

RECOMMENDATIONS TO ACCELERATE PRIVATE INVESTMENT IN CLIMATE-SMART AGRICULTURE AND FORESTRY PRODUCTION IN INDONESIA

BACKGROUND

On March 29, 2017, the USAID-funded Climate Economic Analysis for Development, Investment, and Resilience (CEADIR) activity organized a regional workshop in Bangkok, Thailand on “Convening Private Sector Investment in Climate-Smart Commodity Production in Southeast Asia.” Private sector leaders and government officials discussed regional needs, opportunities, challenges, and priority actions to accelerate investment in climate-smart, low-emission agriculture and forestry production.

Based on the regional recommendations from the March workshop and on additional discussions, CEADIR developed country-specific recommendations for improving communication and collaboration to scale up private investment in climate-smart agriculture and forestry in Cambodia, Indonesia, the Philippines, and Vietnam. CEADIR administered a survey and conducted interviews to gather stakeholder input for the recommendations, which are intended to support and guide country governments, USAID missions and implementing partners, and other donors and development partners.



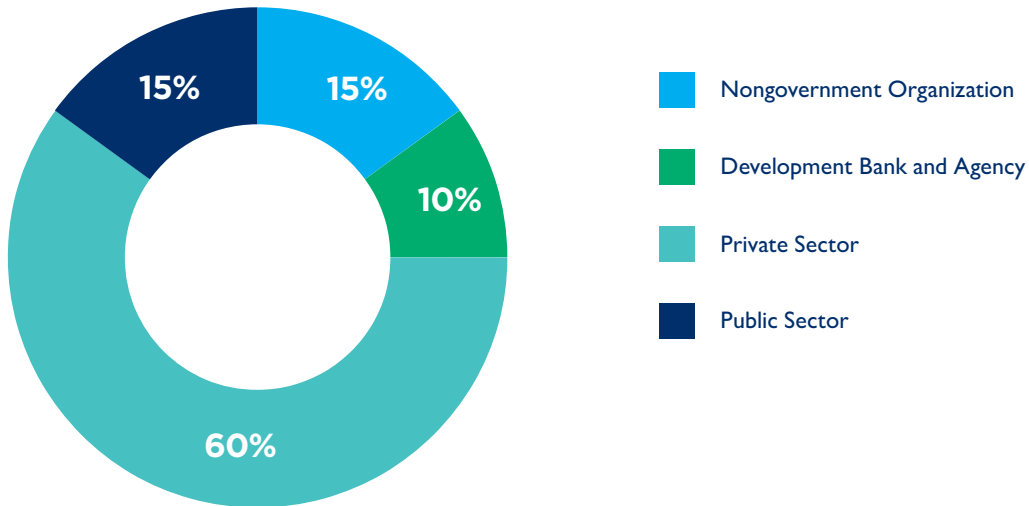
INTRODUCTION

This brief provides an overview of key challenges and recommendations for improving public-private sector communication and collaboration to facilitate investment in climate-smart commodity production in Indonesia. It also gives profiles of respondents in Indonesia. The data in the figures below show that 60 percent of respondents were from the private sector. This includes 15 percent from small and medium enterprises (SMEs), 10 percent from financial institutions and banks, 10 percent from certification platforms, 10 percent from consulting firms, 5 percent from large domestic companies, 5 percent from multinational corporations in the country, and 5 percent from business associations. Fifteen percent of respondents were from the public sector, including 10 percent from national government agencies and 5 percent from state-owned banks. The remainder included 15 percent from nongovernmental organizations (NGOs) and 10 percent representing development banks and development agencies.

