify the expenditure²⁰. Furthermore, bringing companies and governments

together to co-create long-term objectives and action plans will require compromise and negotiation²¹. Scaling these approaches will require addressing these barriers to entry. And regency-level governments, due to the decentralization of power within Indonesia and their increased responsibility for forest and land use governance, have a pivotal role to play in creating the enabling environment for corporate sector involvement.

National government's NDC implementation is strengthened by collaboration amongst sub-national administrations

Sub-national governments are recognized as a key stakeholder in achieving Indonesia's NDC goals. Through Lingkar Temu Kabupaten Lestari (LTKL) - a collaborative forum of regency governments - 12 regency governments (9 are active and 3 are non-active members) have committed to 'achieve sustainable development' within their regencies²². Areas of focus include (i) planning, policy and regulatory, (ii) multi stakeholders governance, (iii) readiness to attract and manage incentives on sustainable land-use, (iv) progress measurement and reporting to attract incentives and (v) communication and outreach to expand support. Several regency governments have gone on to take progressive action by developing detailed, time-bound action plans in support of their public commitments—a notable example being Siak Regency (see page 11).





REGENCIES OVERVIEW

This brief focuses on two regencies²³ within Indonesia's Riau province, Pelalawan and Siak, in order to explore the corporate sector's commitments and existing contribution to regency-level sustainable development plans.

Riau is the largest palm oil producing province in Indonesia and in 2019 produced 9 million tons of crude palm oil²⁴. Nearly 60% of its land area is covered by plantations, predominantly palm oil²⁵. Its production base contains a mix of state-owned, large private plantations and smallholder farmers²⁶. In 2019, Pelalawan and Siak Regencies were the first and third largest palm oil producing regencies within Riau, producing an estimated 17.9% and 14.7% respectively of Riau's total production²⁷. Palm oil continues to be a significant contributor to economic development in both regencies but remains a key driver of deforestation. From 2001-2019, Siak and Pelalawan lost 58% and 56% of tree cover respectively (compared to 2000 baseline), directly due to land conversion to palm oil plantations²⁸.

Over 50% of Siak and Pelalawan's land cover is peatland—well known for its vulnerability to burning²⁹. It is estimated that across Indonesia peatlands store 28.1 gigatons of CO₂, more than all of its upland forest combined³⁰. The 2015 El Niño peat and forest fires led to approximately 884 million tons of this CO₂ being released across September and October³¹. Given that a number of palm oil and pulp and paper plantations are operated on peatland³², it is crucial that sustainable use of this natural resource is being implemented in order to mitigate and prevent future peat fires and to contribute towards the Government of Indonesia's NDC.

The relative scale of forests' risk commodity production in these regencies and the vulnerability of their landscapes demonstrates the importance of corporate and community stakeholder engagement, alignment and monitoring in these jurisdictions if regencies and the national government are to deliver on their public sustainability commitments.

Incentivizing and facilitating the engagement of producers and sourcing companies within these regencies will be an essential next step in achieving regency-level goals. A number of company-led initiatives are already underway: The Siak-Pelalawan Landscape Program (SPLP) is a coalition of eight palm oil purchasing and consumer goods companies (Cargill, Danone, Golden Agri-Resources, L'Oreal, Musim Mas, Nestle, PepsiCo and Unilever), facilitated by the Consortium of Resource Experts (CORE), who are working together on a jurisdictional-level program to develop sustainable palm oil supply chains³³. Another initiative is Coalition of Private Sector for Siak Hijau (KPSSH), formed in 2020 to increase public-private engagement and NGOs-private engagement in Siak to achieve free forest and land fires by 2021³⁴. Emphasis has been placed on engaging with regency and national governments, including supporting regency initiatives by aligning corporate sourcing commitments with regency sustainable development targets.



PepsiCo, Inc, alongside 6 other companies, has designed a landscape program for sustainable palm oil in Siak and Pelalawan regencies. The goal is to create a sustainable landscape across both regencies that produces deforestation-free and exploitation-free palm oil, in addition to maintaining or enhancing key conservation areas. This program forms part of PepsiCo's wider sustainable sourcing and traceability goals, including the aim to source 100% physically certified palm oil (CSPO) by 2020.



Siak Regency

Siak Regency's government, one of LTKL's founding members, has recently outlined its intention to develop a 'Siak Green Regency'. The Regent Regulation No.22/2018, which supports national sustainable development targets, has been translated into a detailed roadmap by a Civil Society Organization coalition called Sedagho Siak with multi-stakeholders consultation, providing guidance, targets and indicators for government, the corporate sector and community stakeholders³⁵.

