

Policy research on regional sustainability and global production chains



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1 Introduction

Sustainable production initiatives have the potential to promote regional development in tropical production areas. Whether sustainable production will contribute to regional development depends on the existing governance arrangements in the area of production.

A clear understanding of the importance of specific governance arrangements is needed to assure a positive impact of sustainable trade and production initiatives on regional development.

Both ENDS carried out a quick scan on the relevance of governance arrangement and other context characteristics for the impact of sustainability initiatives on regional development. The quick scan combines findings from a desk study of a number of scientific research papers and relevant publications by representatives of civil society with the insight of a small number of partner organizations. The quick scan focuses on answering the following questions:

1. Which characteristics of the regional policy, socio-economic, environmental or legal context determine the impact of sustainable trade initiatives on regional development?
2. Can you indicate the relevance of these regional context factors and issues?

To further illustrate the current reality of sustainability initiatives, we elaborated a case study on the governance factors that determine the current impacts of the Round Table on Sustainable Palm Oil (RSPO) on regional development in Indonesia. The study is based on expert interviews with representatives of different stakeholder groups in the RSPO.

Given the relation between governance characteristics, sustainability initiatives and regional development, we developed some first ideas on the methodology that could be used for the monitoring, impact assessment and scenario development related to sustainability initiatives and regional development.

2 Determining characteristics¹

Natural resources are the basis for global production chains. At the same time, they are valuable assets for local populations and for wider national or global populations (Collier 2010). This chapter identifies those characteristics of the policy, economic, legal and ecosystems context that determine the impact of sustainability trade initiatives on regional development.

Successive groups of determinants refer to i) governance, capabilities and ownership, ii) ecosystem values, iii) distribution of economic value, and iv) the local hard and soft infrastructure.

2.1 Governance, capabilities and ownership

Governance, capabilities and ownership influence the way different stakeholders benefit or suffer from trade and production initiatives. Governance relates to the specific roles of government agencies, for example to grant concessions or to require an environmental impact assessment (EIA). Capabilities and ownership relate to the extent in which decision-making and political systems are inclusive of the voices and rights of all stakeholders, individually or collectively.

Good governance and judicial systems are essential for those involved directly in the production chain as well as those affected by these production activities. Local or national governance initiatives can prioritize regional development beyond the development levels that would be generated by capital driven use of natural resources. In general, strong governance and focused policy interventions may shift negative poverty and biodiversity trends in a more positive direction. On the other hand, strong government involvement could cause dependency on public policies, and thus could diminish a region's capacity to react to market opportunities, especially if subsidies and other public instruments increase the political powers of those same governments.

The general conclusion is that especially in capital driven exploitation of resources weak governance may lead to high biodiversity loss without poverty reduction.

Rule of law

The impact of trade and production initiatives on regional socio-economic development will most probably be negative if regional governance systems are weak, reflected in e.g. corruption, lack of respect for existing land and water rights or labour rights or the lack of effective enforcement systems.

¹ Based on a study of selected articles and books (see Annex 1) and feedback from experts from Both ENDS network:

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Madhu Ramnath (LEAF and Keystone, India)
Luuk Fleskens (Leeds University, UK)

Central challenge in these circumstances is to assure respect of ownership and user rights of land. Central to any rights based regime is the provision of means of redress to victims of abuse. Land disputes escalate into conflicts if appropriate means for conflict resolution, such as access to legal council, active and unbiased law enforcement and access to courts, are absent.

Capabilities - Civic regulatory knowledge and practice

In order to overcome asymmetries in knowledge on legal frameworks, skills to negotiate and power, the capabilities of local actors to influence investment decisions and management of trade initiatives are crucial.

These capabilities are relevant in decision-making processes prior to project implementation and in monitoring the implementation itself and its on-the-ground impacts. By assuring a connection between local realities and private or public decision-makers, these feedback loops can contribute to timely adaptations in project planning and implementation.

Such capabilities, which are social foundations for accountability, depend amongst others on a) local actors' formal role in governance processes, which can be effectuated for example through the implementation of the principle of Free Prior and Informed Consent, b) access to information, c) knowledge about governance processes and existing legal structures and d) free media and press.

Policy coherence

Foreign policy related to export promotion and resource extraction can be incoherent with domestic policies on basic human rights and needs. For example, in India the human right to clean drinking water is continuously threatened by initiatives focusing on rapid economic growth through mining, quarrying, dams and the privatization of water. Many of these initiatives are detrimental to the safety and well-being of the people living in the region.

