Multi-stakeholder engagement in the Indonesian Sustainable Palm Oil (ISPO) framework

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Abstract. There has been an increasing concern in the development of sustainability in Indonesia. Indonesia's sustainability policy through Indonesian Palm Oil Sustainability (ISPO) and recently Presidential Decree Number 44 of 2020 on Certification System for Sustainable Palm Oil Plantations prove the government's seriousness in managing palm oil. Growing global market demand requires the expansion of oil palm plantations. Unfortunately, land expansion can cause environmental hazards, such as deforestation, loss of biodiversity, increased greenhouse gas emissions, and green land damage. On the other hand, the threat to sustainable development in the palm oil industry and pressure from stakeholders for more responsible industrial practices require sustainable production activities and minimize environmental and social impacts through sustainability principles. The government, companies, smallholders, palm oil associations, and INGO/NGO strive to build synergies in finding strategic solutions under the ISPO certification scheme. This article explores the involved actors in the palm oil industry and the relationship pattern between actors. Methodologically, the author uses a qualitative method and multi-stakeholder approach to invent how actors deal with sustainability issues in the palm oil industry and carry out sustainability commitments. The results show that Indonesia faces economic, social, and environmental imbalance. In implementing ISPO certification, Indonesia has involved all multi-stakeholder actors: state, company, IGO, and civil society.

Keywords: ISPO certification, sustainability, sustainable development, multi-stakeholder

1. Introduction

Indonesia is the world’s first top producer of palm oil with a total production of 51.8 million tons (CPO and PKO) in 2019, or about 9% higher than in 2018. The export volume of palm oil products in 2019 was 35.7 million tons or increased by 4% from 2018. Even though the export volume experienced growth significantly, the export revenue at USD in 2019 fell by 17% compared to 2018. Meanwhile, domestic demand rose 24% from 13.5 million tons in 2018 to 16.7 million tons in 2019 [1]. An increase of global consumption from 72.55 million metric tons in 2018 to 75.1 million metric tons in 2019 [2] illustrates that the palm oil business is economically promising. Private companies and smallholders almost every year expand plantation areas. In 2009 the total area of plantations was 7,873,294 ha and grew to 14,677,560 ha in 2019 (est.) [3]. The percentage increase in 2017 amounted to 10.55%, and in 2018, it was expected to increase by 3.06%. The greatest privately owned by large companies amounted to 49.81%, smallholder amounted to 45.54%, and the rest of the country estates amounted to 4.65% [4].
The Indonesian Sustainable Palm Oil (ISPO) is a management and development system in the palm oil industry to increase competitiveness in the global market and accelerate the reduction of greenhouse gas emissions and other negative impacts on the environment [5, 6]. ISPO aims to ensure that all parties involved in the palm oil industry, including companies and smallholders, as exporters are in line with higher agricultural standards [7]. The rising of Presidential Decree Number 44 of 2020 on the Certification System for Indonesian Sustainable Palm Oil Plantations released on 13 March 2020 and formally issued by the Ministry of Law and Human Rights on 16 March 2020 prove that the Indonesian palm oil industry has become more sustainable. The oil palm industry has indeed had a major impact on job creation, welfare, and economic growth. However, land expansion and management practices that jeopardize environmental security such as deforestation, loss of biodiversity, damage to green land, and increasing greenhouse gas emissions threaten commitments to sustainable production practices and sustainable development goals. Thus, to what extent it can be sustainable.

2. Methods
Data collection in this work uses secondary data, by searching relevant literature studies on ISPO certification, multi-actor governance in palm oil, sustainable development, and statistical information from official institutions such as the Association of Indonesian Palm Oil Businessmen (GAPKI), Indonesian Sustainable Palm Oil (ISPO), and Indonesian Ministry of Agriculture. The main sources of this statistical data are GAPKI, BPS Statistics Indonesia, and the Directorate General of Plantations (the latest data is 2019-est.). The author starts the discussion by illustrating the condition of socio, economic, and environment. To answer the question, the author applies a multi-stakeholder approach.

