

## **The Terpercaya Initiative**

# The Terpercaya system: claims, verification and assurance

### Highlights

- Robust processes for claims, monitoring and verification can help ensure that the Terpercaya system provides credible assurance for commodity purchasers and civil society that palm oil is sustainably produced.
- Claims regarding the sustainability of products should be subject to monitoring and be independently verifiable.
- A range of claims could be made and monitored based on information available through the Terpercaya system and there are several possible verification methods.
- Mechanisms for product tracing and data verification together with safeguards can strengthen the Terpercaya system and avoid falsely attributing producers' social and environmental performance.

## Introduction

Jurisdictional approaches potentially offer the means to sustainably source multiple commodities from large geographical areas with lower cost and less effort than associated with product certification schemes (Essen and Lambin, 2021; Seymour et al., 2020). Operationalised jurisdictional sourcing remains elusive, however, partly because standards for jurisdictional sustainability have not yet been finalised. Furthermore, most jurisdictional sourcing models focus on single jurisdictions rather than covering all, or many, jurisdictions as part of a system that allows evaluation and differentiation at the national level.

Terpercaya is a national jurisdictional sustainability system hosted by the Indonesian National Ministry of Development Planning (BAPPENAS). It monitors and evaluates the performance of Indonesian districts according to 22 sustainability indicators (Figure 1). These indicators have been designed through a multistakeholder process to show whether districts are producing commodities in a way that is environmentally sustainable, inclusive, and respects human and labour rights. They reflect the principles and criteria of certification schemes and the United Nations (UN) Sustainable Development Goals (SDGs). They are also aligned with Indonesian laws, regulations and policies, including Indonesia's Nationally Determined Contribution under the Paris Agreement. As such, the Terpercaya system presents an opportunity to promote legitimate, legally supported and widely agreed sustainability principles at the jurisdictional level.

To provide effective assurance regarding sustainable commodity sourcing, the Terpercaya system should allow companies to make accurate and verifiable claims about product sustainability. This brief examines claims made through product sustainability certification schemes and discusses jurisdictional claims that could be made through the Terpercaya system. It further considers how the system could be strengthened to become a credible assurance system for sustainable commodity sourcing.





\*Indonesian Sustainable Palm Oil and Roundtable on Sustainable Palm Oil standards

## The purpose of Terpercaya as an assurance system

Terpercaya functions as a system to measure the sustainability performance of Indonesian districts. Currently, it can inform civil society organisations, supply chain actors and the public about how districts perform against its 22 indicators. The Indonesian Government is developing a mechanism to incentivise districts to improve their sustainability performance and ensure the completeness of associated data. Regarding sustainable commodity sourcing as an incentive for transitions to sustainability, the system provides supply chain actors with an indication of district sustainability but does not have mechanisms to verify associated claims.

To reinforce sustainable sourcing as a means to promote district sustainability transitions, and sustainable commodity production and consumption in general, a national jurisdictional performance monitoring system such as Terpercaya, should aim to:

- Provide commodity supply chain actors with credible assurance on jurisdiction-level sustainability.
- Continually improve the collection and dissemination of accurate, periodically-updated data.

### **Claims and assurance systems**

Certification schemes and product labelling are designed to assure consumers of the quality of a product and its production process. For example, the Voluntary Partnership Agreements (VPAs), which form part of the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, stipulate the need for countries to have timber legality assurance systems to verify that wood products conform to national laws. In Indonesia, the SVLK (*Sistem Verifikasi Legalitas Kayu*) provides this function and assures the customer about the legality of timber production (Wiersum and Elands, 2013).

Sustainability certification and labelling similarly assures consumers that a product, or its ingredients, was produced using environmentally sustainable processes (Boer, 2003). To provide such assurance, traceable and transparent supply chains to the point of production are a necessary element, along with mechanisms for independent verification (Mol and Oosterveer, 2015). Sustainability standards can be enforced through regulations, especially where the legality of commodities is also involved, such as with certain timber and fisheries-related supply chains. However, most sustainability certification schemes are voluntary and market-based, and many such schemes and their accreditation bodies are members of the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance (Loconto and Fouilleux, 2014).