Geographic and historical site characteristics

Sustainability initiatives in remote districts with little pressure to meet international social and environmental standards and where the state has little capacity to regulate, are less likely to have a positive impact on regional development than similar initiatives in more centrally located production areas. One of the main causes of the difference in impact is the large distance between local stakeholders and central decision makers, which generates weak information flows.

Thus, depending on the characteristics of each locality where centrally coordinated sustainability initiatives are implemented, decentralisation generates a diversity of outcomes on social and sustainability issues.

In fact, there is a contradiction between the need for large-scale sustainable initiatives focusing on a single and homogeneous product and the diverse reality of geographical districts that produce these commodities.

In addition, differences in the history of production and production systems lead to different types of impacts on the socioeconomic context. Literature suggests three types of production regions: established regions, expansion regions and frontier regions. While there is no clear-cut conclusion indication of the impact of sustainability initiatives on each of these three regional types, frontier regions in general show less favourable outcomes in terms of regional socio-economic development.

Match with local population

In areas with a significant number of small-scale farmers and smallholders, the impact of large-scale trade initiatives on poverty depends on the alternative livelihoods offered to local people, either through employment in the production system and distribution of the benefits, or through the provision of new lands, fit for household food.

If no alternative livelihoods are guaranteed, for example because a majority of the workers in the large-scale production system are immigrants, the initiative will have serious consequences for social development and will pose a threat to local forests and wetlands, since people will simply invade these areas to continue their production activities.

2.2 Ecosystem sustainability

Match with local ecosystems

Ecosystems provide certain goods and services for the production of specific commodities. If there is a match between these ecosystem characteristics and the demands on the system to produce a specific commodity, the ecosystem quality would in theory not be endangered. However, if there is no match and commodity production demands significant amounts of water in dry areas or extracts nutrients from nutrient poor soils, the production initiative tends to a) guarantee its own downfall and b) endanger productive activities that depend on the same scarce ecosystem goods and services.

Apart from a potential mismatch between ecosystem services supply and demand in terms of quality, there can also be a mismatch in quantity: In the case of palm oil or plantations for paper mills, which require a significant scale to assure the economic viability of a plantation, chances are that vital ecosystem linkages will be disrupted. In such cases the insistence on large-scale plantation industries will be detrimental to local ecosystems.

Ecosystem resilience²

If initiatives use existing ecosystem products and services, ecosystem resilience determines the level of use that is sustainable. In other words, if the levels of use exceed the capacity of the ecosystem to replace products or to continue providing the same level of services, the impact on overall ecosystem services and products, including those used beyond the production initiative, and thus on socio-economic development regionally will most probably be negative.

Level of dependence of local people on ecosystem goods and services

Trade initiatives that have a direct impact on the local natural resources base such as medicinal plants, organic cotton, rubber production and spices may have a significant effect on the quality of people's livelihoods: If local biodiversity is severely affected, the impacts on regional societies can include health and subsistence problems. For example, large-scale maize production in India has led to the erosion of indigenous crops. The disappearance of familiar crops caused a decline in health services since medicinal plants also became scarce. As a consequence, medical help was much harder to obtain once the resources base floundered.

2.3 Structure of the economic system

Distribution of profits

In those areas where profits are channelled outside the production area or region, for example through weak tax systems or through a low level of integration of the production chain in the region, the socio-economic impact of value chains remains low.

Trade initiatives that reinvest profits in the area, pay taxes in the production region or assure that profits remain local due to a high level of integration of the production chain in the production region, can contribute to an improvement in regional socio-economic development.

Economic diversity and integration within local markets and production activities

If a significant part of the production chain is carried out in the production region, and if these activities relate to existing professional and technical skills of the local population and to local businesses, the impact of production initiatives on regional socio-economic can be significant. In these cases, production initiatives may lead to additional economic development, which may then attract new services and thus vitalise the regional economy.

² Vulnerability for over-exploitation and ability to recover or self-regulate

2.4 'Hard' and 'soft' infrastructure

Infrastructure and local market developments

The types of infrastructure developed at regional level, either as endogenous investment or to support the development of production initiatives, determine whether local development is actually stimulated by these initiatives. If infrastructure is geared towards export, it stimulates large-scale and rapid extraction and production of primary products for exports. Such infrastructure is less conducive to economic development within the production region.