Its key goals are to (translated):

1. Reduce the level of damage to natural resources, including peat and watersheds;
2. Stimulate economic growth that is in line with sustainability principles;
3. Utilize natural resources responsibly to preserve their function and benefit;
4. Create policies that align with conservation and economic growth; and
5. Tackle poverty by enabling local economic development, stimulate job creation, championing welfare and implementing population growth control

Concession owners have been explicitly singled out with key calls to action. These include: No Deforestation, No Peat and No Exploitation (NDPE); Best Management Practices and Good Agricultural Practices; supporting smallholders to obtain Indonesia Sustainable Palm Oil (ISPO) or Roundtable on Sustainable Palm Oil (RSPO) certifications; and supporting systematic efforts to prevent and mitigate fires.

Pelalawan Regency

Whilst not a member of LTKL, Pelalawan's regency government has introduced regulatory measures to build on national legislation to halt deforestation in Indonesia. In 2017, the regency government issued Regent Decree No.601/2017, committing to piloting a version of FoKSBI's NAP-SPO.

There are five programs under the NAP-SPO (translated)³⁶:

1. Strengthening palm oil data, coordination and infrastructure;
2. Improving smallholder capacity;
3. Environmental management and monitoring;
4. Governance and conflict handling; and
5. Implementation of ISPO certification and improving market access to palm oil products

At the time of writing, Pelalawan's District Action Plan on Sustainable Palm Oil (DAP-SPO) - the regency-level version of NAP-SPO - is still in development and is expected to be published in late 2020. The aims of the DAP-SPO include the provision of reference documents for stakeholders, strengthening stakeholder coordination, and improving monitoring of sustainable palm oil plantations³⁷.



CORPORATE SECTOR ACTIONS IN SUPPORT OF SIAK & PELALAWAN REGENCY COMMITMENTS

In 2019, 543 companies worldwide voluntarily disclosed forests-related impacts, risks and opportunities using the CDP forests questionnaire, providing government bodies with a rich source of granular information on the commitments and operations of companies producing, utilizing and/or selling forests-risk commodities within their jurisdictions.

Fire mitigation and prevention

To assess the level of existing alignment with the regency-level plans in Siak and Pelalawan, we analyzed the group-level responses of 17 companies—7 producing and 10 sourcing timber and palm oil products within these jurisdictions—against key elements including: fire mitigation and prevention; commitments to NDPE, including ‘no burning’ policies and peatland restoration activities; smallholder engagement; and traceability.

For this analysis, we define ‘Producers’ as concession owning companies involved in producing palm oil or pulp and paper products. ‘Sourcing’ companies refers to downstream companies: traders, manufacturers and retailers.

Both the Siak Green Roadmap and NAP-SPO call for systematic action on forest and peat fire mitigation and prevention both within and surrounding company concession areas. In line with the NAP-SPO, all producers and the majority (9 out of 10) of companies sourcing from Siak and Pelalawan have a ‘no land clearing by burning or clearcutting’ commitment already in place.

Despite the significant fire risk in Riau and their contribution to emissions, only 3 producers and no sourcing companies identified fire as a primary risk driver across their operations. As this may represent an implementation gap, company engagement is needed to verify their policies and actions on fire prevention and mitigation.



Golden Agri-Resources (GAR) has implemented a Zero-Burning Policy since 1997. Peatland rewetting from specially constructed ponds and rivers is an ongoing practice to reduce fire outbreak. Furthermore, as part of their ‘Desa Makmur Peduli Api’ (DMPA) program launched in 2016, GAR is working alongside local villages in fire-prone areas to collaborate on fire prevention. Villagers are trained to rapidly suppress fires, educated on the danger fire presents and are encouraged to explore their methods for land clearing instead of using fire. According to GAR, the program has reduced hotspots and fire spots by approximately 80-90%.