Three features of sustainability certification schemes are explored in this brief: assurances, claims and verification (Table 1). In short, certification systems are designed to provide an *assurance* to the customer about the product. *Claims* are messages about how the product was made, while *verification* provides objective evidence that proves the claims' accuracy.

| Term         | Definition and reference  | Example <sup>1</sup>  |
|--------------|---|---|
| Assurance    | Demonstrable evidence that<br>specified requirements relating<br>to a product, process, system,<br>person, or body are fulfilled.   | "RSPO certification is an<br>assurance to the customer<br>that the standard of palm oil<br>production is sustainable."  |
| Claim        | Claims are messages used to<br>differentiate and promote a<br>sustainable product by building<br>on one or more of the pillars of<br>sustainability: social, economic,<br>environmental and governance.<br>These claims can be made<br>through combinations of logos,<br>written claims and access to<br>further information. | In the RSPO identity-preserved<br>and segregated supply chain<br>models, the following claim can<br>be made:<br>"The oil palm products<br>contained in this product have<br>been certified to come from<br>RSPO sources."<br>Where palm oil is mass balance<br>certified, claims such as the<br>following can be made:<br>"The volume of [oil palm<br>products]/[palm oil]/[palm<br>kernel oil] in this product<br>reflects an equivalent volume<br>of palm oil or palm kernel oil<br>produced by RSPO-certified<br>mills and plantations." |
| Verification | Confirms, by providing objective<br>evidence, that requirements<br>have been met to ensure the<br>integrity of the basis on which<br>a claim is being made.   | In certification systems,<br>verification and certification<br>are provided by an<br>independent, accredited<br>certification body, through<br>periodic audits.   |

### Table 1. Terminology and examples

<sup>1</sup> Examples of quotes sourced from https://www.rspo.org/certification

Most existing sustainability certification and assurance systems focus on individual producers and commodity supply chains. To upscale beyond individual producers, ISEAL and WWF have proposed a landscape and jurisdictional sustainability assurance model (Table 2). They have also provided examples of the types of claims that could be made and how they would be verified (Table 3; ISEAL, 2020; WWF and ISEAL, 2019). They categorise claims according to (i) jurisdictional structures, (ii) jurisdictional performance, and (iii) supporting action claims, and provide detail on specific claims that can be made in each category. The first two of these categories relate to the Terpercaya system, particularly to its governance arrangements (including specific policies and regulations for jurisdictional initiatives) and to measurements of the sustainability performance of districts. The third category relates to claims that companies can make about supporting jurisdictional initiatives, an issue that has not yet been explored through the Terpercaya system.

**Table 2.** Elements of a credible landscape and jurisdictional sustainability

 assurance system. Source: Adapted from WWF and ISEAL (2019, p. 2)

| Element      | Explanation  |
|--------------|--|
| Consistency  | There is a publicly accessible monitoring and verification<br>methodology, and a reporting framework that is consistently<br>applied within the landscape initiative.  |
| Competence   | Data analysts, assessors and other assurance personnel have<br>appropriate qualifications and training, are evaluated for their<br>competence, and maintain their skills and knowledge through<br>ongoing training and calibration.  |
| Impartiality | Independent oversight of the monitoring process creates a system<br>of checks and balances. The monitoring process itself is not reliant<br>solely on self-assessments or unverified provision of data but<br>combines these with second- or third-party verification.                     |
| Improvement  | The landscape initiative compiles good quality data about its<br>performance and has sufficiently robust data management<br>systems to distil insights that can be used by landscape actors to<br>improve their performance, and by the initiative itself to improve<br>its effectiveness. |
| Transparency | There is clarity on exactly what is being evaluated, and the monitoring data and methodology behind it is available and accessible.  |
| Efficiency   | The monitoring process is streamlined to focus on measuring<br>progress on the issues that matter. The intensity and frequency of<br>verification are informed by risk profiles of the issues, and of the<br>landscape.  |