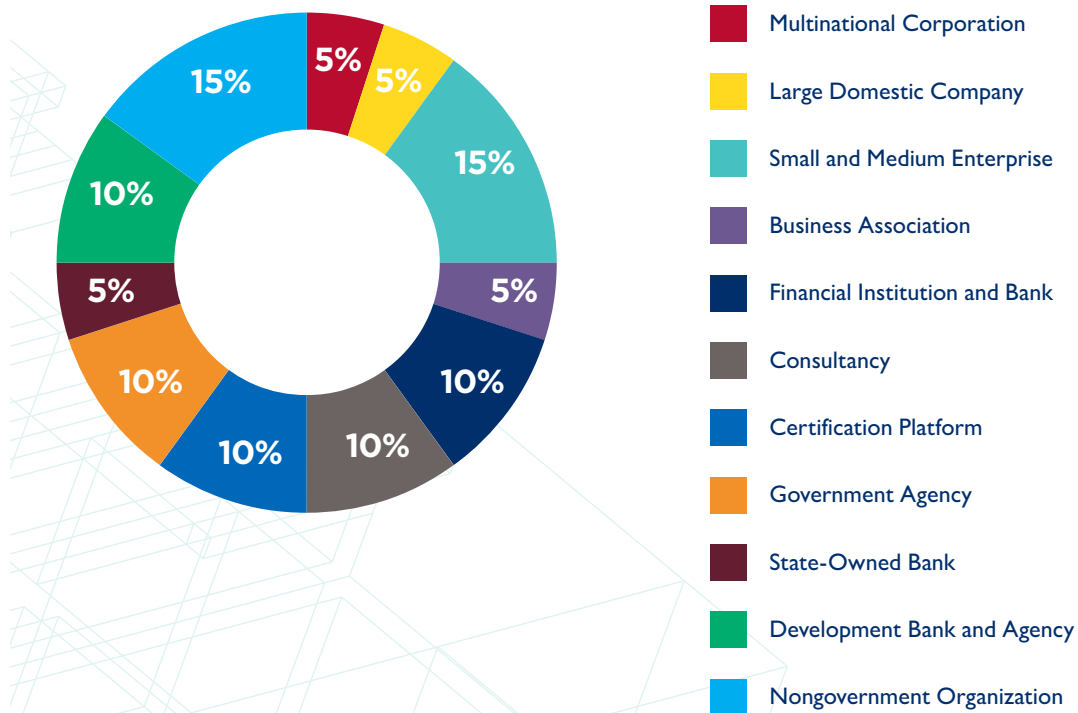
INDONESIA

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INDONESIA RESPONDENTS BY STAKEHOLDER GROUP



INDONESIA RESPONDENTS BY TYPE OF ORGANIZATION



Row 1 in the table below provides an overview of the key challenges and recommendations for improving public-private sector communication and coordination in Indonesia, as identified by respondents. Row 2 presents the top-priority actions for improving dialogue (those identified by at least 20 percent of survey respondents), while row 3 shows the most often cited expectation for the outcome of regular dialogue. Finally, the table highlights the recommended methods and formats for communication (row 4) and role for the government (row 5).

SUMMARY OF CHALLENGES AND RECOMMENDATIONS TO IMPROVE PUBLIC-PRIVATE SECTOR COMMUNICATION AND COORDINATION FOR CLIMATE-SMART AGRICULTURE AND FORESTRY IN INDONESIA