The multi-stakeholder partnership can figure out a complicated issue in the characteristic of involving various actors such as government, private sectors, civil society, and international organizations, which can strengthen the commitment and modalities of all stakeholders in achieving common goals. Thus, coordination and sharing will be more directed, equal, and under their respective advantages. The MSP FOKSBI and ISPO significantly improve the Indonesian palm oil industry, especially the fundamental transformational change towards a sustainable Indonesian palm oil industry [8]. The multi-stakeholder approach is also applied to seek the improvement of sustainable palm oil governance in Indonesia. Ministry of Agriculture shares its authority indicates that palm oil sustainability issue is not the responsibility of a ministry, but a national issue that requires the participation and collaboration of all relevant stakeholders. The conflict of interest that occurs to maintain a balance among the environmental, economic and social aspects in palm oil governance requires each party, either as an individual or as a representation of a particular stakeholder, to make some changes to obtain their expected goal [9].

This paper takes one main question: how do the actors in the palm oil industry sector involve behind ISPO making and application? In the previous research, many authors find that Indonesia does not have a strong commitment to implement aspects of sustainability, the bias relationship between actors, the dominance of the Agriculture Ministry, inequality relationships between actors, and conflicts of interest. This article would like to remap the actor of governmental and non-government agencies involved in the palm oil industry sustainability and the patterns of relationships between actors to find the answer.

3. Result and discussions
3.1. Indonesia palm oil industry in the three dimensions of sustainability
The integration of the issue of sustainability into the palm oil business growth strategy is essential to maximize the value of the palm oil industry. Improvements in R&D can support an increase in production efficiency and quality; expand and improve the use of palm oil products; discover new palm oil products as substitutes and ensure environment-friendly industry. Environmental protection, public and worker safety, and health care are top priorities [10].
3.1.1. Economic dimension
Indonesia is the biggest producer of palm oil, as much as 76% of its production is being exported in 2017 and contributed to GDP as US$ 22.9 billion in foreign exchange income [11]. To control domestic market prices, the government applies a palm oil tax. The Indonesian Oil Palm Plantation Fund (BPDP-KS) collects export duties to encourage the development of sustainable palm oil to support research and development programs, reforestation, bio-diesel incentives, and other programs that support the sustainability of the palm oil business. In 2016, BPDP-KS managed IDR 11.7 trillion of CPO export levies [12]. At the regional level, palm oil export duties increased from Rp.4.2 trillion to 111.6 trillion in 2016 [13]. In 2019, as a result of the application of the 20% biodiesel mix (B20) regulation, Indonesia obtained USD3.54 billion from foreign exchange and reduced dependence on fossil fuels. In addition, the regulation has also impacted the added value of the downstream palm oil industry from CPO to biodiesel around Rp 9.68 trillion [14].

From an economic perspective, oil palm production and trading activities have contributed to the GDP and welfare. Land conversion also brings benefits for private/public investors and officials who become rent-seekers in granting of oil palm plantations.

3.1.2. Social dimension
Ownership of oil palm plantations by smallholders of more than 40% proves that oil palm provides opportunities for improving the welfare of rural communities. The palm oil industry is very vulnerable to land conflicts, ranging from ownership and impacts on indigenous peoples. Regarding the issue, smallholders meet consequences in matters such as low productivity, pricing, and access to finance and markets [15]. Some factors that often arise in this land conflict are unclear contracts with companies, weak governance, failure of companies to fulfill contracts, unclear land tenure before development, and changes in land values [16]. Greater exploitation involves local government officials who use their authority for personal gain [17].

In the case of land conflicts with indigenous peoples, it is due to the inconsistencies of laws relating to the recognition and respect for customary rights to land. Indonesia, Malaysia, and other Southeast Asian countries have inherited the colonial principle that the state has control over land resources that do not have clear ownership. This regulation causes massive land exploitation and social conflict.

3.1.3. Environmental dimension
Palm oil has become one of the main topics of climate change. Indonesia's palm oil development has contributed 0.2% of global deforestation and represents 16% of total forest loss in Southeast Asia during the 1972 to 2015 period [18]. In Indonesia, deforestation had occurred before the development of oil palm because of unsustainable legal and illegal logging practices and forest fires that had turned many parts of the forest area into shrubs and degraded land. For instance, 48% of the total area of oil palm in Kalimantan Indonesia comes from the conversion of shrubs and degraded land [19]. The government is still granting licenses to small farmers for new plantings on his property. This opportunity may illustrate sustainable business instability if the actors are not in line with supporting sustainable management practices. Whereas companies should play a role in supporting the inclusiveness of smallholders in their supply chains to raise awareness about sustainable practices.

One of the main problems causing deforestation is forest fires. The practice of land clearing using fire is a common practice for Indonesians. In fact, under the law 32/2009 (Article 69, Paragraph 2), it allows the practice of slash and burn with a maximum of 2 hectares of land is part of the local wisdom [20].