|                               | Types of claim   | Means of verification   |
|-------------------------------|--|---|
| JURISDICTIONAL                | Process claims:<br>"We are developing a jurisdictional<br>initiative that will help align practices."  | A review of documentation from the jurisdictional initiative or other evidence of implementation.   |
|                               | Outcome claims:<br>"We have the foundations in place for<br>an effective jurisdictional initiative."   | The relevant documents should be easily<br>and publicly accessible or subjected<br>to a formal review. Achievement of<br>outcomes can be assessed through<br>established landscape and jurisdictional<br>implementation frameworks.   |
|                               | Risk management claims:<br>"We have processes in place to manage<br>a specific category of sustainability risk."   | Reference to timelines and milestones,<br>making evidence available of having<br>reached the appropriate milestone in time.   |
| JURISDICTIONAL<br>PERFORMANCE | Status claims:<br>These communicate the current<br>performance level of an issue, e.g.:<br>"We have achieved net-zero<br>deforestation."   | Performance verification is about<br>assessing the integrity of data and how it<br>is processed for reporting. The extent and<br>rigour of verification will be based in part<br>on the types and ambition of the claims<br>being made.   |
|                               | Trend claims:<br>These communicate a change in<br>performance, often against a baseline<br>or as progress towards a target, e.g.:<br>"We have halved deforestation in five<br>years."  | Verification is fundamentally about building<br>trust in the reliability and accuracy of the<br>data. In its simplest form, trust can be<br>established based on who collected and<br>analysed the data, and how.   |
|                               | Subjective value claims:<br>These descriptive claims seek to<br>reflect performance across a range of<br>sustainability issues or indicators, e.g.:<br>"We have increased environmental<br>performance for five years in a row." | The intensity and level of independence<br>of the verification will depend on how<br>much assurance is required by the target<br>audience (the 'users') to have trust in the<br>jurisdictional claims.  |
| SUPPORTING<br>ACTION CLAIMS   | Engagement claims:<br>"We are participating in the development<br>and implementation of a jurisdictional<br>initiative."   | <ul> <li>Verification of supporting actions is<br/>primarily about determining whether, or<br/>to what extent, a proposed action has<br/>been undertaken or commitment made.</li> <li>Verification will depend on the contribution<br/>to jurisdictional initiatives, such as: <ul> <li>Support to a jurisdictional initiative</li> <li>Actions in the jurisdiction</li> <li>Actions to improve production</li> <li>Supply chain actions</li> </ul> </li> </ul> |
|                               | Contribution claims:<br>"We are taking this action in line with<br>action plans and sustainability outcomes<br>of the jurisdictional initiative."  |   |
|                               | Attribution claims:<br>"Our actions resulted in or contributed<br>to specific sustainability outcomes in the<br>jurisdiction."   |   |

Table 3. ISEAL and jurisdictional sustainability claims. Source: Adapted from ISEAL, 2020

## **Proposals for the Terpercaya system**

The Terpercaya system should enable purchasers to make specific claims about the sustainability of commodities (especially palm oil) sourced from specific jurisdictions, contingent on the traceability of the supply chain. It should also enable other actors, such as civil society organisations, to transparently verify these claims. Finally, it should enable the Government (both line ministries and subnational governments) to accurately, regularly and transparently provide the information that forms the basis of those claims.



Individual oil palm fruits Photo: Icaro Cooke Vieira, CIFOR Claims that require definition of thresholds, or district ranking, are likely to require agreement among stakeholders and supply chain actors, potentially including the private sector, civil society and governmental entities. Thresholds might also be set in relation to laws, regulations and/or commitments at the national or international level, or in relation to requirements in specific markets.