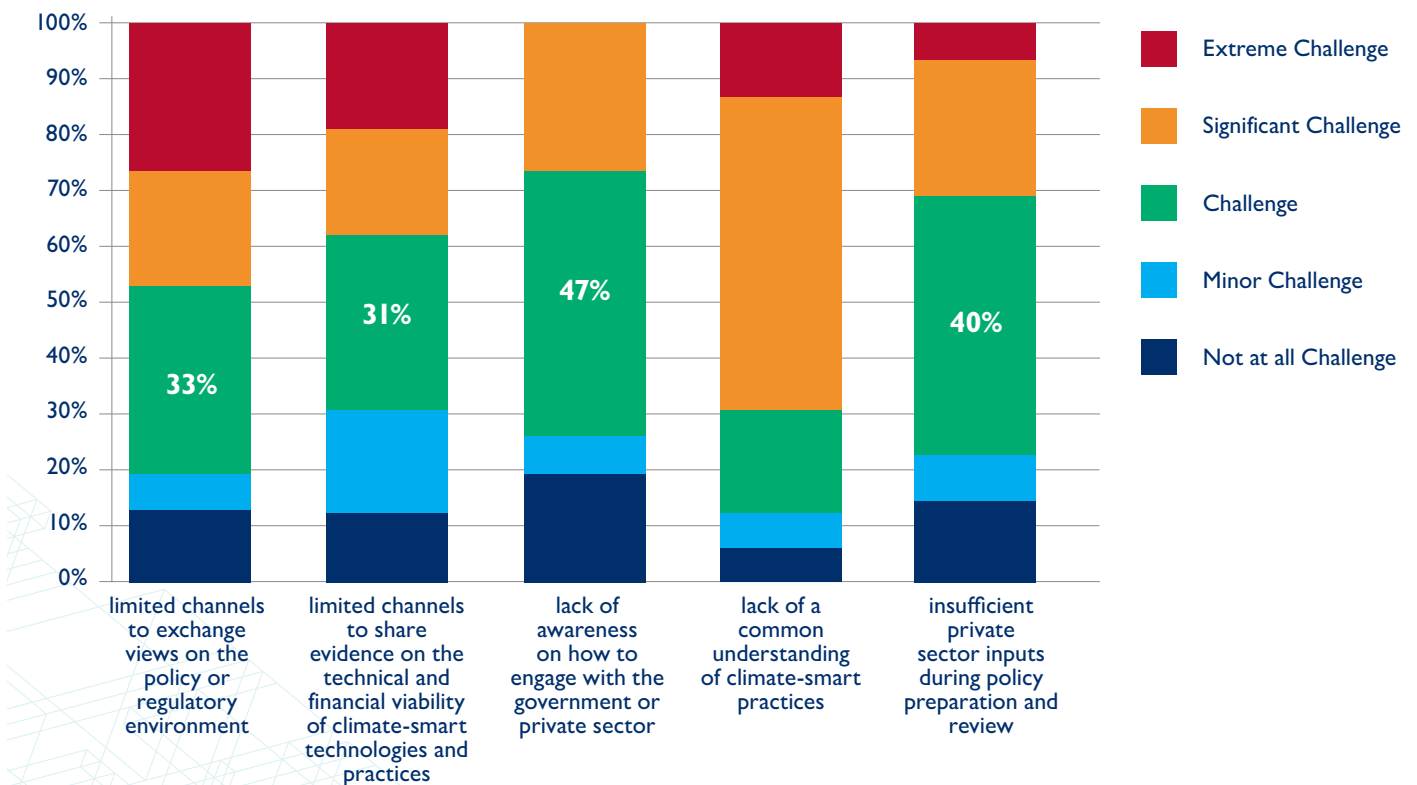
TOPIC	DESCRIPTION
Challenges	<ul style="list-style-type: none"> Lack of common understanding on climate-smart practices.
Recommended top-priority actions	<ul style="list-style-type: none"> Facilitate regular dialogue on policy or regulatory environment; Facilitate regular dialogue on sharing of technical and financial viability of climate-smart technologies and practices; and Improve common understanding on climate-smart practices.
Expected outcome of regular dialogue	<ul style="list-style-type: none"> Development of policy incentives to promote climate-smart investment.
Recommended communication methods and formats	<ul style="list-style-type: none"> Hold in-person meetings or workshops; and Select participants by geographic area and commodity.
Recommended role for government	<ul style="list-style-type: none"> Convene communication channels to build and maintain momentum in regular public-private sector dialogue.

CHALLENGES

CEADIR asked respondents to identify the key challenges for public-private sector communication and collaboration related to climate-smart commodity production in Indonesia. They were asked to start from the regional challenges identified at the March 2017 workshop. CEADIR also invited respondents to identify additional challenges not addressed at the workshop. The questionnaire asked respondents to rank challenges on a scale ranging from “not at all a challenge” to “extreme challenge.”

