T20 INDONESIA 2022 THINK

Policy Brief

GLOBAL COOPERATION FRAMEWORK FOR SUSTAINABLE PRODUCTION AND TRADE IN AGRICULTURAL COMMODITIES

Task Force 4

Food Security and Sustainable Agriculture

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Abstract

Global pressure to “clean” and “green” the agricultural supply chain is increasing, requiring exported agricultural goods to meet certain standards and regulations. Such pressure mainly comes from developed countries as consumers. Consequently, small and medium producers in exporting developing countries are at the highest risk of further marginalization and market exclusion. They lack access to training, information, farm inputs, and financial support to practice sustainable agriculture. Most of the smallholders also have low production levels and live below the poverty line. To this end, current agricultural sustainability frameworks must be urgently reviewed.

We propose enhanced cooperation between producer and consumer countries in the form of: 1) An establishment of communication on agreed framework and institutional arrangements on sustainable agricultural commodities; 2) Stepwise/staging approach and indicators to support transition toward a more sustainable agriculture 3) Umbrella program to support technology transfer and adoption; 4) Investment hub and innovative financing schemes to facilitate trade and investment for smallholders.

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Challenges

With the growing worldwide pressure to “clean” and “green” the supply chain, there has been a proliferation of the use of standards and regulations, certification, and labelling as means to verify and communicate sustainable supply chains in agriculture. Sustainability standards and regulations are designed to address negative externalities and promote resource stewardship and benefits for local communities. Exported agricultural goods are increasingly required to meet multiple standards and regulations (mandatory or voluntary, public or private-led, international or national). The trade restriction due to these requirements has been the main cause of concern by the exporting developing countries, which often have weaker bargaining power. In addition, the multiple definitions, standards, mechanisms, criteria, and institutional arrangements related to sustainable agricultural commodities are sources of disputes. Developing countries are expected to be able to influence the development of global standards that accommodate their concerns and assert their own development interests, despite the lack of their institutional capacities (Negi et al. 2020).

Within the developing countries, the small and medium producers are at the highest risk of further marginalization and market exclusion. They lack access to training, information, farm inputs, and financial support to practice sustainable agriculture, and cannot afford the transaction costs associated with standards and certification. As a result, they are trapped in low-intensity farming with low yield, limited market access, high food losses and waste, and crop failure due to climate change. To ensure that no one is left behind, reviewing current agricultural sustainability frameworks is urgently needed.

Such concerns also present an impact on their well-being, particularly for smallholders. The World Bank has estimated there are over 500 million smallholder households globally, amounting to upwards of two billion people. Most of them cultivate less than five acres and earn only USD $2 per day, causing them to live in poverty (World Bank, 2016). Thus, immediate action is required to improve the quality of life for small farmers.

