



Task Force 1
Macroeconomics, Trade, and Livelihoods:
Policy Coherence and International
Coordination



ADVANCING A GLOBAL COLLABORATIVE PARTNERSHIP FRAMEWORK FOR SUSTAINABILITY STANDARDS AND REGULATIONS

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Abstract





Along with rising trade interdependency between the Global South and the Global North countries, there is growing pressure to implement 'greener' supply chains to ensure that traded commodities comply with sustainability norms. Sustainable standards and regulations are broadening their scope to take into account such concerns. Northern stakeholders play a far more extensive role in these processes, while their Southern counterparts are relegated to mere standard-takers as producers.


Consequently, it is becoming increasingly challenging for Southern countries to meet sustainability standards, as these drive up their social and economic expenses. To address this, both sides need to make a concerted effort, in accordance with the reforms driving the development of these standards and regulations. Standards need to be globally agreed upon, built through multi-stakeholder forums, and followed up by cushioning financing facilities and mechanisms.



The Challenge

1





The burgeoning global problems of environmental degradation and climate change have led to public concern about the environmental and social impacts of commodity production. Developed countries are becoming increasingly aware, as evidence emerges of their responsibility in contributing to them (Duroy, 2005; European Union, 2021). As a result, global value chains are pressured to adopt ‘cleaner’ and ‘greener’ processes that demand that traded commodities, particularly agricultural and forestry commodities, meet social and environmental norms.

The use of standards and regulations to verify that commodities meet these demands has been proliferating, with governing institutions being formed within global value chains (Ponte & Gibbon, 2005; Nadvi, 2008). The implications for all participants are profound due to the specific information that has to be conveyed along the value chains. For instance, standards have been proposed for companies to demonstrate their sustainability credentials, which will secure them preferential treatment from buyers. Nonetheless, ensuring lengthy and

complex supply chains, involving multiple actors, adhere to sustainability principles is an enormous challenge.

Voluntary sustainability standards were seen as the means to tackle the shortcomings of government regulations and legislation in addressing sustainability issues (Komives & Jackson, 2014). A few such standards have been developed in multi-stakeholder forums involving non-state actors, which have subsequently included governments too. There is, for instance, the Roundtable Sustainable Palm Oil (RSPO), which seeks to produce palm oil without damaging forests and forest communities, or the Forest Stewardship Council (FSC), which promotes responsible forest management. Numerous sustainability standards have been developed for supply chains, particularly for agricultural and forestry commodities such as timber (Cashore et al., 2004) and cocoa (Bitzer, 2012).

Although sustainability certification systems developed by private stakeholders have encouraged sustainable practices in a variety of commodities, the involvement and intervention of state actors remain



crucial. Komives & Jackson (2013) presented that voluntary sustainability standards are challenged by slow market growth, product particularities, and accessibility issues. Institutionalised sustainability standards make for stronger enforceability for a wider range of products and push business actors to implement more ethical and socially responsible operations (Ioannou & Serafeim, 2011).

Governments are becoming increasingly involved in imposing sustainability measures, setting demanding requirements. The European Union, for example, has in the last 20 years, progressively tightened its curbs on commodities that enter its region. It enacted the EU Timber Regulation in 2004, demanding that only legal timber products be allowed in. In April 2023, the Union adopted a regulation on deforestation-free products, which requires commodities sold in the region to follow due-diligence measures, which includes being produced on deforestation-free land.

Yet the tightening curbs have not guaranteed that sustainability objectives are achieved. Possibly, the standards provide limited room for

local interpretation due to their lack of context contingency, worsened by weak assurance on producers' capacity to achieve the intended level of sustainability regardless of adherence to guidelines (Djama, et al., 2011; Wijen, 2014; Schouten, 2015). This makes it difficult for the Global South as producers to achieve the global benchmark for sustainability.