The following figure shows that two categories stood out: “significant challenges” (shown in orange) and “challenges” (shown in green). Fifty-six percent of the Indonesian respondents ranked the lack of a common understanding of climate-smart practices as “significant.” In addition, large portions of respondents in Indonesia classified the following topics as “challenges”: lack of awareness on how to engage with the government or private sector (47 percent), insufficient private sector inputs during policy preparation and review (40 percent), limited channels to exchange views on the policy or regulatory environment (33 percent), and limited channels to share evidence on the technical and financial viability of climate-smart technologies and practices (31 percent).

RANKING OF COMMUNICATION AND COORDINATION CHALLENGES IN INDONESIA



The following table expands on the challenge most frequently identified as “significant” by sharing a sampling of respondents’ views.

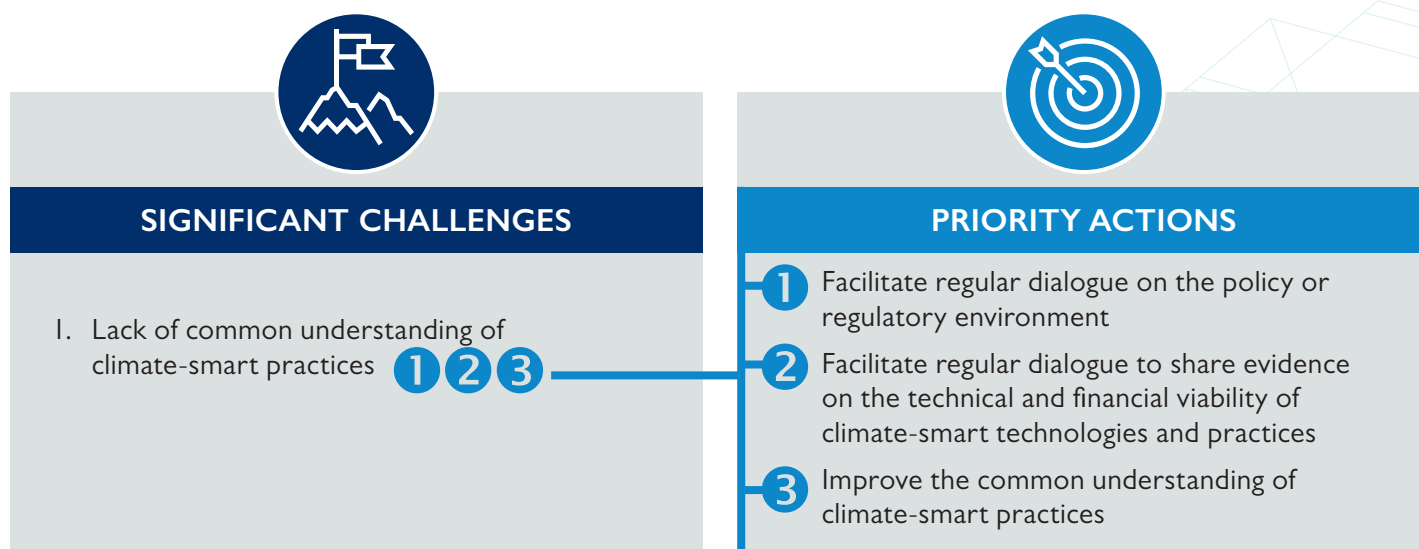
SAMPLE RESPONSES ON COMMUNICATION AND COORDINATION CHALLENGES IN INDONESIA

CHALLENGE	SAMPLE SURVEY AND INTERVIEW RESPONSES
Lack of common understanding of climate-smart practices	<ul style="list-style-type: none"> • The financial constraints of climate-smart businesses (e.g., affordability and bankability) are not widely understood by the public sector. • Understanding and interpretation of climate-smart and sustainability concepts vary within the public and private sectors. There are diverse sustainability certification schemes (e.g., the Roundtable on Sustainable Palm Oil and the Forest Stewardship Council) that can be adopted within the same landscape, most of which have different criteria and requirements even though they share the common goal of sustainable forest management. This creates significant confusion among relevant stakeholders. • The real challenge goes beyond understanding and awareness of climate-smart practices. For many private sector entities, sustainability concepts and actions are only a focus in public communications and corporate social responsibility, rather than being integrated in core business processes. Governments are challenged in balancing the trade-offs between sustainability and environmental protection, which bring long-term benefits, and economic development, which brings immediate benefits. This results in conflicting policy directions.