No Deforestation, No Peat and No Exploitation (NDPE)

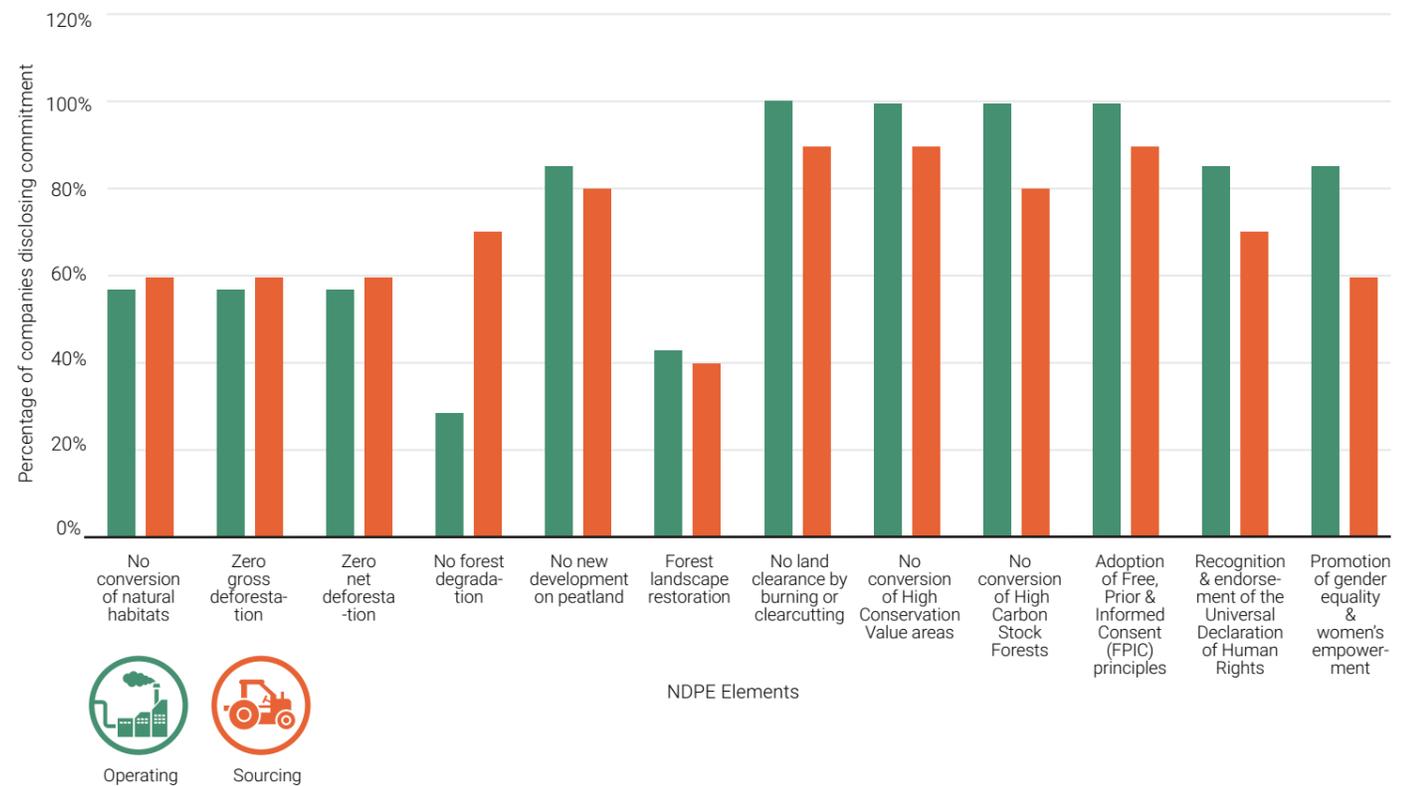
The Siak Green Roadmap calls on companies to adopt and implement NDPE commitments. The CDP forests questionnaire allows companies to disclose on elements of recognised NDPE commitments within a) their sustainability policies and b) their public commitments.

The majority (6 of the 7) of producers in Siak and Pelalawan and all sourcing companies have a company-wide sustainability policy to eliminate deforestation and/or

conversion from their value chains. Policies that include eliminating forest degradation, however, are lacking amongst producers, with only 2 of 7 having such policies compared with 7 of 10 sourcing companies. The lack of focus on degradation is mirrored in company commitments (see Figure 1 below). This raises questions over whether production companies are committed to maintaining their Ecosystem Essential Areas (KEE), a key element of the NAP-SPO.