Proposals for G20

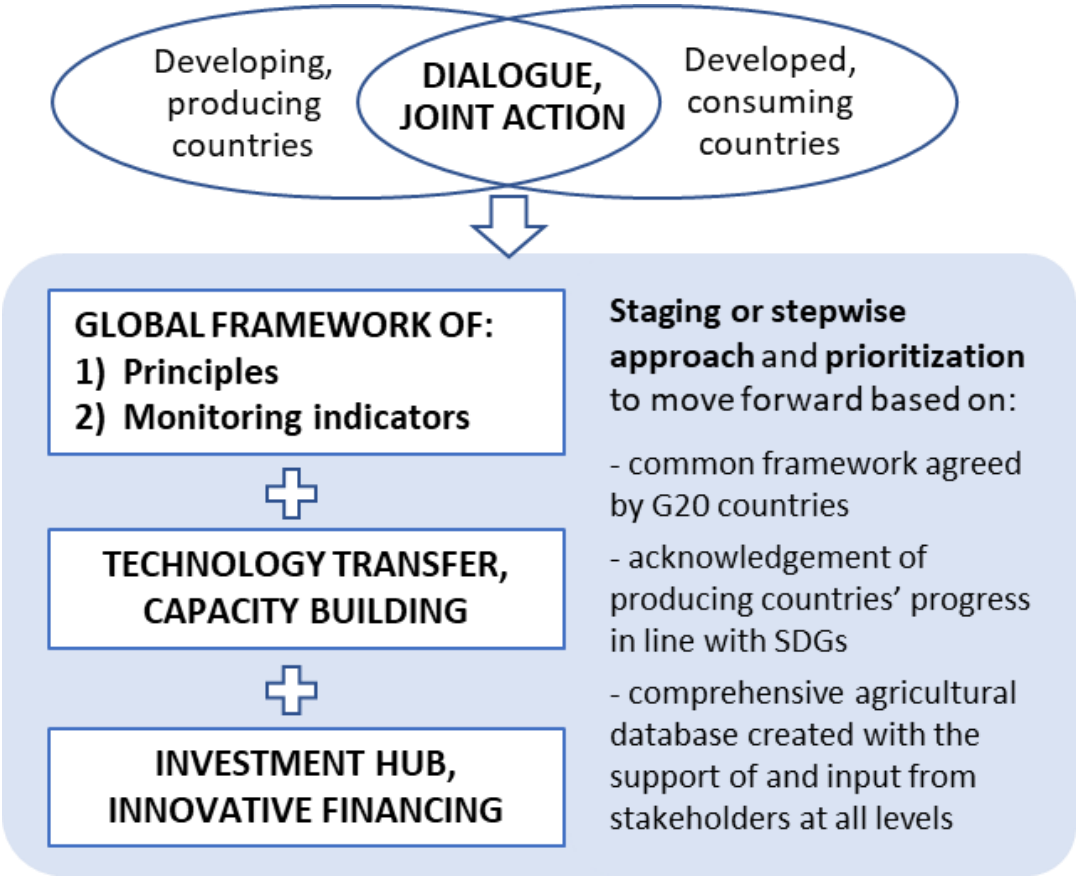

Figure 1. Diagram summarizes key aspects of the proposal. The G20 members should spearhead and mainstream the dialogue and joint action to promote sustainable production and trade of agricultural commodities. The step-wise dialogue and joint action should cover the development of a common framework for principles and indicators, the adoption of sustainable agricultural practices particularly among smallholder farmers via enhanced technology transfer and capacity building, and the establishment of an investment hub and innovative financing.

1. Establishing dialogue on agreed framework on definitions, standards, mechanisms, and institutional arrangements on sustainable agricultural commodities

We propose that a global framework of principles and monitoring indicators for sustainable agricultural commodities be developed collectively in an inclusive process led by the G20. Three G20 working groups (Agriculture; Environment and Climate Sustainability; and Trade, Investment, and Industry) need to collaboratively draft the global framework and ensure that the issue remains high on the agenda until the framework is finalized. Relevant G20 engagement groups, such as T20, B20, C20, and Y20, can serve as platforms for stakeholder consultations at the national and international levels, where key issues such as smallholder support and transparency and traceability are discussed widely by various stakeholders. As the development of principles and indicators may take several years, the G20 Chairs of this year and the next few years should ensure that the topic remains high on the agenda.

The development process may complement and/or continue existing processes on this topic, such as the government-to-government FACT (Forest, Agriculture and Commodity Trade) Dialogue, hosted by the COP26 Presidency and supported by the Tropical Forest Alliance (TFA), and the private sector collaboration to create a shared sectoral roadmap for enhanced supply chain action towards net-zero emission, also facilitated by TFA. The involvement of the non-state actors, particularly from the developing countries, is especially crucial in this process, and their input should not be overlooked. To ensure maximum impacts, the development should also involve relevant general and sectoral international bodies (the World Trade Organization, Food and Agriculture Organization, International Coffee Organization, International Cocoa Organization, Council of Palm Oil Producing Countries, etc.)

And regional bodies (the Association of Southeast Asian Nations, European Union, African Union, Mercosur, etc.). Each relevant G20 member should mainstream the topic in its domestic and internal engagements. The overall objective is to ensure that countries as well as other supply chain actors consider and adopt the framework when dealing with each other, whether bilaterally and multilaterally.

To this end, the development of the global framework should not reinvent the wheel. Instead, the process can be an umbrella mechanism that takes into account progress achieved through other fora and platforms, often concerning only a single commodity. When the discussions start, existing global frameworks such as the United Nations Sustainable Development Goals (UN SDGs) and Paris Agreement can serve as points of reference to ensure mutual understanding. The proposed principles and indicators should align with the UN SDGs, which reflect values held by both producer and consumer countries. Principles need to be agreed first, before advanced technical discussions on mutually agreed definitions and criteria regarding indicators can take place.

2. Stepwise/staging approach and indicators to support transition toward a more sustainable agriculture

We propose a stepwise (staging) approach and indicators to support the transition toward more sustainable agriculture that are inclusive and participatory in nature. The stepwise approach would acknowledge and facilitate greater adoption of sustainability standards or certifications and regulations, while simultaneously providing support to the lowest performing producers as opposed to penalizing them. The indicators encompassed in the stepwise approach must include the progress made by producing countries, to recognize the positive development impacts in multiple SDGs. In addition, smallholders should be an integral component in the progress indicator—this will shift the resource allocation to smallholders which are currently underserved.

The stepwise approach and indicators should be designed through a participatory process and dialog that involves the key stakeholders from both developing and developed countries, including members of the private sector and representatives of the indigenous peoples and local communities as well as smallholders. While developing this approach, existing sustainability standards or certifications can be used as a temporary measure; however, they must be aligned with a common framework that is agreed by developing and developed countries.