As most standards and regulations were jointly set by state and non-state actors in the Global North and enforced on Global South producers, they are being increasingly questioned by the latter. There is a widespread perception (Schouten & Bitzer, 2015) that they are led by and serve the interests of Global North actors as consumers. Numerous studies have found that Northern stakeholders' role in these processes is significantly more extensive, despite the fact that many standards were developed by a wide range of actors (Bitzer et al., 2008; Dingwerth, 2008; Fuchs et al., 2011; Halimatussadiyah, 2022). Global North discourses on sustainability, scientific understanding, and the needs of large corporations frequently eclipse Southern discourses on local knowledge and farmer choices (Ponte & Cheyns, 2013).

The dominance of Global North countries in sustainability standard development may result in unjustified economic and social costs for the Global South. Current support for producing nations with relatively low endowments does not match the strict and dynamic demands made on them by the norms and regulations. Producers,

including smallholders, face high costs and limited financing for certification, legality, and traceability. This raises the risk of increased market exclusion and marginalisation, particularly for small- and medium-sized producers in developing exporting countries, which does not align with the ends of achieving sustainability.






The G20's Role

2





The G20 is a prominent stage for fostering economic collaboration between nations and plays an important role in strengthening global architecture and governing key economic issues, particularly sustainability and trade. It also provides space for its members, particularly Southern countries, to raise their concerns. Southern countries have been assuming a high-profile role in the G20 with their successive presidencies—Indonesia (2022), India (2023), Brazil (2024), and South Africa (2025).


As a multi-stakeholder forum, the G20 could bridge the differences in perspective and understanding between the North and the South. It can utilise its Working Groups to do so, especially those relating to Agriculture, Environment, and Climate, as well as the T20 Engagement Group. The T20 can also serve as a bank of ideas for sustainability standards and regulations. Also, as part of its aim to address the issue of fairness, the G20 can take the initiative to become the focal point that considers and represents the perspectives and capacities of multiple stakeholders, both from producing and consuming countries, in its process of developing standards and regulations.



Recommendations to the G20

3





Create a multi-stakeholder forum that includes all parts of the value chain and take advantage of international platforms to boost trade.

A multi-stakeholder forum can resolve differences in viewpoints among those involved in the forestry and agricultural commodities value chains, especially stakeholders from Global South countries who oversee the implementation of sustainability measures. The forum can also contribute to addressing the fairness issue in the ethical development of sustainability standards and regulations. As significant participants, Global South countries can encourage the development of standards that are fair. Such a forum can increase the bargaining power of the Global South in negotiating and influencing the development of sustainable measures. Its success will depend on the inclusive participation of various stakeholders, such as states, non-state actors, and academia.


Such a forum should build upon existing agendas, agreements, or platforms that have already enabled different actors to align their interests and cooperate, such as the G20. With Global South countries presiding over the forum for

four consecutive years from 2022, they can bolster their position by taking this agenda into their dialogues with the Global North. This forum could also be a platform for large Global South producer countries to initiate cooperation to enhance their bargaining power.

Propose a joint roadmap to ensure robust and implementable indicators within a fair regulatory framework.

One way to achieve a comprehensive and implementable regulatory framework is by creating a joint roadmap that establishes a step-by-step approach and provides indicators for more inclusive and participatory forms of sustainable production (Halimatussadiah et al., 2022). The roadmap must highlight the agreed milestones of sustainable production and the sustainability benchmarks that must be met within a predetermined period. This will serve as a guideline to evaluate the progress of sustainability adoption.

To ensure ethical fairness, it is critical to have multi-stakeholder participation from state and non-state actors of both the Global South and North countries




in roadmap development. This joint roadmap will help accommodate the capacity of participating stakeholders to adopt the standards and regulations. The agreed timeline and milestones can help avoid the frequent changes in standards and regulations that previously resulted in additional costs for Global South countries. Establishing a consensual roadmap will ensure the consistency of the agreed standards and regulations and enable their monitoring. While being ambitious, it is essential to avoid overburdening the weaker party with too many standards and regulations.

An additional outcome of “semi-compliance” for parties that do not completely meet sustainability indicators during the certification process can also be added. Currently, most sustainability standards only have a binary outcome of success or failure, discouraging non-certified stakeholders from reapplying for certification due to the significant additional expenses. Adding “semi-compliance” outcomes will provide additional space for stakeholders to improve their sustainability without incurring significant costs. At the very least, the G20 can highlight the need for prominent sustainable countries,

primarily from the Global North, to participate in capacity building for countries in the Global South which are less so. Existing sustainability standards or certifications can be used as a temporary measure while developing this approach (Halimatussadiah et al., 2022).