Figure 1: Company commitments to NDPE elements in 2019

Elements of NDPE commitments posed to companies in the 2019 Questionnaire



- With the exception of Asia Pulp and Paper, all producers, and the majority of sourcing companies have disclosed a public commitment to ‘no new development on peatland’³⁸. This is a positive indicator that companies intend to comply with the national government regulation PP 57/2016 on the protection and management of peatland; the NAP-SPO, and Siak Green Roadmap’s policy to issue no new concession licenses in peat protection areas, peat dome, High Conservation Values (HCV) and High Carbon Stock (HCS) zones and to cease operations in existing concessions.
- Both producers and sourcing companies share a high level of commitment to Free, Prior and Informed Consent (FPIC). Implementation of FPIC can reduce conflict over land tenure and facilitate trust between companies and the community affected by the concession area. In line with the Siak Green Roadmap’s goals on conflict resolution and forest fires, these results demonstrate that companies are, at a minimum, committed to addressing these issues within their operations.
- Notably, forest landscape restoration commitments are lacking—only 3 of 7 producers and 4 sourcing companies specify this commitment. Both NAP-SPO and the Siak Green Roadmap discuss the importance of restoration in enhancing landscape conservation efforts and in rehabilitating peatlands. Protection and restoration of degraded forests enhances their capacity to provide ecosystem services and can replenish timber and non-timber forest product resources. As they sequester carbon faster than primary forests, they also represent an important climate mitigation strategy³⁹. The lack of commitment indicates that this is a low strategic priority for companies and will need to be addressed by enabling action on restoration and verified through monitoring over time. Wilmar’s No Deforestation, No Peat, No Exploitation (NDPE) Policy has been in place since December 2013.



Wilmar's No Deforestation, No Peat, No Exploitation (NDPE) Policy has been in place since December 2013. Wilmar acknowledges that for it to be effective, engagement with third-party suppliers and smallholders is key. To assess their level of supplier compliance, they launched two initiatives, the Aggregator Refinery Transformation (ART) program in 2014, and the Supplier Reporting Tool (SRT) in 2017. ART provides a collaborative framework for refiners, millers and growers to overcome challenges on the ground. Refineries provide a central point for growers and millers to report on progress towards environmental, social and traceability targets. The program includes a risk screening for supplying mills and has built-in verification assessments that assess compliance of representative samples of supplying mills, selected from high and medium risk categories. As part of working towards having 100% of the supply base assessed, the SRT was launched—specifically evaluating the low risk group by providing an online self-reporting system for suppliers to report on current compliance with Wilmar's NDPE policy.

Smallholder and supplier engagement

All producers are engaging with smallholders to encourage and support best practices to remove or reduce deforestation and forest degradation. In 2019, this primarily took the form of providing training to palm oil farmers (4 out of 7 companies). Given that approximately 40% of plantations in Indonesia are owned by smallholders, this is a key stakeholder group to engage with⁴⁰. However, despite their importance, only two producers and two sourcing companies provided smallholders with financial support. Without sufficient financial backing, smallholders will remain unable to overcome the cost barrier to certification.

All producers and sourcing companies are working with their direct suppliers to improve their capacity to supply sustainable raw materials. Supplier engagement is key, especially for sourcing companies, as it's the producers, including smallholders, that can make changes to production practices on the ground. Both producers and sourcing companies' supplier engagement included workshops and training (7 of 7 and 8 of 10 respectively). Production companies' activities centred around data such as supply chain mapping whilst sourcing companies focused on promoting work with multi stakeholder groups and encouraging certification.



Unilever has committed to support and empower 25,000 smallholder farmers in a number of priority landscapes by 2030. This includes a target to have at least 2000 smallholders RSPO certified by the end of 2021, with the assurance that Unilever will purchase the RSPO certificates products from the smallholder to reduce the cost burden. In Riau province, Unilever has already been working with the palm oil mill, PT Sumer Kencana Indo Palma, to develop a Palm Oil Field School training program. This aim is to increase knowledge on optimising palm oil productivity and profitability and provide the resources needed to commit to NDPE practices. Of the 4000 smallholder farmers identified, over 1800 have been trained through this program.

Traceability

All producers and sourcing companies have a traceability system⁴¹ in place to track and monitor the origin of their disclosed commodities. The majority of producers (6 of 7) and sourcing (6 of 10) companies have 90% or greater traceability to either the mill or plantation.

There is a moderate level of commitment to increasing this low level of traceability, particularly amongst sourcing companies. Out of all production companies, 3 of 7 had at least one active (2019 onwards) traceability target in place to achieve 100% traceability to the mill or plantation. Of the sourcing companies 6 disclose active traceability targets, showing encouraging signs that sourcing companies are addressing their poor traceability record.

The complexity of palm oil supply chains in particular risks a supply that contains a mix of product from a number of unknown sources. The analysis shows that companies clearly still struggle to trace their supply to plantation level. And this only represents traceability actions within their owned operations and doesn't include tracing the supply from independent smallholders, suggesting that this is just the tip of the iceberg. Addressing traceability at regency level, by artificially shortening the supply chain length and thereby making it easier to view production flow; and incorporating smallholders into jurisdictional initiatives, holds promise to bring greater clarity on supply.