As an example, the following claims about the region of production could be possible under the Terpercaya system:

- Commodities sourced from this region were produced in a way that:
  - met the minimum thresholds of the four sustainability pillars: environmental, social, economic and governance; and/or
  - performed well in relation to one or a range of indicators determined by the purchaser, which either reflect established corporate policies or communicated standards; and/or
  - ranked higher than other districts, or were within the highest-ranking groups in the country, according to one or more indicators.

However, because the Terpercaya system works at the jurisdictional level, it cannot at present provide data – or make claims – about the performance of individual companies, cooperatives, or smallholders. Furthermore, it does not currently have a mechanism for independent verification of indicator data.

The following claims could be made about Terpercaya as a sustainability assurance system:

- Terpercaya transparently provides government data on four pillars of sustainability for districts across Indonesia.
- Terpercaya indicator data is collected annually by delegated authorities and line agencies according to government practices.
- Cleaning and storage of collected Terpercaya indicator data is a governmental priority before publication.

## Addressing the gaps in the Terpercaya system

As one of the few nationwide jurisdictional monitoring systems for sustainable commodity production, Terpercaya has a unique contribution to provide. To ensure its effectiveness, additional mechanisms should be created or modifications made, as follows:

- Addition of traceability and chain of custody information
- Independent verification
- Compliance and safeguards

### Traceability and chain of custody information

The complexity of palm oil supply chains poses challenges in tracing the commodity back to its jurisdiction of production using publicly available data. To make credible claims about the sustainability and inclusivity of commodity production requires a verifiable and accessible traceability system in addition to provenance information. Such a traceability system could be established and strengthened through regulatory measures to ensure a verifiable chain of custody.

#### Independent verification

To assure users of the credibility of the Terpercaya system, a mechanism for verifying indicator data should be established. The verification process could be periodic (e.g. annual or biannual) or ad hoc and a sampling method could be developed to ensure efficiency. To ensure credibility, third-party verification bodies should be identified and mechanisms established for civil society organisations and researchers to review and suggest improvements to the design and operation of the system. In addition, financing for verification should be identified to ensure that a credible verification process can be supported.

#### **Compliance and safeguards**

The scale and design of the Terpercaya system entail risks of falsely attributing sustainability performance to individual producers within a district, both positively and negatively. For example, a producer, mill or smallholder in a poorly performing district may be maintaining high social and environmental standards. This could lead to unfair penalties, such as removal from a list of approved sustainable jurisdictions with associated loss of market access. Conversely, a company located in a well-performing district that does not itself adhere to environmental and social standards may be falsely rewarded.

To ensure standards are maintained and to promote progress at the district level in view of the above risks, the system could facilitate reporting of poorly performing entities within districts that are performing well, and identify producers that are certified to credible standards yet located in a poorly performing district. It could also consider exemptions for districts that demonstrate accountability and take remedial measures such that progress is maintained. In addition, districts could create registries of producers, smallholders, mills and refineries and develop capacity to distinguish well-performing entities from those that have violated environmental and social standards.

## **Conclusion and recommendations**

The Terpercaya system has the potential to become a large-scale sustainability assurance system for purchasers of Indonesian commodities. The claims that purchasers can make through the system need to be extended and should be verifiable. Beyond defining, building consensus and raising awareness on any sustainability thresholds, efforts should be made to improve the system's capacity to provide information about traceability and ensure a verifiable chain of custody. Furthermore, there is a need to create mechanisms for independent verification and incentives to ensure compliance.



Smallholders are an integral part of sustainability efforts within the palm oil sector Photo: Inobu

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Cover image: Oil palm plantation in Sentabai Village, West Kalimantan. Photo: Nanang Sujana/CIFOR

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This briefing was developed by Inobu and the European Forest Institute (EFI), with support from the EU REDD Facility. The contents of this briefing are the sole responsibility of the authors and can in no way be taken to represent the views of the European Union.

November 2021.