Develop a proposal for an umbrella programme to support smooth adoption of sustainable regulations and standards, particularly in producing countries.

Often, producers in the Global South simply lack the capacity to adhere to sustainability standards and certifications. Consumers in the Global North are relatively more aware of sustainability and are thus in a position to help them (Halimatussadiah et al., 2022). The Netherlands, for instance, is helping Indonesia’s smallholder farmers catch up with sustainable palm oil practices. Thus there is need for an umbrella programme to accelerate technology transfer and capacity building to support sustainable forestry and agricultural production, and it can be established through international forums such as the G20. It will need the joint support of the North countries.



Developed countries will be the main source of capacity building and technology transfers. But the programme will also require developing countries to build supporting infrastructure and an environment that enables participation. They will need to carry out unilateral reforms to strengthen stakeholder awareness of sustainability, promoting the participation of non-state actors in creating the enabling environment. The non-state actors will need to provide technical support to improve the circumstances of producers, particularly smallholders. Such initiatives will accelerate adoption of sustainability practices among smallholder farmers by ensuring easier, more inclusive access to sustainability certifications. Complying with sustainability standards and regulations will no longer be completing a formality but rather fulfilling a need.

Facilitate greater access to capital for smallholder farmers by providing for a more inclusive investment hub and innovative financing schemes.

A substantial number of smallholders in developing countries face financing issues due to lack of credit history, significant collateral, or not employing

sustainable practices that would increase their resilience and productivity. They have restricted access to funding and underdeveloped capital markets.

An investment hub and innovative financing schemes would help overcome these hurdles. An investment hub is needed because not only do farmers lack access, but investors have also yet to discover opportunities for investment in this sector. The hub should fulfil a minimum of three key objectives: cataloguing projects, collecting investments, and managing the allocation of funds.

In the case of smallholders, their high-risk profile may discourage investors. Financiers need a cushion before they can commit their funds. Smallholders' financial needs require long tenures and low interest rates to support crops that have high initial costs and lengthy delays in profit yields. In such cases, a variety of de-risking instruments and innovative financing are required to complement the investment hub. It can be done by combining loans from private investors with equity and grants (co-financing) that may be sourced from both state and non-state agencies. The G20 forum can connect Northern and Southern



countries through the collaborative development of a safeguard document that will serve as standard for the execution of this initiative. Investment risk can be further decreased through guarantees and insurance schemes. Another de-risking policy for investors is to make the financing programme top priority, synchronising policy signalling with the government.

Develop better and clearer implementation of pricing premiums.

To develop good agricultural practices, producers need incentives that can compensate their additional investments in sustainable practice. Farmers need to be educated about incentive packages available for sustainable production, such as price premiums. It has been noted that the direct cash income benefit from premium prices for certified products is relatively limited. A study by the International Centre for Integrated Assessment and Sustainable Development showed that certification will only yield profits if returns are earned by smallholders on a regular basis. In practice, smallholders frequently have less leverage in bargaining for prices. Moreover, price premiums also have


highly variable applications across different certification schemes. Premium prices are not even guaranteed for certain certified products.

To address this issue, price premium implementation must be improved, with clear off-take markets and guaranteed long-term contracts for certified products. Transition towards more sustainable practices by smallholders has to be followed by matching demand to absorb their products. Certification issuers should take strategic action to ensure demand for higher-priced, certified products. For instance, differentiated market channels for cocoa (e.g., organic, Fairtrade, deforestation-free) have enabled the ‘sustainable cocoa’ programme to achieve stable demand and premium pricing. In the case of cocoa, such mechanism has been implemented by Fairtrade in several countries such as Côte d’Ivoire and Ghana. The Fairtrade set a minimum price approximately 13-percent higher. The farmers also earn the additional Fairtrade premium at fixed price to invest in their business and communities which contribute to higher living income in the countries (Fairtrade, 2023).

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