Fuji Oil Holdings Inc. uses palm oil as a key raw material in its oil and fat business, which accounts for approximately a third of group sales (FY2018). They are aware of the opportunity to supply products that can meet the growing demand for sustainable palm oil in the market, and the importance of securing a palm oil supply that considers both the environment and human rights. In order to realise its 'Responsible Palm Oil Procurement Policy', Fuji Oil Holdings Inc. is working towards 100% traceability to the mill for all palm oil it uses by 2020. From July-December 2018 traceability to the mill was at 99%, a 4% improvement compared to the same period the previous year. They continue to partner with NGOs to review their choice of suppliers; understand supplier needs and perspectives; and to provide self-diagnosis tools and capacity building activities.

Nature-based Solutions

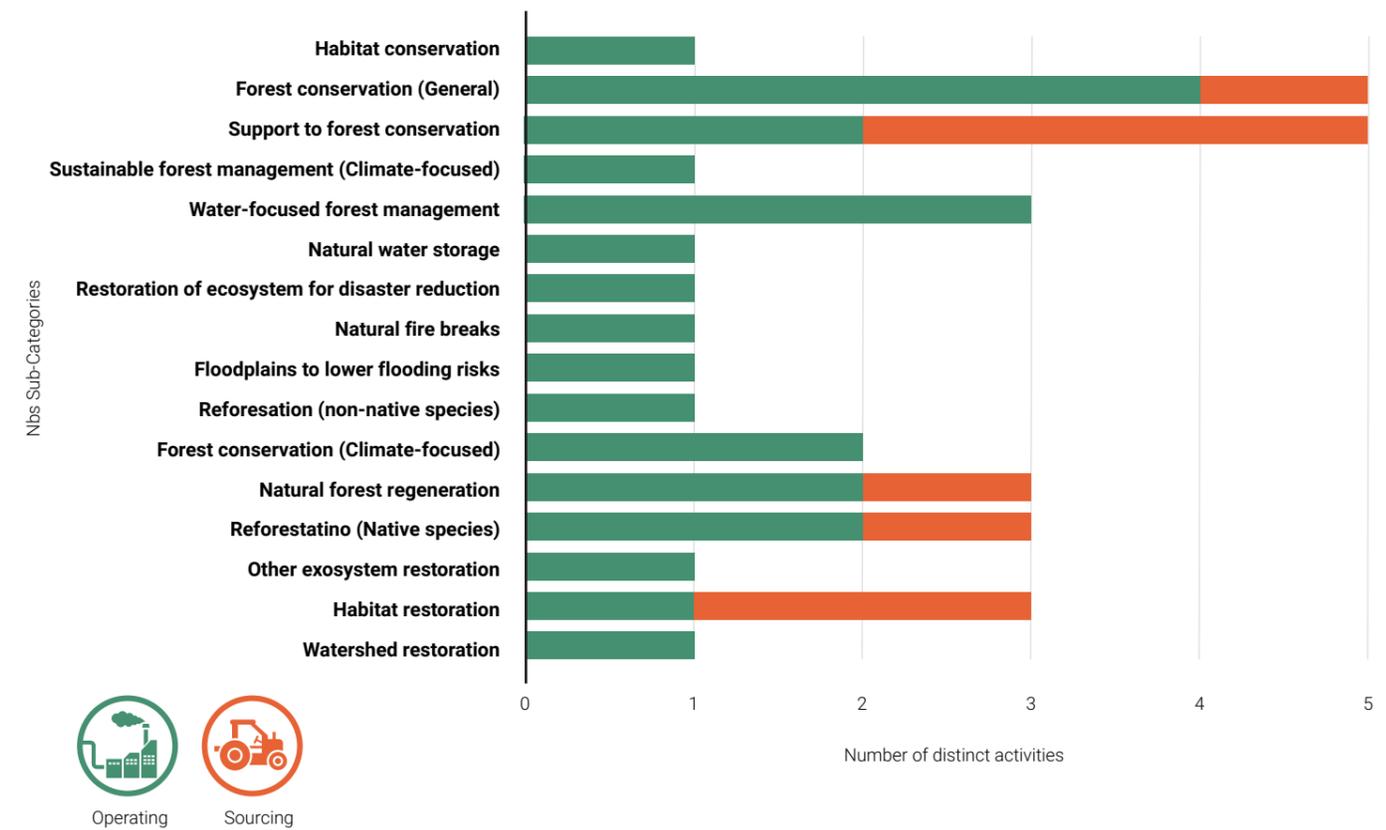
Building on CDP's study on Nature-Based Solution (NbS), Siak and Pelalawan were implementing at least one form of NbS in any part of their operations. Nature-based Solutions is an umbrella term to describe a wide array of ecosystem-based options to mitigate climate change and ensure ecosystem sustainability. They are seen as a cost-effective means of managing, protecting and restoring ecosystems to reduce GHG emissions, as well as generating biodiversity and human welfare benefits⁴².