A stepwise approach has been implemented in the timber industry. The initial step focuses on the legality of the timber production, which serves as a precursor before the focus is shifted toward sustainability. Voluntary Partnership Agreements (VPAs) between the EU and timber producing countries on Forest Law Enforcement, Governance, and Trade (FLEGT) emerged as a tool to stem illegal logging and trade while seeking to address underlying problems of forest and land-use governance. The latter refers to major challenges in the production of not only timber but also other soft commodities, such as weak community rights, tenurial conflicts, and inadequate law enforcement. Many developing countries have engaged in legal reforms to improve forest and land-use governance as a first step toward sustainability. Such efforts need to be given recognition and further support by the developed countries.

3. Umbrella program on sustainable agriculture practice to support technology transfer and adoption

In terms of agricultural product trade among countries, smallholder farmers in developing countries are struggling to implement sustainable agricultural practices. The smallholders are often trapped in low intensity farming, low yield, crop failure due to climate change, and high food losses and waste. On the other hand, the developing countries

as customers have all the solutions for the problems faced by the developing countries. However, the transfer of technology and knowledge is still limited but nonetheless urgently needed by developing countries to fulfill the agricultural product standard as well as future global agricultural commodities demand.

We propose an umbrella program on agricultural production led by the G20 countries. The main goal of this program is to enhance sustainable practices in agricultural commodities production for developing countries. This program will focus on accelerating technology transfer and adoption as well as capacity building. The target of this program will be smallholders farmers who have significant contributions to global agricultural production and food security but struggle to perform sustainable agriculture practices standard. The program will match the needs of smallholders in developing countries with technical expertise for capacity building and technology transfer and adoption from developed countries.

The umbrella program needs cooperation and agreement between both developing and developed countries. The developed countries are responsible as the main sources for capacity building and technology transfer. On the other hand, the program also needs developing countries' support to develop supporting infrastructure as well as enabling the environment as a prerequisite for participation. Thus, this program should not only solve the smallholder's problem but also enhance the producer's capacity to fulfill the requirement standard.

4.Investment hub and innovative financing schemes to facilitate trade and investment for smallholders

The transition to sustainable agriculture necessitates a significant investment. Nonetheless, many smallholders live in areas with underdeveloped capital markets and have limited access to financial products. They frequently lack a credit history, significant collateral, and the ability to implement more sustainable practices that would increase their resilience and productivity.

We propose the establishment of an investment hub and the use of innovative financing schemes to solve these financing problems, especially for smallholders. The need for an investment hub stems from the idea that problems in agriculture financing come from not only farmers who lack the means but also investors that do not necessarily know where to put their money. The investment hub should have at least three main mandates: pooling funds from investors, sorting projects, and managing fund distribution. The function of pooling funds is critical because investors tend to congregate in one location with a large amount of money. Due to the numerous commodities that must be financed, there needs to be a staging process in channeling funds starting from priority or potential commodities. This is where the role of project sorter comes in, determining which commodities and projects should be funded. To ensure the staging process runs smoothly, a comprehensive database for each commodity and farmer is required. In this case, the investment hub should have representation in every country that collaborates with the government up to the jurisdictional level to enhance data collection. The role of the project sorter can also be extended to the aggregation of smallholders into farmers groups, allowing farmers to consolidate supply, gaining benefit from economies of scale, as well as de-risk the engagement for investors. After a project has been selected, the investment hub is responsible for

distributing the fund. This includes determining the type of funding to be provided for the project (e.g., equity, loan, or grant).

Smallholders inherently have a high-risk profile, which can prevent investors from providing funding. Investors need a cushion to be able to place their fund. On the other hand, smallholders have funding needs with lower interest rates and longer tenors. This is to support the financing of several crops that require high initial costs and a long period before their production becomes profitable (e.g., coffee). In this case, de-risking instruments and innovative financing need to be present to complement the role of the investment hub. Various forms of de-risking instruments can be applied, financially or otherwise. Financially, it can be done by combining loans from private investors with equity and grants (co-financing) whose sources can come from, among others, the government, philanthropy, MDBs, and climate funds. One fine example of this scheme has been implemented by the Green Climate Fund in financing its projects. In addition, guarantee and insurance schemes (e.g., insurance for sustainable crops), can help reduce investment risk. While insurance is generally considered expensive, several institutions have offered cheaper index-based insurance, which protects against shared—rather than individual—risk when external factors exceed certain thresholds, such as unusually high temperatures, low rainfall, or disease outbreaks. On the other hand, non-financial de-risking efforts can be carried out by project aggregation, where financing is made for a bulk project that has passed certain verification standards. Lastly, policy signaling from the government by making this financing program one of the top priorities can also be a de-risking policy for investors.

References

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