The palm oil industry has provided significant benefits for the economy and welfare. However, there are still people who exploit loopholes to exploit natural resources without considering environmental conditions. This condition may create an imbalance between the aspects of sustainable development (economic, social, and environmental), which become an obstacle for the sustainability of the palm oil industry in Indonesia.
3.2. Multi-stakeholder engagement for sustainable palm oil

The palm oil industry has not been able to balance the socio-economic and environmental aspects, where the practice becomes skewed only towards economic growth. The industry players do not have a strong commitment to implement sustainability aspects. The vulnerable political situation also allows the industry to undermine the existing laws [21]. However, Indonesia already has sustainability standards: ISPO and RSPO. The presence of ISPO has become a national standard that offers a continuation concept in developing oil palm plantations. Using a multi-dimensional approach, the partnership between global partners and oil industry players exert bias in the implementation of sustainable development. Economic models tend to have multi-level stakeholders that control palm oil production. The government and non-government institutions have limitations in dealing with the problem [22].

The multi-stakeholder approach is defined as two or more classes of actors who have been involved in the same corporate governance regarding public issues. There are types of multi-stakeholder governance that may result from variations: the types of actors involved and the nature of authority relationships between actors. According to the first variation, multi-stakeholder governance has four classes of actors: state, formal, intergovernmental organizations (IGO), firms, and civil society actors [23].

3.2.1 The type of actor involved

In the Indonesian palm oil industry, the actors involved are Indonesian government agencies, government, smallholder farmers, and business (large plantation and users). Indonesia's palm oil industry does not meet sustainability standards. The imbalance between the dimensions of sustainable development shows the dominance of economic interests. From a social perspective, the palm oil industry does indeed provide employment opportunities. Yet, on the other hand, the expansion of plantation areas causes land exploitation and social conflict. Meanwhile, deforestation due to land burning, damage to green areas, and increased greenhouse gas emissions have caused environmental damage.

CIFOR estimated that four million ha of productive oil palm plantations from deforestation. The expansion of oil palm plantations has a negative impact in the form of forest destruction, violations of Human Rights (HAM). This impact has resulted in the forest and land fires, come from the opening of oil palm plantations, loss and destruction of forests and peatlands, threatened biodiversity, health problems due to smog and land fires, and subsequent impacts such as flooding and landslides due to loss of buffer forest areas [24]. This condition makes palm oil not only an industry but also a public problem that requires rules and practice.

ISPO has been operating since 2011 through the Minister of Agriculture Regulation No. 19/Permentan/OT.140/3/2011 on the Indonesian Sustainable Palm Oil Plantation Guidelines. It has encouraged oil palm plantation businesses to fulfill their obligations, protect and promote sustainable oil palm plantation businesses by market demands [25]. In 2015, through Regulation of the Minister of Agriculture Number 11/Permentan/OT.140/3/2015 on the Sustainable Palm Oil Certification System of Indonesia, it divided plantation business groups with mandatory and voluntary business groups to carry out ISPO certification [26]. In 2020, through Presidential Regulation No. 44, the scope of the rules became more developed, including ISPO certification provisions, ISPO certification bodies, market competitiveness, supervision and guidance, and sanctions [27].

Certification is not free of interest, social and environmental standards. When dealing with public issues in palm oil management, Indonesia has developed a series of ISPO certification platforms that involve not only countries and firms but also state, IGO, and civil society. In the implementation of Indonesia's sustainable palm oil certification, there are two dominant government actors: Ministry of Agriculture and President. This authority is seen by the Minister of Agriculture Regulation No. 19/Permentan/OT.140/3/2011; No. 11/Permentan/OT.140/3/2015; Presidential Instruction (INPRES) concerning the 2019-2024 Sustainable Palm Oil Plantation National Sustainable Action Plan; and Presidential Regulation No. 44. However, the emergence of presidential decrees and regulations shows a shift in authority to the top of the bureaucracy. In organizing oil palm sustainability, there are three
related Ministries, namely the Ministry of Agriculture, the Ministry of Environment and Forestry, and the Ministry of ATR / BPN. In the management and derivative segments, there is the Ministry of Industry. In the trade segment, there are the Ministry of Trade (Ministry of Trade) and the Ministry of Foreign Affairs (Ministry of Foreign Affairs) as actors in diplomacy and campaign on the Indonesian palm market [28] and Ministry of Cooperatives and Small and Medium Enterprises. Unfortunately, the Ministry of Manpower lacks a role. The number of people working in the oil palm industry, the limitations of small-scale palm oil farmers in the capacity, knowledge, and resources to implement sustainable production practices labor ministry should be involved.