Of the 17 disclosing companies, 71% were already implementing a form of NbS, almost 5 times the global average. As expected, due to their proximity to environmental issues, producers delivered the bulk of these initiatives (5 of the 7). The majority of actions taken were the provision of support for forest conservation (5 of 10

companies) and protected area-based forest conservation measures. These directly align with the NAP-SPO's program on enhancing biodiversity conservation through landscape approaches and the Siak Green Roadmap's goals on peat restoration and post-fire landscape rehabilitation.

Whilst this is an indicative sample, not specific to Indonesian activity, this is a promising sign that companies with influence over land use and management in Siak and Pelalawan have operational experience in using NbS to tackle deforestation in their operations. Greater specificity on the areas affected by NbS approaches is needed within company disclosures, and along with standardized monitoring over time will be necessary in order to effectively assess the contribution of these approaches to government sustainability roadmaps.

Figure 2: Nature-based Solutions activities implemented in 2019 across group operations (not specific to Indonesia)



Peatland restoration

The 2019 CDP forests questionnaire did not specifically ask companies to disclose on peat restoration activities. However, to give an initial indication of the level of peat restoration activities, companies were employing we looked for explicit examples of peat restoration implementation within their explanatory responses.

Only 3 of 7 producers and 1 of 10 sourcing companies are currently implementing a form of peat restoration across their operations. The majority of intervention measures were Assisted Natural Regeneration (ANR) and natural regeneration.

Peatland restoration is embedded within NAP-SPO's landscape conservation and emissions reduction programs and is a key element of the Siak Green Roadmap. Given the dominance of peatland in Siak and Pelalawan and peat's carbon storage potential, this indicates a critically low level of implementation. It's vital that existing peatland restoration efforts are disclosed, coordinated, and managed at the level of Peat Hydrological Unit (PHU) to increase the resilience of these vulnerable landscapes.



Approximately 50% of **Asia Pulp and Paper's** supplier concessions in Jambi, South Sumatra, Riau, West Kalimantan and East Kalimantan are located in peatland areas. Asia Pulp and Paper has been working with peat experts to improve land zoning and determine areas that must be protected for water storage, buffer zones and production forests. This work is in direct support of the Indonesian National Government's long-term strategy for peatland forestry (the Peat Rezoning Plan).

Multi-stakeholder and government engagement

Whilst all sourcing and production companies confirmed that they participated in external initiatives to further the implementation of their sustainability policy(s), no company specified direct engagement with government stakeholders or policymakers. External engagement primarily takes the form of multi-partnership or stakeholder initiatives such as the Roundtable on Sustainable Palm Oil (RSPO), 16 NGO partnerships and participation in commodity-specific forums (all production companies; 9 of 10 sourcing companies).

For landscape approaches such as Jurisdictional Approaches to bring positive implementation to scale, government involvement from the outset is key. It is encouraging to see that the majority of companies are engaging in a form of multi-stakeholder initiative⁴³; however, without government buy-in or involvement, the efficacy of these initiatives will be limited.



Cargill is collaborating with Institut Pertanian Bogor (IPB) to build Indonesia's first palm oil teaching farm. The "IPB-Cargill Kebun Pendidikan Kelapa Sawit" (IPB-Cargill Palm Oil Teaching Farm) will provide training to students on the latest plantation production and management techniques and will serve as the reference for the application of the RSPO and the ISPO standards. Cargill continues to work with the Indonesian Palm Oil Association (GAPKI) and the Indonesian government to advocate for sustainable palm oil development. The company participates, inter alia, in the RSPO working groups on Human Rights, Trade and Traceability and on Communications and Claims; the Consumer Goods Forum; and with other companies to develop standards for responsible peat management by smallholders.

Transparency and disclosure

CDP Forest's voluntary disclosure platform aims to support companies to make their environmental impact transparent and provides a framework and baseline for their actions as they seek to minimize deforestation in their value chains. The information disclosed can be used to demonstrate alignment with key Indonesian national and regency-level

regulations and action plans and can be utilized to monitor progress both against a company's own commitments, and as a contribution and in compliance to Indonesian National and sub-national government commitments. This platform can serve as the much-needed yardstick whilst mandatory disclosure with sufficient specificity and reach scales over the coming years (see box below).