Vice versa, if infrastructure allows local market integration, the region can benefit from additional value creation. This type of infrastructure would also stimulate the development of new economic activities within the region.

Fiscal systems

In theory, fiscal regimes that assure a close connect between the general public and decision-making on redistribution and public investments tend to benefit these same people. However, in districts where democratic control is low and power differences between the often colliding economic and political elites on the one hand, and small-holders, farmers and small-scale producers on the other is high, local control over fiscal resources can exacerbate these same power differences. In such cases, a more centrally oriented tax system, that redistributes public means over a wide range of districts, might in the end be more beneficial to regional socio-economic development.

Subsidies on production may hamper progress if they are used to expand production areas. In fact, these types of subsidies are negative incentive to increase local resource use efficiency. Subsidies may have a positive contribution to sustainable regional development if they aim at improving agricultural techniques or strengthening existing positive spin-offs such as technical schooling or small and medium enterprise development.

One of the major sources of income at regional level can be export-tariffs. However, regions that wish to attract foreign investments tend to lower these tariffs, thus diminishing the potential to generate additional fiscal income for the production region. Likewise, foreign investors are often attracted by fiscal regimes that put an extremely small tax burden on their activities.

Red tape, administrative processes

A positive spin-off of production initiatives on the economic development of a region can be seriously hampered by the existence of highly complex and non-transparent bureaucratic processes.

Access to financial capital

In the case of commercial commodities like palm oil and soy, there are indications that the easy access to large volumes of financial capital from international markets leads to biodiversity losses due to overcapitalization.

3 Case example: Sustainable palm oil in Indonesia³

There are three types of determining characteristics that determine the socio-economic impacts of sustainability initiatives such as the RSPO:

- ⇒ Characteristics related to the initiative itself
- ⇒ Characteristics of the production region and the country where the initiative is implemented
- ⇒ Characteristics of international policies, regulation, etc.

3.1 Characteristics of the RSPO

In the case of palm oil, there often is a divide between the theory of certification and its real-time implementation. On the one hand, there is no other standard that has so quickly been able to bring such large volume of a certified commodity on the market.⁴ On the other, the true local or regional impact of the standard is affected by an avalanche of complaints against RSPO members-growers and certification bodies, concerning land disputes between plantation companies and local communities.⁵

Certification bodies often lack skills, time and resources to: (i) adequately check a company's performance against key RSPO P&C, such as FPIC (Free Prior Informed Consent) and HCVA (High Conservation Forest Areas); (ii) gain sufficiently and timely feedback from relevant stakeholders, such as local communities.

Another challenge for the effectiveness of sustainability initiatives such as the RSPO is the level in which criteria reflect the realities of environmental sustainability and social equities in a particular production area, or the level in which these criteria are enforced.

In order to assure implementation and enforcement of the RSPO criteria, there is an urgent need for adequate local policies, enforcement systems and institutions. Crucial are the quality of land use planning and the willingness and capacity to effectively monitor the implementation of

³ Both ENDS interviewed a number of resource persons the relation between the RSPO and determining factors of its impact on specific regions in Indonesia during the recent RSPO Round Table 9 (November 2011) in Sabah, Malaysia:

- Ramy Bulan, Malay University
- Marcus Colchester, Forest Peoples Program
- David Gould, consultant for ISEAL et al.
- Han de Groot, director UtzCertified
- Piers Gillespie, Daemeter, conducted his PhD on palm related land conflicts in Kalimantan
- Simon Lord (board RSPO), research director New Britain Palm Oil
- Petra Meekers, Asia CSR/NBR
- Thomas Ursem, head sustainability Rabobank International
- Eric Wakker, AidEnvironment
- Staff of the NGO Sawit Watch (Palm Oil Watch)

⁴ In November 2011, an estimated 3.2 million tons of palm oil was included in the RSPO. RSPO membership represents an approx. 55 pct of total palm oil volume brought on the market, with 60% of the production taken up by the market either through green palm (Mass Balance) or one of the other supply chain options and 5 certification bodies being accredited.

⁵ E.g. the Indonesian Land national Bureau: 3.500 palm oil related land conflicts (Nov. 2010).

production criteria by plantations themselves. One of the major challenges in this respect is the willingness and capacity of national, regional and local governments to enforce the implementation of existing laws and regulations.