RECOMMENDATIONS

Respondents identified their top priority actions to address communication and collaboration challenges to climate-smart agriculture and forestry in Indonesia. The following figure shows the challenge selected as most significant, along with three corresponding actions deemed highest priority. Twenty-seven percent of respondents recommended regular dialogue on the policy or regulatory environment. Another 27 percent named sharing evidence on the technical and financial viability of climate-smart technologies and practices, while 24 percent wanted to see efforts to foster a common understanding of climate-smart practices.

SIGNIFICANT CHALLENGES AND RECOMMENDED TOP PRIORITY ACTIONS IN CAMBODIA



Note: Priority actions were those identified by at least 20 percent of respondents.

EXPECTED OUTCOMES OF PUBLIC-PRIVATE SECTOR DIALOGUE

CEADIR asked respondents what they considered to be the key objectives or expected outcomes of more effective communication channels between the government and private sector for climate-smart agriculture and forestry. About 32 percent respondents identified improved policies or regulations as the primary expected outcome of increased public-private sector dialogues, with a specific focus on the development of policy incentives to promote climate-smart investment. Other expected outcomes included improved access to or deployment of finance (24 percent), improved access to data (22 percent), and capacity development in the public or private sectors (22 percent).

SAMPLE RESPONSES RELATED TO EXPECTED OUTCOMES OF PUBLIC-PRIVATE SECTOR DIALOGUE IN INDONESIA

EXPECTED OUTCOMES	SAMPLE SURVEY AND INTERVIEW RESPONSES
<p>Policy: Policy incentives developed to promote climate-smart investments</p>	<ul style="list-style-type: none"> • Policy incentives should be established to open up opportunities, capitalize on stakeholders’ willingness to accelerate climate-smart investments, and motivate replication. • Policy support and incentives should be established for forest concessions, to encourage and reward sustainable forest management, conservation of biodiversity and carbon stocks, and improvement of indigenous communities’ livelihoods. • Policies that are disincentives for climate-smart practices (e.g., subsidies for chemical fertilizers, pesticides, and herbicides) should be removed. • Coordination should be improved between central and local governments on development and enforcement of policies and regulations, particularly related to forest concessions and permits, to reduce confusion and delays in investment.
<p>Finance: Access to finance facilitated for small-scale producers and SMEs</p>	<ul style="list-style-type: none"> • Financing should be scaled up for smallholder farmers to implement climate-smart and other environmentally beneficial practices. • Financing should be increased for postharvest storage and processing (including community warehouses and grain mills). • Additional support for financial institutions to de-risk lending to small-scale producers and processors, specifically for timber and palm oil, is detrimental to enabling long-term lending products on affordable terms. Currently, private sector financial institutions remain reluctant to provide loans with preferential rates to smallholder palm oil producers.
<p>Data: Improved access to data</p>	<ul style="list-style-type: none"> • Although some data has been collected, much of it has not been shared in an accessible form. Climate-smart relevant data should be made more available in the public domain, such as through an information clearinghouse. The quality of the data should be improved. • Access to and sharing of private sector data is needed to enable enforcement of government regulations and requirements.
<p>Capacity: Strengthened capacity of small-scale producers and SMEs to adopt climate-smart practices and sustainability certification systems; strengthened capacity of governments for MRV, to track progress toward national climate change commitments</p>	<ul style="list-style-type: none"> • Scaling up the government-led capacity development initiative on sustainability certification systems (i.e., Good Agricultural Practices) should be considered. • Access to financing should be improved before or together with technical assistance for small-scale producers and processors. • Donors can play an important supportive role in capacity development. • Infrastructure improvements may be needed to make sustainability certifications viable. • The national government and firms or organizations in the value chain may need funding and technical assistance for MRV systems to ensure that climate change mitigation and adaptation objectives, NDC targets, and license or permit conditions are being met