Transparency has only recently entered Indonesian public policy.

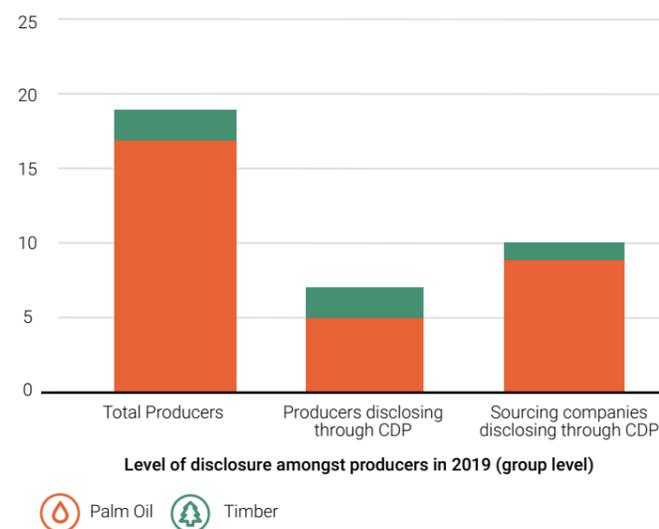
The Indonesian Financial Services Authority (Otoritas Jasa Keuangan (OJK)) has played a significant role in supporting sustainable development, chiefly through the P.OJK No.51 regulation on the 'Implementation of Sustainable Finance for Financial Institutions, Issuer and Public Companies'. OJK mandated that financial institutions, issuer and publicly listed Indonesian companies must submit and publish an annual sustainability report that contains a record of Environment, Social and Governance (ESG) performance. The regulation, issued in 2017, has been scaled up gradually, starting with commercial banks under Bank Umum berdasarkan Kegiatan Usaha (BUKU-classification of commercial banks based on core capital) 3, 4 and foreign banks. In 2020, this will be extended to all publicly listed companies and finally to all targeted institutions by 2025.

Companies producing and sourcing within Siak and Pelalawan have demonstrated their intention to increase transparency within their areas of influence. 5 out of 7 producers and all 10 sourcing companies have specified general commitments to transparency, that is public disclosure on corporate action, in their company-wide sustainability policies on forest-risk commodities. However, the overall low level of disclosure amongst producers in Siak and Pelalawan (see Figure 3) indicates that there is still much progress to be made.

As a first step in bringing the corporate sector and government together, it is important that companies remain committed to transparency within their value chains and are disclosing clear information on operating procedures, targets and progress, aligned to regency sustainable development targets.

Figure 3: Producers are failing to disclose their impacts and commitments through CDP

Of 17 palm oil companies (group level) and 8 pulp and paper companies, only 7 disclosed through the CDP forests platform in 2019.



2020 Disclosure Questionnaire

At CDP we undertake an annual review of the questions companies are disclosing against through our platform in order to ensure we are staying relevant to industry and regulatory standards. The 2020 forests questionnaire includes new questions on NDPE policies; commitments to Best Management Practices on peat; land set aside for ecosystem protection; ecosystem restoration activities and approach to ISPO. These questions will further increase the alignment of our disclosure platform with Siak and Pelalawan's regency-level action plan.



A PATHWAY TO SUSTAINABLE DEVELOPMENT IN INDONESIA'S REGENCIES

Corporate commitments and actions on sustainability are a prerequisite to halting deforestation and addressing complex environmental and social challenges within Indonesia's regencies. The progressive leadership of Siak and Pelalawan regencies have demonstrated their appreciation of company influence, incorporating critical corporate sector roles into their action plans towards sustainable development. We have outlined the actions and pledges made by companies that are already aligned to regency and Indonesian national-level goals and regulations. There are encouraging examples of proactive leadership by some, but implementation gaps still remain.

Policy recommendations:

1 Increased public-private sector dialogue and engagement



Due to their unique and complementary roles in tackling deforestation and working towards sustainability goals, the level of engagement between regency governments and the corporate sector should be stepped up. This will help to prevent patchy impacts, duplicated activity and will accelerate activity towards shared sustainable development goals. Companies producing and sourcing in Siak and Pelalawan have indicated their public commitment to remove deforestation from their value chains. Regency governments need to capitalize on this intent by providing a framework that invites and facilitates public-private sector dialogue to stimulate greater and better engagement over aligned issues. As a starting point, the CDP disclosure platform can provide governments with a means to identify and prioritize companies for engagement.