3.2 National and regional characteristics

Fiscal regimes

In the case of Indonesia, central government transfers fairly limited amounts of funds to the district level. Local government generates funds by issuing permits to companies for plantation development. In those cases where local governments count with strong leadership to improve social and environmental characteristics of their area of influence, production initiatives can contribute to improvements in socio-economic development. However, in those cases where local governments represent and consolidate political and economic powers, fiscal systems could lead to a deepening of existing power difference with negative consequences for regional socio-economic development.

An additional issue is the question as to whether revenues and profits generated through palm oil production are re-invested in productive activities in the region. This is a shared responsibility of private actors and the public sector, which regulates taxes and determines the distribution or re-investment of public funds.

Land use planning, legal-institutional framework and judiciary

Often, governance systems designed to regulate commodity production are plagued by lack of investments and skills, as well as by corruption and contradictions within the legal framework.

Integration of national policies and RSPO standard

A number of producing countries -Indonesia, Malaysia and Colombia- have gone through a process of multi-stakeholder consultations to synchronize RSPO procedures and criteria with national legislation and policies. In order to maximize socio-economic impacts of the RSPO, these processes need further support.

Indonesia has launched the ISPO (Indonesian Sustainable Palm Oil). The ISPO can potentially contribute to legal compliance, since the ISPO is an obligation for any company wishing to produce palm oil in the country. This may contribute to the in-country development of different certification systems, while the ambition of the RSPO to become a global system.

Inter-agency coordination

The Ministry of Agriculture of Indonesia includes two Directorates with authority over the production of palm oil: DG Plantations and DG

Horticulture. Challenge is to harmonize within a more diverse approach to economic development at regional level.

3.3 Characteristics of international policies and regulatory frameworks

In order for the RSPO to have a lasting, positive impact on regional socio-economic development in Indonesia, there is a need to increase the understanding of the relation between agreements reached within the RSPO and international supply chain governance mechanisms such as the EU Renewable Energy Directive (EU RED). The recognition of RSPO criteria is crucial to the success of the initiative, since it increases the uptake of the criteria by European traders and industry.

In order to assure a sustained demand for certified products, and a positive impact of these products on the supply region, a unit of certified supply has to be traced back to its source of origin. However, most RSPO certified palm oil entering the EU is on the basis of "Mass Balance" (mixed origin – RSPO certified and non-certified) and "Book and claim" (the buyer purchases units of supply plus separate certificates on the basis of premium paid to the trade in certified palm oil equivalent to the volume being purchased). Thus, despite the aim to actually increase sustainability at local levels everywhere, initiatives such as RSPO on all relevant local production areas might be limited to certain areas only.

4 Research: Combining scientific and field-based empirical knowledge through action research

In order to achieve a thorough understanding of the dynamics between sustainable production initiatives and regional development and to monitor the impacts of these initiatives, the first imperative is to recognise the existence of different economic development processes. Thus, research should select a number of different development processes in the same region or country. For example, research on regions with large-scale initiatives would be combined with research into one or more regions that are characterised by a mosaic of land uses and economic activities. Likewise, research should include both frontier regions and regions where commodity production has been part of regional development processes for decades.

In addition, research should focus on a variety of commodities.

One of the bottom-line research areas should be the household level, including local household food basket, local market supplies, accessibility and purchasing power dynamics are indicative of this diversity of products and services.

The research could prepare regional development scenarios with or without interventions. Such scenarios could be based on both quantitative and qualitative approaches. An analysis of trends will be a sound basis for the quantitative part of scenario development. Research on the qualitative part could be participatory, for example carrying out workshops and interviews.

For the entire research program an alliance of people representing knowledge institutions, CSOs, policy developers and the corporate sector should be established.

An example of trend analyses

Palm oil production has various impacts on the environment, the economy and wellbeing of local inhabitants. The regional effects of palm oil production, like increasing prices of land, increasing income from palm oil plantations, demographic effects because of selective migration, reduction of food production, should be measured and monitored over time. The indicators used for assessing the regional impact production should be inputs for a model that monitors changes in direct and indirect effects of production.

Most likely, negative direct effects of palm oil production, like water pollution by pesticides use or a decreasing supply of food at a local markets, may lead to cumulative negative indirect effects in the region, such as instable food prices, increase in health problems, or the loss of economic activities.