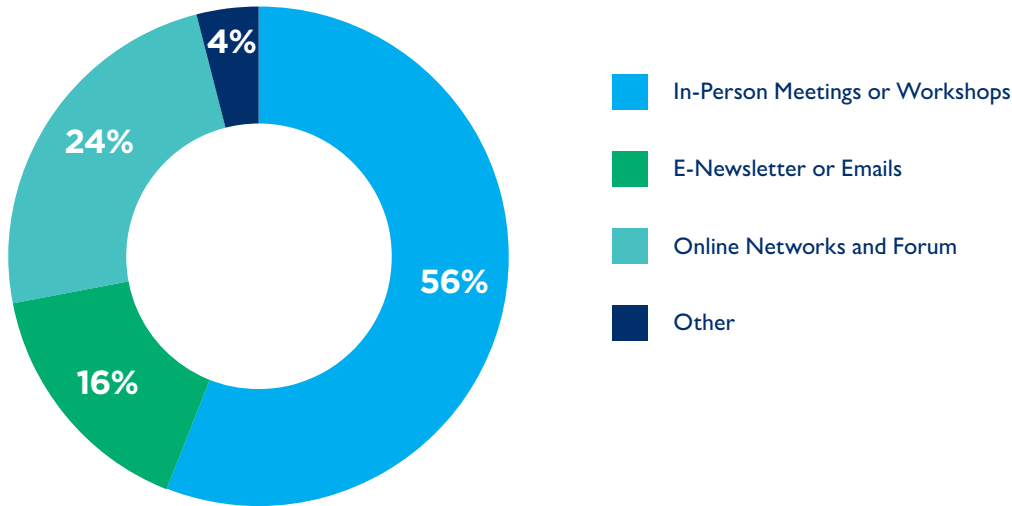
COMMUNICATION METHODS

Respondents identified their preferred methods for improving public and private sector communication on climate-smart agriculture and forestry. The following figure shows that 56 percent of respondents preferred in-person meetings or workshops, while 24 percent wanted online networks and forums, and 16 percent preferred e-newsletters or emails. Although respondents identified in-person meetings or workshops as an effective method,

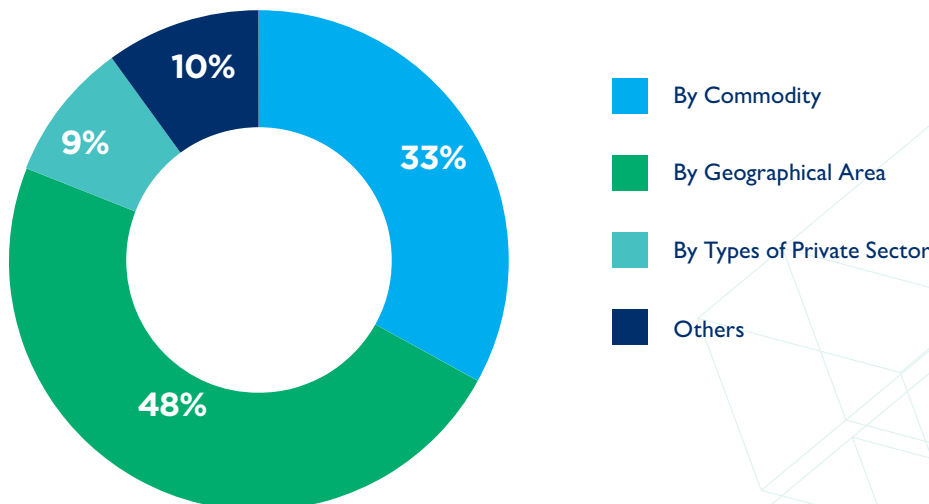
some also noted limitations on the ability of small-scale producers and SMEs to participate, given constraints on their resources and time (which they generally use for business growth). Two respondents recommended flexible communication methods, to address emerging needs or allow adjustments to the frequency of information updates or exchanges.