2 Facilitate greater corporate action on shared sustainability targets



Despite their group-level commitments, companies are largely unable to guarantee that their value chains are deforestation free. Furthermore, companies need to step up action on peat, landscape restoration, and optimize their nature-based solutions if they are to support successful implementation of government goals across the entire jurisdiction. To effectively incentivize company action, collaborative regency-level initiatives need clear co-created targets, defined roles and the active participation of member stakeholders. This will improve the coordination of existing and planned efforts across stakeholders and increase ownership over joint goals. Finally, regency governments, within their jurisdiction, can address company business case concerns and aid corporate reporting by defining the parameters and standards for success measurement on jurisdictional-level initiatives.



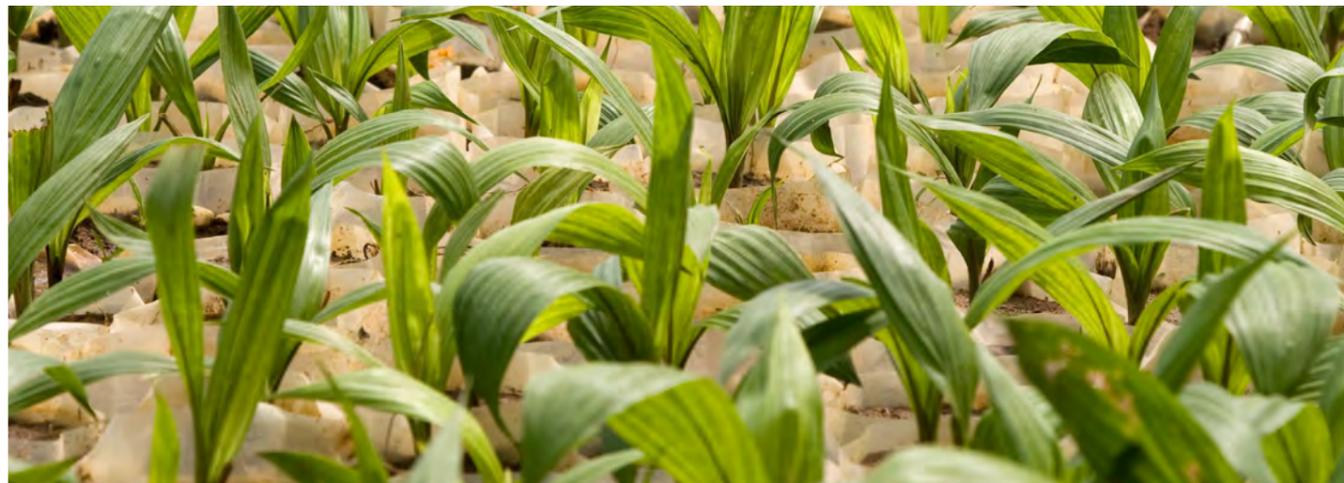
3 Implement and monitor against clear commitments and roadmaps towards sustainable development regencies, leveraging environmental disclosure through the supply chain

- ▶ The Siak Green Roadmap needs to be reinforced with clear mechanisms and detailed actions designed to successfully implement against the goals outlined. And, in the context of jointly created targets and agreed roles, a monitoring and verification system needs to be in place to cement alignment and drive accountability towards shared goals.
- ▶ Mainstreaming transparency on corporate supply chain operations is a necessary step to demonstrate company contributions and compliance to public sector regulations and global goals, as well as providing a means that can be used by government, investors and NGOs to monitor and hold companies to account. Whilst the P.OJK 51 regulation is a promising step in the right direction, further specificity on deforestation impacts and commitments is needed to provide detail within sub-national jurisdictions. Mainstreaming disclosure by group subsidiaries will give a clearer picture of implementation throughout the value chain and will increase stakeholder confidence. For this to occur there needs to be an improved regulatory framework to drive greater visibility across value chains, fostering the integration of environmental issues into business operations at jurisdictions level.



4 Replicate regency-level regulation on sustainable development in other regencies

National sustainable development commitments need to be translated into clear time-bound regency-level plans, with clear guidance and roadmaps for corporate sector contribution. To support this, we encourage learning from and replicating existing work, drawing on pilot versions such as the action plan developed by Siak Regency. All relevant stakeholders within the jurisdiction, including companies producing and sourcing within them, need to be included early on in discussions to ensure goals are co-created and to establish buy-in. Replication across regencies will be essential to avoid leakage in the form of displaced deforestation from one jurisdiction to the next and to align landscape-level efforts, as well as to increase the regency's portfolio.





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