The company is an object of ISPO. There are 566 companies receiving certification, including state-owned PT Perkebunan Nusantara (PTPN) III and PTPN IV [29]. UNDP facilitates sustainable palm oil production in Indonesia. The Sustainable Palm Oil (SPO) initiative between the Government of Indonesia (GoI) and the UNDP, private sectors, and other non-government partners address key challenges in Indonesia's palm oil sector, such as deforestation and improve the livelihoods of smallholder farmers [30, 31]. State utilize IGO to manage competition and advance their common interests. IGOs have a degree of 'essential capacity' when setting regulatory standards: independence, representation, expertise, and operational capacity [32].

Civil society seeks to improve and strengthen the ISPO certification system, including the Indonesian Palm Oil Farmers Association (Apkasindo), Oil Palm Farmers Union (SPKS), Oil Palm Plantation Fund Management Board, Palm Oil Board, GAKPI, ALSI, ISPO Auditor Forum, ISPO Evaluation Team Members, SC and ISPO Certification System Strengthening Team Members, buyers, and NGOs [33]. Apkasindo demands the suspension of ISPO certification to farmers because it will impact the low price of oil palm fruit bunches [28].

3.2.2. The nature of authority relationships between actors

Characters of the multi-stakeholder governance approach are the relationship of polyarchic authority by procedural rules. The SPO Initiative provides a role for the Ministry of Agriculture to continue operational sustainability policies. At the state level, actors have inter-ministerial coordination and adjust their respective roles under specific issues. Under the polycentric management, government plays a role in managing problems. Companies and civil society work to influence public management issues.

Polyarchy is a rule by people, not the majority or minority groups. Polyarchy needs consensus, which is then formulated as the norm or rules of play and political activities to bridge the difference between actors' ideas [34]. The government of Indonesia and UNDP, through the SPO initiative, bring the results of a discussion on palm oil sustainability to the Ministry of Agriculture. The Ministry of Agriculture builds synergy with relevant ministries to formulate further development. Polycentrism focuses on the nature of the relationship between actors. The types of relationships among actors are consistent with multi-stakeholder as an institutional form. Governance arrangements can vary according to the nature of the authority relations between actors. An intersubjective understanding and social practice limits country involvement and optimizes the participation of actors [35]. This condition then becomes natural when a government unit is mandated. In this case, the Ministry of Agriculture dominated the sustainability implementation of Indonesian palm oil in 2011 and 2015.

Companies are part of a shared government entitled to participate in government by predefined ways [36]. Palm oil company's position is a mandatory object-certified sustainable palm oil. The success of 566 companies in obtaining certificates is the symbol that the company has received a predetermined policy to ensure sustainability in their production and business processes.

UNDP acts as a facilitator that supports sustainability and prosperity for the lower community. The establishment of SPO in line with the UNDP mission is to help countries like Indonesia find ways to ensure that economic growth is sustainable and empowering the poor and marginalized people [31]. SPO Initiative is also a window of opportunity to create a more socially responsible palm oil industry.

The actors have roles according to their respective portions. However, the distribution of responsibilities in a series of heterogeneous behaviors in which each actor has formal power and homogeneous actors having the same formal power leads to the rules and practices of institutional
arrangements that are constantly changing. Practically, this situation will weaken the institutions and the implementation of oil palm sustainability in Indonesia.

4. Conclusion
Indonesia faces economic, social, and environmental imbalance. In implementing ISPO certification, Indonesia has involved all multi-stakeholder actors: state, company, IGO, and civil society. In Polyarchy management, countries are actors in charge of managing public issues. Thus, in the application of ISPO, the country becomes the perpetrator that dominates development and policy implementation. The second actor is a company carrying out certification obligations. Civil society, including associations and groups, has a role in evaluating and strengthening policies. ISPO will likely ensure the sustainability of palm oil in Indonesia. However, the issue of distribution of roles limits the authority of actors as a consequence of Polyarchy management, which weakens the institution and implementation of the certification. The emergence of presidential regulation demonstrates institutional and regulatory weaknesses. Suppose the country dominates the implementation of the policy, and the country and large corporations also have a major interest in this industry. In that case, the next question will be whether this certification system can reach the interests of civil society. At the same time, smallholders still have to face the challenge of dependence on the price of oil palm fruits determined by large companies and the issue of plantation land ownership.

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