PREFERRED COMMUNICATION METHODS

FOR INCREASING PUBLIC AND PRIVATE SECTOR COORDINATION FOR CLIMATE-SMART AGRICULTURE AND FORESTRY IN INDONESIA



The figure below shows that 48 percent of respondents recommended organizing communication channels by geographic area (since some issues may be best addressed by location), and 33 percent suggested that communication methods be based on commodity (since some issues pertain specifically to one commodity). One respondent noted that Indonesia’s diverse agro-climatic zones present distinct challenges and opportunities for public-private sector dialogues. Three respondents suggested a combined approach based on commodity types, geography, and types of private sector stakeholders.

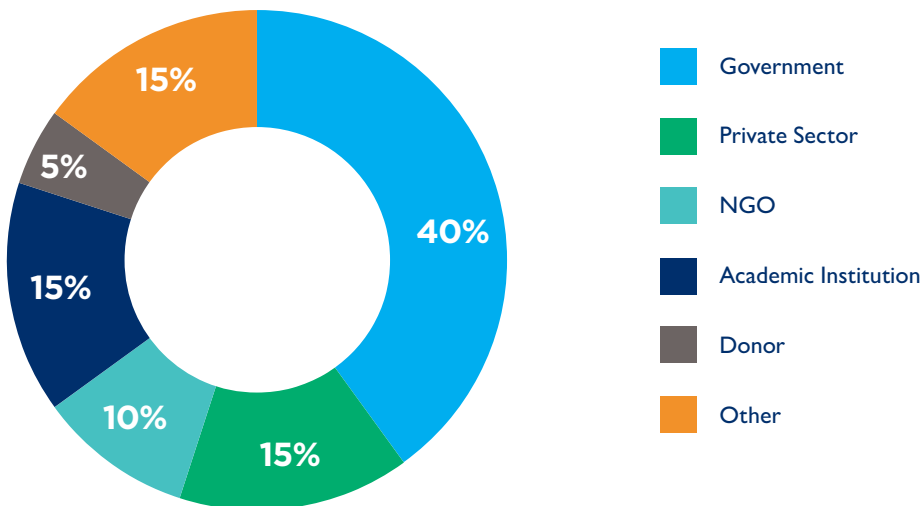


CONVENERS OF COMMUNICATION CHANNELS

CEADIR asked respondents to identify and explain their views on the most appropriate conveners of these communications. Forty percent of respondents identified the government as the most appropriate convener, while 15 percent suggested private sector entities or business associations, 15 percent listed academic institutions, 10 percent listed NGOs, and 5 percent recommended donor organizations (see figure below). Fifteen percent of respondents suggested other conveners or indicated openness to any convener that has sufficient credibility, neutrality, and acceptability among relevant stakeholders. Three respondents suggested that the government lead

public-private sector dialogue, due to its policy-making authority and ability to attract participation from both the public and private sectors. Two respondents emphasized the importance of support from development agencies to bring credibility and neutrality. One stated that donor organizations can help convene and overcome distrust between the public and private sectors, particularly during the early stages of developing new communication channels. Another noted that donors and development partners can also help ensure continued momentum for communication channels over time.

PREFERRED CONVENERS OF COMMUNICATION



PRIORITIES IDENTIFIED BY GOVERNMENT REPRESENTATIVES TO IMPROVE PUBLIC-PRIVATE SECTOR COMMUNICATION

At the regional workshop on Climate Action for Agriculture in Asia, organized in Bangkok, Thailand on October 10-12, 2017, government participants from Indonesia discussed these issues and developed private sector engagement strategies with priority actions to improve public-private sector communication and coordination. Government participants highlighted a lack of awareness within the private sector on climate-smart investment opportunities as a key barrier, particularly in rice, maize, and soybean production. Participants also emphasized as a challenge the limited dialogue and differing interests between the public and private sectors related to climate-smart approaches. To address these challenges, government participants identified priority near-term actions to accelerate private sector investment in climate-smart agriculture and forestry, including organizing regular public-private sector dialogues, raising awareness within the private sector related to national climate change commitments, and increasing private sector involvement in government climate-smart agriculture programs at the national level.