The effects and indicators of palm oil production identified in the Aidenvironment study could be the basis of the trend analysis. Monitoring

of the trends in effects- changes over time, quantity, space and distance- should be built into the analysis.

Building new partnerships

In order to design the full methodology a regional expertise network should be identified or built. This network would be partner in the research partnership and thus participate in both the design of the methodology as the implementation of the research. Inclusion of a network of regional expertise is particularly important for the qualitative part where interviews and workshops can lead to innovative ideas about scenario's and policy interventions.

Ideally, the research would be designed and implemented by a partnership or alliance representing the various societal perspectives in regional development and production issues. Thus, the idea would be to develop national quad-partite partnerships between government institutions, civil society organisations, the corporate sector and knowledge institutes; in consumption countries as well as in production countries. Each entity should have a share in the design of the assessment and monitoring procedure, to guarantee that a diversity of perspectives and interests are build in the research model.

The combination of the different societal role of each entity will allow for a complete assessment program. For example, a policy research agency working closely with the government operates in a partnership with Both ENDS and Solidaridad (representing CS), with Unilever (a RSPO member) and a knowledge institution (Wageningen) on a monitoring and action plan.

This Dutch partnership should be mirrored by a quad-partite partnership in Indonesia, consisting of institutions like ICRAF-SEA (Bogor) as a knowledge Institute, a RSPO member (corporate world), Sawit Watch (CSO), and provincial or national governmental institutions.

Proposed key issues for a research program

Based on the analysis in Chapter 2, the proposed research program should include i) governance, capabilities and ownership, ii) key environmental indicators, iii) economic information on value added and societal effects, and iv) on 'hard' and 'soft' infrastructure. The first and the fourth issues refer to information on the local context from the perspective of different stakeholders such as producers, intermediaries, governments, and communities. Such context-specific information is insufficiently available in current policy dialogues that seek to bring together sustainable production initiatives and regional policies.

Some ideas for comparative case studies

One of the focus commodities would be palm oil. This commodity is growing very fast, and large patches of forest can still be saved when good and coordinated action is taken.

Simultaneously, the research team should identify a parallel case that approaches sustainability of production from a different perspective. Such a case could be, for example, the initiative that started over 20 years ago by individual farmers to re-green the Sahel, resulting today in over 5 million hectares of reforested 'desert'.

5 Conclusions

Initiators and supporters of sustainable production initiatives assume that commodity development is a key driver of regional social-economic development. Overall, the results from the consulted literature contradict the assumption that export-oriented development alone will stimulate economic growth and reduce poverty in production regions. The impact of production initiatives on regional development greatly depends on a number of characteristics of the local and national context in which these initiatives take place.

The quick scan on the relation between sustainability initiatives and regional socio-economic development, as well as the case study on the RSPO identify four groups of determining characteristics:

- Governance needs to be inclusive of all stakeholders involved directly and indirectly in the exploitation and exploration of the regional natural resource base;
- Ecosystem characteristics should be considered as determining factors of the type of production and its scale.
- The economic system should assure that tax revenues and profits are fairly distributed across stakeholders, including government agencies in charge of public development objectives.
- Local conditions of hard and soft infrastructure determine whether production initiatives stimulate and diversify regional development.

Four each of the groups of determining characteristics, important sustainability challenges can only be addressed if regional policies and sustainability initiatives complement each other effectively. In most regions where sustainable production initiatives take place, regional policies are too weak to generate substantial improvement in socio-economic development or to solve conflicts of interests that are beyond the reach of the key actors within the value chain.

This paper analyses the Round Table on Sustainable Palm Oil (RSPO) palm oil as a case example. Although it is undeniable that commodities such as palm oil represent a major source of income for the national treasuries and a source of employment and income for millions, it should be recognized that these come at a cost. The assessment of the socio-economic impacts of commodity development at regional level is hindered by a lack of comparative cost-benefits analyses. In such analyses, factors external to the production chain itself need to be taken into account.

Governance is crucial for the success of sustainability initiatives: good governance assures inclusion of all stakeholders, the implementation and enforcement of criteria related to sustainable use of natural resources and a vision on ways in which production initiatives can contribute to wider regional development. The absence of governance and inclusive decision making processes limits the impacts of sustainability initiatives. Therefore, development policies should align efforts towards sustainability in the value chain with broader development policies at the regional level.

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